NEW VISUAL CORP
Form 10-Q
March 18, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JANUARY 31, 2002

COMMISSION FILE NUMBER 0-21785

NEW VISUAL CORPORATION
(Exact name of registrant as specified in its charter)

UTAH (State or other jurisdiction of incorporation or organization)	95-4545704 (I.R.S. employer identification no.)
5920 FRIARS ROAD, SUITE 104 SAN DIEGO, CALIFORNIA 92108 (Address of principal executive offices, including zip code)	(619) 692-0333 (Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

The number of shares of the issuer's Common Stock, par value $.001 per share, outstanding as of March 13, 2002 was 39,998,474.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

NEW VISUAL CORPORATION AND SUBSIDIARIES
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
CONSOLIDATED BALANCE SHEETS

ASSETS

	January 31, 2002 (Unaudited)	Octobe 200
Current Assets:		
Cash	$ 85,713	$ 29
Notes receivable from related party	170,495	10
Other receivable from officers	33,798	7
Other current assets	103,086	9
Total Current Assets	393,092	56
Property and Equipment - Net	263,081	28
Other Assets	33,940	3
Projects under Development	1,913,451	1,91
Total Assets	$ 2,603,564	$ 2,79

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)

Current Liabilities:		
Convertible notes payable	$ 927,500	$ 61
Accounts payable and accrued expenses	1,292,360	1,43
Loan payable	145,000	
Total Current Liabilities	2,364,860	2,05
Long-Term Debt	256,886	25
Total Liabilities	2,621,746	2,30
Commitments, Contingencies and Other Matters (Notes 6, 7, 8, 9 and 10)		
Stockholders' Equity (Deficiency):		
Preferred stock - $0.01 par value; 15,000,000 shares authorized; Series A junior participating preferred stock; -0- shares issued and outstanding	--	
Common stock - $0.001 par value; 100,000,000 shares authorized; 32,970,696 and 30,003,681 shares issued and outstanding at January 31, 2002 and October 31, 2001, respectively	32,970	3
Additional paid-in capital	39,588,711	38,47
Subscription receivable	--	(10

Unearned financing fees	(456,773)	(53
Unearned compensation	(340,242)	(48
Accumulated deficit at October 31, 1999	(12,300,033)	(12,30
Deficit accumulated during the development stage	(26,542,815)	(24,60
Total Stockholders' Equity (Deficiency)	(18,182)	48
Total Liabilities and Stockholders' Equity (Deficiency)	$ 2,603,564	$ 2,79

See notes to consolidated financial statements

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NEW VISUAL CORPORATION AND SUBSIDIARIES
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the Three Months Ended January 31,		For t Novem Janu
	2002	2001	
REVENUES	$ --	$ --	$
OPERATING EXPENSES:			
Cost of sales	--	--	
Projects costs written-off	--	--	
Acquired in-process research and development expenses	--	--	
Compensatory element of stock issuances	702,407	--	
Research and development	329,113	362,702	
Selling, general and administrative expenses	671,614	535,352	
Litigation settlement in shares of common stock	--	1,000,000	
Loss on disposal of equipment	--	--	
TOTAL OPERATING EXPENSES	1,703,134	1,898,054	
OPERATING LOSS	(1,703,134)	(1,898,054)	(
OTHER EXPENSES:			
Interest expense	157,843	7,444	
Amortization of unearned financing costs	80,607	250,000	
TOTAL OTHER EXPENSES	238,450	257,444	
NET LOSS	$ (1,941,584)	$ (2,155,498)	$(

BASIC AND DILUTED NET LOSS PER COMMON SHARE	$ (.06)	$ (.09)	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	32,479,898	24,247,164	

See notes to consolidated financial statements.

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NEW VISUAL CORPORATION AND SUBSIDIARIES
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY
(UNAUDITED)
FOR THE THREE MONTHS ENDED JANUARY 31, 2002

	Common Stock		A
	Shares	Amount	
Three Months Ended January 31, 2002:			
Balance - October 31, 2001	30,003,681	$ 30,003	$ 3
Issuance of common stock under consulting agreement ($.40 to $.66 per share)	950,000	950	
Issuance of common stock for cash ($.25 to $.40 per share)	1,445,015	1,445	
Cash received for subscription receivable	--	--	
Issuance of common stock in connection with the exercise of warrants ($.25 per share)	572,000	572	
Value assigned to warrants issued to consultants	--	--	
Amortization of unearned compensation expense	--	--	
Amortization of unearned financing costs	--	--	
Net loss	--	--	
Balance - January 31, 2002	32,970,696	$ 32,970	$ 3

	Subscription Receivable	Unearned Financing Costs	U Com
Three Months Ended January 31, 2002:			
Balance - October 31, 2001	$ (103,500)	$ (537,380)	$
Issuance of common stock under consulting agreement ($.40 to $.66 per share)	--	--	
Issuance of common stock for cash ($.25 to $.40 per share)	--	--	
Cash received for subscription receivable	103,500	--	
Issuance of common stock in connection with the exercise of			

warrants ($.25 per share)	--	--	
Value assigned to warrants issued to consultants	--	--	
Amortization of unearned compensation expense	--	--	
Amortization of unearned financing costs	--	80,607	
Net loss	--	--	
Balance - January 31, 2002	$ --	$ (456,773)	$

See notes to consolidated financial statements.

NEW VISUAL CORPORATION AND SUBSIDIARIES
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY
(UNAUDITED)
FOR THE THREE MONTHS ENDED JANUARY 31, 2002

	Accumulated Deficit	Total Stockholders' Deficiency
Three Months Ended January 31, 2002:		
Balance - October 31, 2001	$(36,901,264)	$ 484,387
Issuance of common stock under consulting agreement ($.40 to $.66 per share)	--	494,898
Issuance of common stock for cash ($.25 to $.40 per share)	--	409,501
Cash received for subscription receivable	--	103,500
Issuance of common stock in connection with the exercise of warrants ($.25 per share)	--	143,000
Value assigned to warrants issued to consultants	--	66,000
Amortization of unearned compensation expense	--	141,509
Amortization of unearned financing costs	--	80,607
Net loss	(1,941,584)	(1,941,584)
Balance - January 31, 2002	$(38,842,848)	$ (18,182)
Accumulated deficit as of October 31, 1999	$(12,300,033)	
Accumulated deficit during development stage (November 1, 1999 to January 31, 2002)	(26,542,815)	
Total accumulated deficit as of January 31, 2002	$(38,842,848)	

See notes to consolidated financial statements.

NEW VISUAL CORPORATION AND SUBSIDIARIES
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
FOR THE THREE MONTHS ENDED JANUARY 31, 2002 AND 2001
AND THE PERIOD FROM NOVEMBER 1, 1999 TO JANUARY 31, 2002

	For the Three Months Ended January 31,	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (1,941,584)	$ (2,155,498)
Adjustments to reconcile net loss to net cash used in operating activities:		
Consulting fees and other compensatory elements of stock issuances	702,407	--
Stock issued for acquired in-process research and development	--	--
Stock issued for litigation settlement	--	1,000,000
Projects costs written-off	--	--
Amortization of unearned financing costs	80,607	250,000
Depreciation of property and equipment	20,732	34,880
Disposal of property and equipment	3,596	--
Loss on disposal of equipment	--	--
(Increase) decrease from changes in:		
Other current assets	(8,670)	21,833
Due from related parties	(33,402)	(2,638)
Projects under development	(801)	(300,000)
Other assets	(298)	(40,676)
Increase (decrease) from changes in:		
Accounts payable and accrued expenses	(142,664)	(187,596)
NET CASH USED IN OPERATING ACTIVITIES	(1,320,077)	(1,379,695)
CASH USED IN INVESTING ACTIVITIES		
Acquisition of property and equipment	(2,513)	--
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock	513,001	1,431,880
Proceeds from loan payable	145,000	--
Proceeds from exercise of warrants	143,000	--
Proceeds from convertible notes payable	312,500	--
Repayment of long-term debt	--	--
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,113,501	1,431,880
(DECREASE) INCREASE IN CASH	(209,089)	52,185
CASH AND CASH EQUIVALENTS - BEGINNING	294,802	189,234

CASH AND CASH EQUIVALENTS - ENDING	$ 85,713	$ 241,419
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ --	$ --
Income taxes	$ --	$ 800

See notes to consolidated financial statements.

NEW VISUAL CORPORATION AND SUBSIDIARIES
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - PRINCIPLES OF CONSOLIDATION AND BUSINESS AND CONTINUED OPERATIONS

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of New Visual Corporation and its wholly-owned operating subsidiaries, NV Entertainment, Inc., Impact Multimedia, Inc. and NV Technology, Inc. (formerly New Wheel Technology, Inc.) ("New Wheel") (collectively, the "Company"). All significant intercompany balances and transactions have been eliminated.

BUSINESS AND CONTINUED OPERATIONS

New Visual Corporation was incorporated under the laws of the State of Utah on December 5, 1985.

In November of 1999, the Company began to focus its business activities on the development of new content telecommunications technologies. Pursuant to such plan, in February of 2000, the Company acquired New Wheel Technology, Inc., a development stage, California-based, technology company, which now operates as the Company's wholly-owned subsidiary, NV Technology, Inc., a Delaware corporation. As a result of the change in business focus, the Company became a development stage entity commencing November 1, 1999. The Company also produces and distributes 2-D and 3-D filmed entertainment.

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. However, for the three months ended January 31, 2002, the Company incurred a net loss of approximately $1,942,000 and had a working capital deficiency of approximately $1,972,000. The Company has limited finances and requires additional funding in order to accomplish its growth objectives and marketing of its products and services. There is no assurance that the Company can reverse its operating losses, or that it can raise additional capital to allow it to expand its planned operations. There is also no assurance that even if the Company manages to obtain adequate funding to complete any contemplated acquisition, such acquisition will succeed in enhancing the Company's business and will not ultimately have an adverse effect on the Company's business and operations. These factors raise substantial doubt about the Company's ability to continue as a going concern.

The Company operates in two business segments, the production of motion pictures, films and videos (entertainment segment) and development of new content telecommunications technologies (telecommunication segment). The success of the Company's entertainment business is dependent on future revenues from the Company's current joint venture production agreement to produce a feature-length film for theatrical distribution.

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NEW VISUAL CORPORATION AND SUBSIDIARIES
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - PRINCIPLES OF CONSOLIDATION AND BUSINESS AND CONTINUED OPERATIONS (CONTINUED)

BUSINESS AND CONTINUED OPERATIONS (CONTINUED)

The success of the Company's telecommunication segment is dependent upon the successful completion of development and testing of its broadband technology currently under development by its wholly-owned subsidiary, NV Technology, Inc. No assurance can be given that the Company can complete development of such technology, or that with respect to such technology that is fully developed, it can be commercialized on a large scale basis or at a feasible cost. No assurance can be given that such technology will receive market acceptance.

Until the commencement of sales from either segment, the Company will have no operating revenues, but will continue to incur substantial operating expenses, capitalized costs and operating losses.

Management's business plan will require additional financing. To support its operations during the three months ended January 31, 2002, the Company borrowed $312,500 from three trusts and issued various convertible promissory notes. The Company received a $145,000 short-term loan from one of its shareholders.

During the three months ended January 31, 2002, the Company received $409,501 from the sale of 1,445,015 shares of its common stock and $143,000 from the exercise of 572,000 warrants. The Company is exploring other financing alternatives, including private placements and public offerings.

The Company's ability to continue as a going concern is dependent upon obtaining additional financing. These consolidated financial statements do not include any adjustments relating to the recoverability of recorded asset amounts that might be necessary as a result of the above uncertainty.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION

Substantially all revenues are derived from the production of multimedia content, videos and commercial films. Revenue is recognized over the shorter of the license term or the expected revenue term.

RESEARCH AND DEVELOPMENT

Research and development costs are charged to expense as incurred. Amounts allocated to acquired-in-process research and development costs from business combinations are charged to earnings at the consummation of the acquisition.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LOSS PER SHARE

Basic earnings per share ("Basic EPS") is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share ("Diluted EPS") gives effect to all dilutive potential common shares outstanding during a period. No effect has been given to outstanding options, warrants or convertible notes in the diluted computation, as their effect would be antidilutive.

STOCK-BASED COMPENSATION

As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation," the Company accounts for its stock-based compensation arrangements pursuant to APB Opinion No. 25, "Accounting for Stock Issued to Employees." In accordance with the provisions of SFAS No. 123, the Company discloses the pro forma effects of accounting for these arrangements using the Black-Scholes option-pricing model to determine fair value.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the total amount of an asset may not be recoverable. An impairment loss is recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount.

SEGMENT REPORTING

Effective January 1, 1998, the Company adopted the provisions of SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." SFAS No. 131 establishes standards for the way public enterprises report information about operating segments in annual financial statements and requires those enterprises to report selected information about operating segments in interim financial reports issued to stockholders.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

The Financial Accounting Standards Board recently issued FASB 139, which requires that all producers or distributors that own or hold rights to distribute or exploit films follow the guidance in AICPA Statement of Position 00-2, "Accounting by Producers or Distributors of Films." FASB 139 shall be effective for financial statements for fiscal years beginning after December 15, 2000.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS (CONTINUED)

SOP 00-2 requires that film costs be capitalized and reported as a separate asset on the balance sheet. Film costs include all direct negative costs incurred in the production of a film, as well as allocations of production overhead and capitalized interest. Direct negative costs include cost of scenario, story, compensation of cast, directors, producers, writers, extras and staff, cost of set construction, wardrobe, accessories, sound synchronization, rental of facilities on location and post production costs. SOP 00-2 also requires that film costs be amortized and participation costs accrued, using the individual-film-forecast-method-computation method, which amortizes or accrues such costs in the same ratio that the current period actual revenue (numerator) bears to the estimated remaining unrecognized ultimate revenue as of the beginning of the fiscal year (denominator).

In addition, SOP 00-2 also requires that if an event or change in circumstances indicates that an entity should assess whether the fair value of a film is less than its unamortized film costs, then an entity should determine the fair value of the film and write off to the statement of operations the amount by which the unamortized capital costs exceeds the firm's fair value.

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations," which supercedes Accounting Principles Board ("APB") Opinion No. 16, "Business Combinations." SFAS No. 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. The provisions of SFAS 141 have been adopted as of July 1, 2001. The adoption of SFAS 141 has not changed the method of accounting used in previous business combinations initiated prior to July 1, 2001.

In July 2001, the FASB also issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets," which is effective for fiscal years beginning after December 15, 2001. Certain provisions shall also be applied to acquisitions initiated subsequent to June 30, 2001. SFAS 142 supercedes APB Opinion No. 17, "Intangible Assets," and requires, among other things, the discontinuance of amortization related to goodwill and indefinite lived intangible assets. These assets will then be subject to an impairment test at least annually. Management believes that the implementation of this standard will have no impact on the Company's results of operations and financial position.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS (CONTINUED)

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets," which supercedes Statement of Financial Accounting Standards No. 121 ("SFAS 121"), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and certain provisions of APB Opinion No. 30, "Reporting Results of Operations - Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS 144 requires that long-lived assets to be disposed of by sale, including discontinued operations, be measured at the lower of carrying amount or fair value, less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS 144 also broadens the reporting requirements of discontinued operations to include all components of an entity that have operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. The provisions of SFAS 144 are effective for fiscal years beginning after December 15, 2001. Management believes that the implementation of this standard will have no impact on the Company's results of operations and financial position.

NOTE 3 - NOTES RECEIVABLE FROM RELATED PARTY

On September 6, 2001, the Company converted advances made to an officer in the amount of $99,656 into a promissory note, which is payable on demand and bears an interest rate of 7.0% per annum.

On January 1, 2002, the Company converted advances made to an officer in the amount of $67,631 into a promissory note, which is payable on demand and bears an interest rate of 7.0% per annum.

As of January 31, 2002, the outstanding amount from the above notes was $170,495, of which $3,208 represented accrued interest.

NOTE 4 - PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following:

	January 31, 2002	October 31, 2001
Furniture and fixtures	$ 54,096	$ 51,584
Camera equipment	540,169	544,664
Office equipment	109,430	109,460
	703,695	705,708
Less: Accumulated depreciation	440,614	420,812
Total	$263,081	$284,896

For the three months ended January 31, 2002 and 2001, depreciation expense was $20,732 and $34,880, respectively.

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following:

	January 31, 2002	October 31, 2001
Professional fees	$ 391,112	$ 606,807
Interest payable	516,600	356,601
Consulting fees	196,918	204,192
Miscellaneous	187,730	267,424
	$1,292,360	$1,435,024

NOTE 6 - CONVERTIBLE NOTES PAYABLE

In October 2001, the Company entered into three convertible promissory note agreements with one individual and two companies, totaling $615,000. The Company agreed to pay the principal and an amount equal to 50% of the principal sum if the Company reaches certain milestone from the distribution of its motion picture, which is currently in production. The notes may be converted at any time, in whole or in part, into that number of fully paid and non-assessable shares of common stock at a conversion price of $.40. The additional payment of 50% of the principal, or $307,500, was recorded as interest expense during the quarter ended October 31, 2001.

NOTE 6 - CONVERTIBLE NOTES PAYABLE (CONTINUED)

In December 2001, the Company entered into six convertible promissory note agreements with various trusts and individuals, totaling $312,500. The Company agreed to pay the principal and an amount equal to 50% of the principal sum if the Company reaches certain milestone from the distribution of its motion picture, which is currently in production. The notes may be converted at any time, in whole or in part, into that number of fully paid and non-assessable shares of common stock at a conversion price of $.40. The additional payment of 50% of the principal, or $156,250, was recorded as interest expense during the quarter ended January 31, 2002.

As of January 31, 2002, the outstanding amount for the above notes was $927,500.

NOTE 7 - LONG-TERM DEBT

On June 29, 2000, the Company entered into five credit agreements, each of which granted the Company a credit facility of up to $300,000. As of October 31, 2000, the Company had borrowed $756,886 under these facilities, payable on June 29, 2003 in one payment, together with all accrued and unpaid interest at 6% per annum.

On November 13, 2000, the above five credit agreements were amended, reducing the Company's credit facility to $756,886 in aggregate. The credit agreements terminate on June 29, 2003 and all accrued interest and unpaid interest, along with the principal, is due in full on June 29, 2003.

On July 12, 2001, the Company repaid $500,000 under the above five credit agreements and reduced the balance to $256,886.

During the three months ended January 31, 2002, no repayment was required or made under the above five credit agreements.

NOTE 8 - STOCKHOLDERS' EQUITY

SIGNIFICANT COMMON STOCK ISSUANCES DURING THE THREE MONTHS ENDED JANUARY 31, 2002

As of January 31, 2002, the Company issued 950,000 shares of its common stock as consideration for consulting services performed by four consultants at prices ranging from $.40 to $.66 per share, totaling $494,898.

As of January 31, 2002, the Company issued 1,445,015 shares of restricted common stock to investors for cash proceeds of $409,501.

NOTE 8 - STOCKHOLDERS' EQUITY (CONTINUED)

STOCK OPTION PLANS

During 2000, the Board of Directors and the stockholders of the Company approved the 2000 Omnibus Securities Plan (the "2000 Plan"), which provides for the granting of incentive and non-statutory options and restricted stock for up to 2,500,000 shares of common stock to officers, employees, directors and consultants of the Company.

During August of 2001, the Board of Directors of the Company approved the 2001 Stock Incentive Plan (the "2001 Plan" and together with the 2000 Plan, the "Plans"), which provides for the granting of incentive and non-statutory options, restricted stock, dividend equivalent rights and stock appreciation rights for up to 2,500,000 shares of common stock to officers, employees, directors and consultants of the Company.

NEW VISUAL CORPORATION AND SUBSIDIARIES
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 8 - STOCKHOLDERS' EQUITY (CONTINUED)

STOCK OPTIONS

A summary of the Company's stock option activity and related information follows:

	In the Plan Stock Options	Weighted Average Exercise Price	Outside the P Stock Option
Outstanding - October 31, 2001	512,250	$ 3.92	1,938,750
Options granted - 11/01 - 01/31/02:			
In the Plans	--	--	--
Options granted - 11/01 - 01/31/02:			
Outside the Plans	--	--	--
Options expired/cancelled:			
In the Plans	(28,500)	3.92	--
Outside the Plans	--	--	(120,000)
Outstanding - January 31, 2002	483,750	$ 3.92	1,818,750
Exercisable at January 31:			
2002	175,313	$ 3.92	1,256,375
2003	278,126	$ 3.92	1,494,896
2004	380,439	$ 3.92	1,802,084
2005	483,750	$ 3.92	1,818,750

The exercise price for options outstanding as of January 31, 2002 ranged from $1.07 to $4.40.

At January 31, 2002, 1,984,000 and -0- options are available under the 2000 and 2001 plans, respectively.

EXPIRED OPTIONS

In November 2001, an aggregate of 78,500 options to purchase the Company's common stock held by four former employees of NV Technology, Inc. were terminated. Under the terms of the option agreements with these employees, the options terminated three months after the employees were terminated.

In January 2002, the Company cancelled its employment agreement with its Executive Vice President which in turn cancelled 70,000 unvested options.

NEW VISUAL CORPORATION AND SUBSIDIARIES
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 8 - STOCKHOLDERS' EQUITY (CONTINUED)

WARRANTS

At January 31, 2002, the Company had outstanding warrants to purchase shares of common stock as follows:

Grant Date	Number of Shares	Exercise Price	Expiration Date
June 7, 2000	50,000	$ 7.00	June 7, 2003
June 7, 2000	50,000	8.50	June 7, 2003
June 7, 2000	50,000	10.00	June 7, 2003
June 7, 2000	50,000	11.50	June 7, 2003
November 17, 2000	1,000,000	6.00	November 17, 2003
November 17, 2000	2,428,000	Lesser of 6.00 or 50% of market ($0.20 at 01/31/02)	November 17, 2003
March 12, 2001	67,586	5.10	March 12, 2004
March 12, 2001	87,357	4.02	March 12, 2004
May 3, 2001	500,000	2.50	May 3, 2006
May 3, 2001	250,000	5.00	May 3, 2006
May 3, 2001	250,000	10.00	May 3, 2006
June 14, 2001	50,000	2.50	June 14, 2006
June 14, 2001	25,000	5.00	June 14, 2006
June 14, 2001	25,000	10.00	June 14, 2006
October 31, 2001	1,000,000	.25	October 31, 2006
November 5, 2001	200,000	.51	November 5, 2005
	6,082,943	$0.20-$11.50	June 7, 2003 - October 1, 20
Exercisable at January 31, 2002	6,082,943		

WARRANTS EXERCISED

During January 2002, 572,000 warrants were exercised at $.25 per share, totaling $143,000.

WARRANTS GRANTED

On November 5, 2001, the Company granted two companies warrants to purchase 200,000 shares of its common stock at an exercise price of $.51. The warrants vested immediately and expire on November 5, 2005. The fair value of stock warrants estimated on the date of grant using the Black-Scholes option pricing model is $.33, or $66,000.

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NEW VISUAL CORPORATION AND SUBSIDIARIES
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 8 - STOCKHOLDERS' EQUITY (CONTINUED)

NET LOSS PER SHARE

Securities that could potentially dilute basic earnings per share ("EPS") in the future that were not included in the computation of diluted EPS because to do so would have been anti-dilutive for the periods presented consist of the following:

Warrants to purchase common stock	6,082,943
Options to purchase common stock	2,302,500
Convertible notes payable and accrued interest	1,391,250
Total as of January 31, 2002	9,776,693
Substantial issuances after January 31, 2002 through March 14, 2002:	
Options granted outside the plan	500,000
Warrants granted in connection with consulting agreement	300,000
Options granted in connection with 2000 stock incentive plan	1,302,500
Sale of common stock for cash	3,674,000
Common stock issued to employees	485,000
Additional shares issued under settlement agreement	1,261,946

NOTE 9 - COMMITMENTS AND CONTINGENCIES

NEW EMPLOYMENT AGREEMENTS

On January 1, 2002, the Company cancelled its employment agreement with its Executive Vice President and entered into a new one year employment agreement, whereby the Executive Vice President receives a base salary of $10,417 per month. In addition, the employment agreement provides that the Executive Vice President shall receive an annual bonus that will be applied to two promissory notes he made in favor of the Company. The Executive Vice President owed $100,708 under the first promissory note at October 31, 2001. The second note was issued to the Company on January 1, 2002 for $67,631. All options granted and vested to the Executive Vice President under the June 20, 2000 agreement were retained (140,000 options) and all unvested options granted under the June 20, 2000 agreement were cancelled.

ROYALTY PAYMENTS

The Company's projects under development stipulate royalty payments that are based on percentages of revenue.

NOTE 9 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

JOINT VENTURE PRODUCTION AGREEMENT

In April 2000, the Company entered into a joint venture production agreement to produce a feature length film for theatrical distribution. The Company will provide the funding for the production in the amount of $2,250,000 and, in exchange, will receive a 50% share in all net profits from worldwide distribution and merchandising, after receiving funds equal to its initial investment of up to $2,250,000. The film is expected to be completed and ready for a Summer 2002 release. The Company has agreed to deposit into a separate account, on a monthly basis, funds to assure a minimum balance of $200,000 at the beginning of each month, until the total of $2,250,000 has been deposited into the account. As of January 31, 2002, the Company has funded approximately $1,857,000 of production and other costs, which was included in projects under development in the accompanying consolidated balance sheet.

NOTE 10- SUBSEQUENT EVENTS

COMMON STOCK

On February 25, 2002, the Company issued a restricted stock award of 500,000 shares of common stock to an executive officer in consideration of his services to the Company. The restricted stock award was granted pursuant to the Company's 2000 Plan. The executive officer purchased the shares for $.001 per share, which are subject to a risk of forfeiture until they vest. The executive officer will not receive possession of the certificates representing the shares, and may not sell any of the shares until such shares vest, which will occur quarterly, 125,000 shares per quarter, beginning April 30, 2002. The Company has the right, pursuant to the terms of the restricted stock award, to repurchase any unvested shares issued pursuant to the award for $.002 per share in the event the executive officer is terminated or if there is a change of control of the Company. The value assigned to the common stock totaled $125,000.

On February 25, 2002, the Company issued 485,000 shares of restricted common stock to two employees in consideration of their past services to the Company. The value assigned to the common stock totaled $178,238.

As of March 1, 2002, the Company issued 3,674,000 shares of restricted common stock to investors. The total cash proceeds were $919,400. (see private placement below)

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NEW VISUAL CORPORATION AND SUBSIDIARIES
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 10- SUBSEQUENT EVENTS (CONTINUED)

STOCK OPTIONS

On February 25, 2002, the Company granted non-qualified stock options under its 2000 Plan to purchase 862,500 shares of common stock to employees and employee directors of the Company at an exercise price of $.42 per share. The options vest in four equal quarterly installments starting April 30, 2002. All options expire on February 25, 2012.

On February 25, 2002, the Company granted two directors options under its 2000 Plan to purchase 400,000 shares of its common stock at an exercise price of $.42. The options vest in four equal quarterly installments starting April 30, 2002. These options also expire on February 25, 2012.

On February 25, 2002, the Company granted to a director and consultant to the Company options outside the Company's stock option plans to purchase 500,000 shares of its common stock at $.39. The options vest in four equal quarterly installments starting April 30, 2002. These options expire on February 25, 2012.

On March 4, 2002, the Company granted an advisory board member options under the Company's 2000 Omnibus Securities Plan to purchase 40,000 shares of its common stock at $.42. The options vest immediately and expire ten years from the grant date. The fair value of stock options estimated on the date of grant using the Black-Scholes option pricing model was $.44, or $17,600.

CONSULTING AGREEMENT

On February 11, 2002, the Company entered into a one-year consulting agreement for financial communications services, pursuant to which the Company agreed to pay the consultant $10,000 in cash per month. The consulting agreement provides that the Company may terminate the consulting services at any time following 90 consecutive days of representation by the consultant. Pursuant to the agreement, the Company granted the consultant warrants to purchase 300,000 shares of its common stock at exercise prices ranging from $.75 to $2.25. All of the warrants are exercisable immediately, hold piggy-back registration rights and expire two years from the grant date. The fair value of stock options estimated on the date of grant using the Black-Scholes option pricing model is $8,000.

NEW VISUAL CORPORATION AND SUBSIDIARIES
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 10- SUBSEQUENT EVENTS (CONTINUED)

EMPLOYMENT AGREEMENT

On February 25, 2002, the Company entered into a one year employment agreement with its Vice President and Secretary. The agreement provides for the Company to pay a base salary of $13,383.33 per month, plus other fringe benefits, including medical and health insurance and auto allowance. The employee shall receive an annual bonus to be determined at the sole discretion of the Board of Directors.

SETTLEMENT AGREEMENT

In February 2002, the Company issued an aggregate of 1,261,946 restricted shares of its common stock to nine individuals who purchased common stock of the Company in a private placement completed in March 2001 and contended that they were entitled to receive these additional shares in connection with their initial purchase agreements. The parties reached an amicable resolution of the matter and the Company received a full and complete release from each investor.

PRIVATE PLACEMENT

In February 2002, the Company entered into a private placement agreement with an investor under which the Company agreed to sell 3,000,000 of its restricted common shares for $.25 per share. As part of this agreement, the underlining restricted shares have certain registration rights. This private placement was completed in March 2002.

LEGAL PROCEEDINGS

On February 4, 2002, a lawsuit was filed against the Company by Creditors Adjustment Bureau, Inc., a California corporation, who was allegedly assigned rights to any judgement collected on amounts allegedly owed to Arter & Hadden, LLP, the Company's former legal counsel. The plaintiff seeks damages in the amount of $110,559.86, plus 10% interest, costs of the suit and reasonable attorney's fees. The Company is currently investigating the merits of this lawsuit and does not believe the resolution of this matter will have a material adverse effect on the Company's financial position or results of operation.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of our financial condition and results of operations and should be read in conjunction with the financial statements and related notes contained in this Form 10-Q.

RESULTS OF OPERATIONS.

FOR THE THREE MONTHS ENDED JANUARY 31, 2002 AND THE THREE MONTHS ENDED JANUARY 31, 2001.

REVENUES. The Company is a development stage company. There were no revenues for the three months ended January 31, 2002 or for the three months ended January 31, 2001.

OPERATING EXPENSES. Operating expenses included compensatory element of stock issuances, research and development expenses, selling, general and administrative costs and the costs of a litigation settlement in shares of common stock. Total operating expenses decreased to approximately $1,703,000 for the three months ended January 31, 2002, from approximately $1,898,000 for the three months ended January 31, 2001. The decrease resulted primarily from the costs of a litigation settlement in shares of common stock in the three month period ended January 31, 2001. The Company issued 250,000 shares of common stock valued at $1,000,000 in a February 2001 settlement reached with Astounding.com, Inc. and Jack Robinson in connection with certain disputes arising from a non-consummated merger between the Company and Astounding.com, Inc. In addition, research and development expenses decreased approximately $34,000, from $362,702 for the three months ended January 31, 2001 to $329,113 for the three months ended January 31, 2001, as the Company shifted from employee-based research and development to consultant-based research and development. These reductions were offset by increases from 2001 to 2002 in the compensatory element of stock issuances and selling general and administrative expenses. During the first quarter of 2002, there were stock issuances valued at approximately $702,000 for consulting expenses, compared to $-0- during the first quarter of 2001. Selling, general and administrative expenses increased over these periods by approximately $136,000, from $535,352 for the three months ended January 31, 2001 to $671,614 for the same period of 2002.

OTHER EXPENSES. Other expenses included amortization of unearned financing costs and interest expense. Total other expenses decreased to approximately $238,000 for the three months ended January 31, 2002 from approximately $257,000 for the three months ended January 31, 2001. The decrease primarily resulted from a decrease in amortization of unearned financing costs of approximately $169,000 in connection with a financing arrangement. During the year ended October, 31, 2001 the Company paid down long-term debt in connection with this financing arrangement amounting to $500,000. The decrease in amortization of unearned financing costs was offset by an increase in interest expense of approximately $156,000 resulting from an interest obligation associated with a convertible note payable transaction during the three month period ended January 31, 2002.

LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities was approximately $1,302,000 for the three months ended January 31, 2002 and $1,380,000 for the three months ended January 31, 2001. Cash balances totaled approximately $86,000 as of January 31, 2002, compared to approximately $241,000 as of January 31, 2001.

Operations have been financed principally through sales of common stock, the exercise of warrants to purchase common stock, loans and the issuance of convertible notes payable. Net proceeds from financing activities amounted to approximately $1,114,000 for the three months ended January 31, 2002, including sales of common stock amounting to approximately $513,000, exercise of warrants resulting in proceeds of approximately $143,000, loans amounting to $145,000 and convertible notes payable amounting to approximately $313,000. Net proceeds from financing activities amounted to approximately $1,432,000 for the three months ended January 31, 2001 and were solely the result of sales of common stock.

Stock was issued in payment of expenses amounting to approximately $702,000 for the three month period ended January 31, 2002 and in settlement of litigation in the amount of $1,000,000 during the three months ended January 31, 2001.

Research and development expenses related to the Company's NV Technology (previously New Wheel Technology) subsidiary totaled approximately $329,000 and $363,000 for the three months ended January 31, 2002 and the three months ended January 31, 2001, respectively.

In April 2000, the Company entered into a joint venture production agreement to produce a feature length film for theatrical distribution. Under the agreement, the Company agreed to provide the funding for the production in the amount of $2,250,000 and, in exchange, it will receive a 50% share in all net profits from worldwide distribution and merchandising, after receiving funds equal to its initial investment of up to $2,250,000. The film is to be completed and a Summer 2002 release is contemplated. As of January 31, 2001, the Company had funded approximately $2,127,000 of the production costs towards this project, which included the purchase of camera equipment in the amount of $266,004.

In October 2001, we raised a total of $615,000 through the issuance of convertible promissory notes. During the three months ended January, 31, 2002, the Company issued convertible promissory notes totaling approximately $313,000. The Company agreed to pay the principal and an amount equal to 50% of the principal if certain milestones are reached from the distribution of the feature length film currently in production. The promissory notes are convertible at any time, in whole or in part, into shares of common stock at a conversion price of $0.40 per share.

In June 2000, we entered into five credit facilities, pursuant to which we borrowed $756,886. We repaid $500,000 of these borrowings during fiscal 2001. The remaining principal and interest at 6% per annum will be due in June 2003.

In February 2002, the Company entered into a private placement agreement with an investor under which the Company agreed to sell 3,000,000 of its restricted common shares for a purchase price of $750,000. As part of this agreement, the underlining restricted shares have certain registration rights. The private placement was completed in March 2002.

Management believes funds on hand and available sources of financing will enable the Company to meet its liquidity needs for at least the next three months. Additional cash, however, must be raised in order to continue to meet liquidity needs, satisfy the Company's proposed business plan and expand operations. Management is presently investigating potential financing transactions that management believes can provide additional cash for operations and be profitable in both the short and long-term. Management also intends to attempt to raise funds through private sales of common stock and borrowings. Although management believes these efforts will enable the Company to meet liquidity needs in the future, there can be no assurance that these efforts will be successful.

GOING CONCERN CONSIDERATION

The Company has continued losses in each of its years of operation, negative cash flow and liquidity problems. These conditions raise substantial doubt about its ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability of reported assets or liabilities should the Company be unable to continue as a going concern.

The Company has been able to continue based upon its receipt of funds from the issuance of equity securities and borrowings, and by acquiring assets or paying expenses by issuing stock. Its continued existence is dependent upon the Company's continued ability to raise funds through the issuance of its securities or borrowings, and its ability to acquire assets or satisfy liabilities by the issuance of stock. Management's plans in this regard are to obtain other debt and equity financing until profitable operation and positive cash flow are achieved and maintained. Although management believes, based on the fact that it raised approximately $8,576,000 through sales of common stock and $1,372,000 from borrowings in the last two fiscal years, that it will be able to secure suitable additional financing for the Company's operations, there can be no guarantee that such financing will continue to be available on reasonable terms, or at all.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

There have been no material changes to the Company's market risk for the three months ended January 31, 2002. See the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2001 for additional discussions regarding quantitative and qualitative disclosures about market risk.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

On February 4, 2002, a lawsuit was filed against the Company by Creditors Adjustment Bureau, Inc., a California corporation, who was allegedly assigned rights to any judgment collected on amounts allegedly owed to Arter & Hadden, LLP, the Company's former legal counsel. The suit, which was filed in the Los Angeles Superior Court, is styled CREDITORS ADJUSTMENT BUREAU, INC., A CALIFORNIA CORPORATION V. NEW VISUAL ENTERTAINMENT, INC., ASTOUNDING GROUP, LLC DBA ASTOUNDING.COM, INC.; DOES I THROUGH X , INCLUSIVE (Case no. BC267550) and seeks damages in the amount of $110,559.88, plus 10% interest, costs of the suit and reasonable attorneys' fees. The Company is currently investigating the merits of this lawsuit and does not believe the resolution of this matter will have a material adverse effect on the Company's financial position or results of operation.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

(c) During the three months ended January 31, 2002, the Company issued unregistered securities as follows:

1. During November 2001, the Company issued 100,000 shares of common stock to Rogallo Management, valued at $66,000, as payment for services rendered.

2. In December 2001, the Company:

   o issued an aggregate of $250,000 principal amount of convertible promissory notes to three investors, which notes are convertible into the Company's common stock at a conversion price of $0.40 per share, and are due and payable upon the receipt by the Company of certain proceeds from its motion picture currently in production; and

- sold 250,000 shares of common stock to one investor at $0.40 per share for aggregate proceeds of $100,000.

3. In January 2002, the Company:

- sold 1,195,015 shares of common stock to 11 investors for aggregate proceeds of $309,500; and
- issued an aggregate of $62,500 principal amount of convertible promissory notes to three investors, which notes are convertible into the Company's common stock at a conversion price of $0.40 per share, and are due and payable upon the receipt by the Company of certain proceeds from its motion picture currently in production. Subsequent to January 31, 2002, the Company issued the following unregistered securities:

In February 2002, the Company:

- issued an aggregate of 1,261,946 restricted shares of its common stock to nine individuals who purchased common stock of the Company in a private placement completed in March 2001 and contended that they were entitled to receive these additional shares in connection with their initial purchase agreements. The Company reached an amicable resolution of the matter and received a full and complete release from each investor;
- sold an aggregate 504,000 shares of common stock to 10 investors for aggregate proceeds of $126,000;
- issued 150,000 shares of common stock, valued at $69,000 to one individual in connection with services provided to the Company; and
- sold 10,000 shares of common stock to one investor for aggregate proceeds of $3,400.

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In March 2002, the Company:

- completed the private placement of 3,160,000 shares of its common stock to five investors for total proceeds of $790,000; and
- issued an aggregate 485,000 shares of its common stock to two executive officers of the Company in consideration of past services rendered.

All of the securities issued in the transactions described above were issued without registration under the Securities Act in reliance upon the exemption provided in Section 4(2) of such Securities Act. The recipients of securities in each such transaction acquired the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the share certificates issued in such transactions. The Company believes the recipients were all "accredited investors" within the meaning of Rule 501(a) of Regulation D under the Securities Act, or had such knowledge and experience in financial and business matters as to be able to evaluate the merits and risks of an investment in its common stock. All recipients had adequate access, through their relationships with the Company and its officers and directors, to information about the Company. None of the transactions described above involved general solicitation or advertising.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits:

Exhibit	Description
3.1	Bylaws of New Visual Corporation, as amended.
10.1	Convertible Promissory Note dated December 14, 2001 by New Visual Corporation in favor of the Gerald and Judith Handler Living Trust (incorporated by reference to Exhibit 10.21 of the Company's Annual Report on Form 10-K for the year ended October 31, 2001 (the "2001 10-K")
10.2	Convertible Promissory Note dated December 14, 2001 by New Visual Corporation in favor of W.P. Lill Jr. Trust dated 12/22/99 (incorporated by reference to Exhibit 10.22 of the 2001 10-K).
10.3	Convertible Promissory Note dated December 14, 2001 by New Visual Corporation in favor of the Handler Children Trust (incorporated by reference to Exhibit 10.23 of the 2001 10-K).
10.4	Employment Agreement dated as of January 1, 2002 by and between New Visual Corporation and John Howell (incorporated by reference to Exhibit 10.24 of the 2001 10-K).
10.5	Promissory Note dated as of January 1, 2002, by John Howell in favor of New Visual Corporation (incorporated by reference to Exhibit 10.25 of the 2001 10-K).
10.6	Warrant Agreement dated February 11, 2002, by and between New Visual Corporation and Elite Financial Communications, LLC
10.7	Stock Option Agreement dated February 25, 2002, by and between New Visual Corporation and Ray Willenberg, Jr.
10.8	Stock Option Agreement dated February 25, 2002, by and between New Visual Corporation and C. Rich Wilson III
10.9	Stock Option Agreement dated February 25, 2002, by and between New Visual Corporation and Ivan Berkowitz
10.10	Stock Option Agreement dated February 25, 2002, by and between New Visual Corporation and Bruce Brown
10.11	Employment Agreement dated February 25, 2002, by and between New Visual Corporation and C. Rich Wilson III
10.12	Restricted Stock Award Agreement dated as of February 25, 2002, by and between New Visual Corporation and John Howell
10.13	Consulting Agreement dated February 26, 2002, by and between New Visual Corporation and Thomas J. Cooper

10.14	Stock Option Agreement dated February 26, 2002, by and between New Visual Corporation and Thomas J. Cooper

(b) Reports on Form 8-K:

Form 8-K dated November 27, 2001, was filed pursuant to Item 5 (Other Events).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NEW VISUAL CORPORATION
(Registrant)

Dated: March 18, 2002 By: /s/ RAY WILLENBERG, JR.

RAY WILLENBERG, JR.
President and Chief Executive Officer
(PRINCIPAL EXECUTIVE OFFICER)

Dated: March 18, 2002 By: /s/ THOMAS J. SWEENEY

THOMAS J. SWEENEY
Chief Financial Officer
(PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER)