NEW VISUAL CORP
Form 10-K
January 29, 2004

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

FORM 10-K

(MARK ONE)

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

FOR THE FISCAL YEAR ENDED OCTOBER 31, 2003

Commission File Number 0-21785

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

UTAH	95-4545704
(State of Incorporation)	(I.R.S. Employer Identification No.)
5920 FRIARS ROAD, SUITE 104 SAN DIEGO, CALIFORNIA	92108
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (619) 692-0333

Securities registered pursuant to section 12(b) of the Act: None

Securities registered pursuant to section 12(g) of the Act:

Common Stock, $.001 Par Value
Series A Junior Participating Preferred Stock Purchase Rights

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(Title of Class)

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 [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes[ ]No [X]

As of January 26, 2004, the registrant had 76,657,851 shares of common stock outstanding. The aggregate market value of the common stock held by non-affiliates on January 26, 2004 was approximately $16,433,000.

DOCUMENTS INCORPORATED BY REFERENCE

None

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FORWARD-LOOKING STATEMENTS

CERTAIN STATEMENTS MADE IN THIS ANNUAL REPORT ON FORM 10K, INCLUDING THOSE CONTAINED UNDER THE "BUSINESS" SECTION AND THE SECTION BELOW ENTITLED "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY TERMINOLOGY SUCH AS "MAY", "WILL", "SHOULD", "EXPECTS", "INTENDS", "ANTICIPATES", "BELIEVES", "ESTIMATES", "PREDICTS", OR "CONTINUE" OR THE NEGATIVE OF THESE TERMS OR OTHER COMPARABLE TERMINOLOGY. YOU SHOULD EXERCISE EXTREME CAUTION WITH RESPECT TO ALL FORWARD LOOKING STATEMENTS CONTAINED IN THIS REPORT. SPECIFICALLY, THE FOLLOWING STATEMENTS ARE FORWARD-LOOKING:

- STATEMENTS REGARDING OUR OVERALL STRATEGY FOR DEVELOPING AND DEPLOYING OUR TECHNOLOGY, INCLUDING, WITHOUT LIMITATION OUR INTENDED MARKETS AND FUTURE PROJECTS;

- STATEMENTS REGARDING OUR RESEARCH AND DEVELOPMENT EFFORTS;
- STATEMENTS REGARDING THE PLANS AND OBJECTIVES OF OUR MANAGEMENT FOR FUTURE OPERATIONS, THE PRODUCTION OF PRODUCTS INCORPORATING OUR TECHNOLOGY AND THE SIZE AND NATURE OF THE COSTS WE EXPECT TO INCUR AND THE PEOPLE AND SERVICES WE MAY EMPLOY;
- STATEMENTS REGARDING THE FUTURE OF BROADBAND COMMUNICATIONS AND OPPORTUNITIES THEREIN, OUR COMPETITION OR REGULATIONS THAT MAY AFFECT US;
- STATEMENTS REGARDING OUR ABILITY TO COMPETE WITH THIRD PARTIES;
- ANY STATEMENTS OTHER THAN HISTORICAL FACT.

WE BELIEVE THAT IT IS IMPORTANT TO COMMUNICATE OUR FUTURE EXPECTATIONS TO OUR SHAREHOLDERS. FORWARD-LOOKING STATEMENTS REFLECT THE CURRENT VIEW OF MANAGEMENT WITH RESPECT TO FUTURE EVENTS AND ARE SUBJECT TO NUMEROUS RISKS, UNCERTAINTIES AND ASSUMPTIONS, INCLUDING, WITHOUT LIMITATION, THE FACTORS LISTED IN "RISKS ASSOCIATED WITH OUR BUSINESS." ALTHOUGH WE BELIEVE THAT THE EXPECTATIONS REFLECTED IN SUCH FORWARD-LOOKING STATEMENTS ARE REASONABLE, WE CAN GIVE NO ASSURANCE THAT SUCH EXPECTATIONS WILL PROVE TO BE CORRECT. SHOULD ANY ONE OR MORE OF THESE OR OTHER RISKS OR UNCERTAINTIES MATERIALIZE OR SHOULD ANY UNDERLYING ASSUMPTIONS PROVE INCORRECT, ACTUAL RESULTS ARE LIKELY TO VARY MATERIALLY FROM THOSE DESCRIBED IN THIS REPORT. THERE CAN BE NO ASSURANCE THAT THE PROJECTED RESULTS WILL OCCUR, THAT THESE JUDGMENTS OR ASSUMPTIONS WILL PROVE CORRECT OR THAT UNFORESEEN DEVELOPMENTS WILL NOT OCCUR. MOREOVER, NEITHER THE COMPANY NOR ANY OTHER PERSON ASSUMES RESPONSIBILITY FOR THE ACCURACY AND COMPLETENESS OF THESE FORWARD-LOOKING STATEMENTS. THE COMPANY IS UNDER NO DUTY TO UPDATE ANY FORWARD-LOOKING STATEMENTS AFTER THE DATE OF THIS REPORT TO CONFORM SUCH STATEMENTS TO ACTUAL RESULTS.

PART I

ITEM 1. BUSINESS

GENERAL

New Visual Corporation ("New Visual," the "Company," "we," "our" or "us") is developing advanced transmission technology designed to enable data to be transmitted across copper telephone wire at speeds and over distances that exceed those offered by industry-leading DSL technology providers. We intend to market this breakthrough technology to leading equipment makers in the telecommunications industry. Our technology is designed to dramatically increase the capacity of the copper telephone network, allowing telephone companies to provide enhanced video, data and voice services over the existing copper telecommunications infrastructure.

Through our wholly-owned subsidiary, NV Technology, Inc., a Delaware corporation ("NV Technology"), we intend to design, develop, manufacture and license semiconductor hardware and software products based upon our core intellectual property. We believe that system-level products that use this set of technologies will have a significant advantage over existing forms of broadband technologies, such as digital subscriber line ("DSL"), by providing

faster transmission speed capability and by increasing the transmission distance capability. The technologies underlying our proposed products are in the design and development stage.

Through our NV Entertainment, Inc., subsidiary, a Delaware corporation ("NV Entertainment"), we are recognizing gross profit from the revenues from the hit feature-length documentary, Step into Liquid. According to its distributor, Artisan Pictures, the film has grossed $3.8 million since its US theatrical release in August 2003. It is now in theatrical distribution internationally, and the US DVD release is scheduled for April 2004.

Our executive offices are located at 5920 Friars Road, Suite 104, San Diego, California, and our telephone number at that address is (619) 692-0333. Our Internet website is www.newvisual.com.

OUR TELECOMMUNICATIONS BUSINESS

THE BROADBAND BOTTLENECK

The great, unfinished task of the telecom industry is to service the "last mile" gap that prevents businesses and consumers from enjoying the benefit of the global, high-speed data backbone. The gap occurs where the low-speed capacity of local loop telephone networks meets the demand for high-speed services. For example, approximately ninety-three percent of business buildings are unable to get high-speed data services because the facilities that underlay them are copper wires.

Filling the "last mile" gap with fiber is prohibitively expensive, so New Visual has developed a silicon-based strategy, best described as "Fiber Avoidance" - if a wireline carrier can avoid deploying fiber optics in delivering fiber-like services, that carrier can increase its return on assets in a dramatic way. The value proposition of New Visual can best be summarized as a solution designed to allow service providers to send digital information farther and faster, utilizing a low-cost implementation/deployment strategy that leverages the existing copper infrastructure.

New Visual's products will address critical gaps in the access portion of the network at attractive prices for telecom companies anxious to save money and increase profits. By utilizing the existing copper wire infrastructure, our products are intended to enable telecom companies to sell high margin services and deliver bandwidth hungry multimedia applications, such as video, voice, and data, which otherwise would be unavailable without extraordinary capital outlays.

WORLDWIDE DEMAND CONTINUES TO GROW

There are approximately one billion copper loops in the world today. Two hundred million are in the United States. Europe and Southeast Asia, with their high levels of telephone density, comprise most of the rest. A remarkable feature of these lines is that they are being retrofitted to support broadband data transmission at a quick pace. This retrofit activity is being performed by leading telephone operating companies in response to demand from end-user businesses and residences for new services like high-speed data, virtual private network, voice over Internet protocol, Internet access, video conferencing, and cable company-like video delivery. These services typically yield higher margins to the telephone companies than do voice services. For this reason, we believe telephone companies will be receptive to offers from new semiconductor companies like New Visual.

We are developing layer-one, integrated circuit-based solutions to address the specific needs of both business class and residential markets. We are entering the market at a time when many companies are promoting solutions to

enable broadband communications over the local loop, such as the various digital subscriber line technologies. Still others are sponsoring alternative means for providing high-speed data communications such as wireless, satellite, fiber optic and cable modem technologies. We believe the worldwide market for high-speed communications is growing so quickly that all of these alternative access technologies can grow while we are also establishing our access technology.

NEW VISUAL'S "FIBER AVOIDANCE" STRATEGY

Wireline carriers around the world are experiencing high demand for data intensive transmission services from enterprises. These services, such as T1, Frame Relay, ATM Managed Services, Gigabit Ethernet, and other private line services, are delivered across T1, E1, T1 IMA, N X T1, DS3, E3 and other transmission protocols. While T1 and E1 can be used to reach the buildings that are off the fiber ring, these protocols are limited by copper pair's low speed, high costs, maintenance costs, and poor utilization.

Much has been made in recent years about the benefits of trenching fiber to every building, but the reality is that it is financially feasible for only the largest buildings. Telephone companies find that it is extremely expensive and impractical to replace the existing copper wire infrastructure with fiber optic technology to 90% of the offices. New fiber costs $500-$1000 per foot to install, and some municipalities have begun prohibiting new trenching, making it impossible to start new upgrade projects. Other solutions to enable broadband communications, such as wireless, satellite, and cable modem network technologies, often suffer from poor performance, high deployment costs, and lack of mass marketability. Most importantly, these technologies fail to allow the telephone companies to leverage their existing investment in the copper plant.

New Visual's integrated circuits are being designed to increase the capacity and range of high-speed services on the existing copper network, enabling telephone network operators to increase their offering of services and reduce the cost of network upgrades. Worldwide, this network contains over 950 million copper lines, and currently delivers most of the world's telephone traffic and broadband access. If service providers can leverage this huge existing infrastructure, they can avoid the high costs and slow deployments associated with replacing the local loop with fiber.

NV TECHNOLOGY'S SOLUTION

We are developing an advanced transmission technology to enable data to be transmitted across copper telephone wire at faster speeds and over greater distances than is presently offered by leading DSL technology providers. Our technology, using the name Embarq(TM), offers significant improvements over existing broadband technologies by optimizing the bandwidth used and taking advantage of dynamic changes in the available signal to noise ratio ("SNR"). Bandwidth is maximized by dynamically operating as close as possible to the available bandwidth, specifically by taking advantage of dynamic improvements in the SNR. Telephone wiring has a static, known function of attenuation versus frequency, while there are dynamic characteristics that present both significant and exploitable dynamic changes during transmission. The NV Technology solution takes advantage of these exploitable characteristics, resulting in dramatically improved achievable throughput.

We intend to develop core technology and chip level solutions to be licensed or sold to equipment makers that serve the following markets:

- SMALL-TO-MID-SIZED ENTERPRISES ("SMES"): defined as a direct connection between a small business (20-500 employees) and the telephone central office, including those businesses that currently subscribe for T1, Multiple T1, or DS3 services. Today, for example, local exchange carriers ("LECs") mostly serve their DS3 (45Mbps) customers with coaxial cables that are limited to 500 ft. in distance from the customer to the source of the DS3 signal (typically a fiber optic terminal). For a business in a building that is not on a fiber ring,

the LEC must determine if the customer is over 500 ft. from an existing fiber optic terminal. If the distance is over 500 ft., the Telco must trench fiber to the building and place fiber optic terminals. This capital expense renders the DS3 line unprofitable for the first 18 months of service.

- MXU (MTU, MDU, MHU): defined to include multi-tenant units, multi-dwelling units, and multi-hotel units, in which a multiplexer unit in the building serves bandwidth to multiple users under the management of a service provider or the owner of the building. Today, LECs serve their densest customer locations with unshielded twisted pair copper (UTP) wire that typically runs directly back to the telephone company's wire center. LECs have tested a number of new technologies that would enable them to serve MDUs and MTUs with network elements placed in the LEC-owned wiring closet in the building. A common downfall associated with all of these competing solutions is the placement of fiber optics.

- REMOTE TERMINAL/FEEDER: defined as the connection between a telephone central office and remote cabinets such as an RT, DSLAM, SLC, or DLC. Today, phone companies (i.e., Local Exchange Carriers or LECs) serve 30% of their UTP wires with digital loop carriers. These network elements communicate with the serving wire center, or central office, via digital trunks. All of the physical layer technologies for these trunks have drawbacks that frequently cause the LEC to spend scarce capital dollars needlessly.

- RESIDENTIAL: defined as the home broadband (high-speed access) consumers.

We believe that products based upon our technology will enable providers of broadband services to these markets to:

- ENHANCE THEIR OFFERING OF CONVERGENT SERVICES. We believe that deployment of our technology would permit the transmission of television, telephone and Internet access services over existing telephone lines to a large number of consumers.

- REACH MORE CUSTOMERS. The technology could permit service providers such as telephone companies and other DSL providers to reach more customers as a result of the extended range of their data transmissions. For example, VDSL services are presently unavailable to a large number of potential residential and business class consumers

that reside more than 1,000 feet at 52Mbps or 13Mbps at 4,500 feet from the central office. Similarly, while standard ADSL services have a range of 12,000 to 18,000 feet, capacity decreases the farther the end user is from the central office.

- LOWER COSTS BY USING EXISTING INFRASTRUCTURE. By deploying products built upon our technology, we believe that service providers will be able to reduce their technology investment and shorten the length of time it takes to recover initial capital outlay. Because our technology will increase the range of transmission over copper, providers could provide enhanced broadband services to larger markets, yet continue to utilize the existing copper infrastructure and existing technologies.

OUR BUSINESS STRATEGY

Our objective is to initially deploy our technology in the SME, MXU and Remote Terminal/Feeder business markets, and to subsequently expand into the Residential market. We believe business class markets offer the nearest revenue opportunity for commercial applications of our technology because:

- many businesses already have existing applications that require greater bandwidth,

- businesses have demonstrated the ability and willingness to pay for premium broadband services,

- spending by the business class markets significantly exceeds spending by the residential market, and is projected to continue to do so for the foreseeable future, and

- the return on investment for service providers is a more attractive model (e.g., lower cost of deployment and customer acquisition versus revenue).

Residential broadband demand and DSL deployment is increasing rapidly and we intend to deploy our technology in the Residential market as that market matures and new applications continue to drive demand for greater bandwidth.

We believe that the most prudent strategy for deploying our technology will involve licensing, equipment sales in the form of evaluation units for field trials, and integrated circuit ("IC") sales in the form of Application Specific Integrated Circuits ("ASICs"). We intend to ultimately produce a small, inexpensive chipset design that can be mass-produced with a high degree of economic reliability. We expect to benefit from the following revenue models:

- joint venture manufacturing relationships with equipment makers and/or chip makers;

- manufacture and sale of IC's; and/or

- licensing our IC "recipe" to chip makers.

Out of these models, we anticipate future revenues will take the form of license fees and royalty payments, development and support fees, and product sales of ASICs.

COMPETITION

The market for high-speed telecommunications products is highly competitive, and we expect that it will become increasingly competitive in the future. Our potential competitors consist of some of the largest, most successful domestic and international telecommunications companies, such as Broadcom, Metalink, GlobespanVirata, Intel, and Texas Instruments and other companies with well-established reputations in the broadband telecommunications industry, such as Infineon Technologies. These and our other potential competitors possess substantially greater name recognition, financial, sales and marketing, manufacturing, technical, personnel, and other resources than we have. These competitors may also have pre-existing relationships with our customers or potential customers. These competitors may compete effectively with us because in addition to the above-listed factors, they more quickly introduce new technologies, more rapidly or effectively address customer requirements or devote greater resources to the promotion and sale of their products than we do. Further, in the event of a manufacturing capacity shortage, these competitors may be able to manufacture products when we are unable to do so.

We believe we will be able to compete with these companies because our products will provide advantages not otherwise available, most notably the ability to significantly increase the speed and extend the range of broadband transmission over copper telephone wire. It is therefore possible that our products will enhance the broadband solutions of some of our competitors, and that these competitors could become our customers or business partners.

Although we believe we will be able to compete based on the special features of our products, our products will incorporate new concepts and may not be successful even if they are superior to those of our competitors. In addition to facing competition from providers of DSL-based products, our products will compete with products using other broadband technologies, such as cable modems, wireless, satellite and fiber optic telecommunications technology. Commercial acceptance of any one of these competing solutions could decrease demand for our products.

We also face competition from new technologies that are currently under development that may result in new competitors entering the market with products that may make ours obsolete. We cannot entirely predict the competitive impact of these new technologies and competitors.

MANUFACTURING AND SUPPLIERS

We intend to contract with third party manufacturers to produce our products and will rely on third party suppliers to obtain the raw materials essential to our products' production. Manufacturing our products will be a complex process and we cannot assure you that we will not experience production problems or delays. Any interruption in operations could materially and adversely affect our business and operating results.

There may be a limited number of suppliers of some of the components necessary for the manufacture of our products. The reliance on a limited number of suppliers, particularly if such suppliers are foreign, poses several risks, including a potential inability to obtain an adequate supply of required components and reduced control over pricing, quality and timely delivery of components. We cannot assure you that we will be able to obtain adequate supplies of raw materials. Certain key components of our products may involve

long lead times, and in the event of an unanticipated increase in the demand for our products, we could be unable to manufacture certain products in a quantity sufficient to satisfy potential demand. If we cannot obtain adequate deliveries of key components, we may be unable to ship products on a timely basis. Delays in shipment could damage our relationships with customers and could harm our business and operating results.

GOVERNMENT REGULATION

The telecommunications industry is subject to extensive regulation by federal and state agencies, including the Federal Communications Commission (the "FCC"), and various state public utility and service commissions. There are some regulations at present that have been interpreted by our target customers as discouraging to the technical innovations that we are bringing to market, though we do not believe this to be the case. Further, regulations affecting the availability of broadband access services generally, the terms under which telecommunications service providers conduct their business, and the competitive environment among service providers, for example, could have a negative impact on our business.

OUR LEGACY FILM PRODUCTION BUSINESS

In April 2000, our wholly owned subsidiary, NV Entertainment, Inc. a Delaware company ("NV Entertainment") entered into a joint venture production agreement to produce Step Into Liquid, a feature length surfing documentary for theatrical distribution. NV Entertainment is a fifty-percent owner of Top Secret Productions, LLC, maker of Step Into Liquid. Artisan Pictures is distributing the film within the United States and Canada. The definitive agreement includes a substantial print and advertising promotional commitment for the theatrical release, distribution fees, performance-driven minimum guarantees for both the theatrical and video/DVD releases, a modest cash advance and a 10-year license.

Step into Liquid opened in Hawaii, New York and Los Angeles on August 8, 2003 and played in more than 100 theaters across the United States during its 5-month theatrical run. The per theater average for the opening weekend was more than $27,000, which ranks Step Into Liquid among the best performing films of 2003. The estimated cumulative total box office revenues for the film's theatrical run, generated by widening the release to more theaters, amounted to an estimated $3,681,000. Additional international guarantee fees amount to an estimated $120,000.

Based on the performance of the domestic theatrical run, management believes that the film will continue to generate positive cash flow throughout 2004 and beyond.

Under the terms of our joint venture, we agreed to finance the production of the film for up to $2,250,000. We will receive all net profits generated by the film until we recover 100% of our initial investment. After we recoup our investment in the venture, 50% of the net profits generated by the film will be paid to us. The Company has recognized revenues of $379,980 for the year ended October 31, 2003 as a result of consolidation of the joint venture. As of October 31, 2003, the Company had not received any cash distributions from the joint venture. Subsequent to October 31, 2003 the Company received a distribution of $50,000.

RESEARCH & DEVELOPMENT

The Company out-sources all of its research and development to third party developers. From November 1, 1999 through October 31, 2003, we expended approximately $7,764,000 on research and development relating to our semiconductor business. During each of fiscal year 2003 and 2002 we expended $639,000 and $1,075,000, respectively, relating to our semiconductor business. Research and development expenditures in fiscal 2002 were higher than 2003 as a result of the Company prepaying for certain development costs in 2002.

We have been engaged in the semiconductor field since February 2000.

OUR EMPLOYEES

We currently have four full-time employees and two part-time employees. We may, from time to time, supplement our regular work force as necessary with temporary and contract personnel. None of our employees are represented by a labor union.

We anticipate that we will need to retain additional employees and other personnel in order to achieve the commercialization of our proposed semiconductor product line. The retention of additional employees is subject to our raising additional capital.

Our future performance depends highly upon the continued service of the senior members of our management team.

We believe that our future success will also depend upon our continuing ability to identify, attract, train and retain other highly skilled managerial, technical, sales and marketing personnel. Hiring for such personnel is competitive, and there can be no assurance that we will be able to retain our key employees or attract, assimilate or retain the qualified personnel necessary for the development of our business.

RISKS ASSOCIATED WITH OUR BUSINESS

OUR OPERATING RESULTS MAY VARY SIGNIFICANTLY DUE TO THE CYCLICALITY OF THE SEMICONDUCTOR INDUSTRY. ANY SUCH VARIATIONS COULD ADVERSELY AFFECT THE MARKET PRICE OF OUR COMMON STOCK.

We operate in the semiconductor industry, which is cyclical and subject to rapid technological change. Recently, the semiconductor industry has begun to emerge from a significant downturn characterized by diminished product demand, accelerated erosion of prices and excess production capacity. The current downturn and future downturns in the semiconductor industry may be severe and prolonged. Future downturns in the semiconductor industry, or any failure of this industry to fully recover from its recent downturn, could seriously impact our revenues and harm our business, financial condition and results of operations. This industry also periodically experiences increased demand and production capacity constraints, which may affect our ability to ship products in future periods. Accordingly, our quarterly results may vary significantly as a result of the general conditions in the semiconductor industry, which could cause our stock price to decline.

WE HAVE A LIMITED OPERATING HISTORY.

We have been engaged in the fabless semiconductor business only since

February 2000. We have not yet begun to sell the telecommunication products we are developing, and therefore have not generated any revenues from our fabless semiconductor business. As a result, we have no historical financial data that can be used in evaluating our business prospects and in projecting future operating results. For example, we cannot forecast operating expenses based on our historical results, and we are instead required to forecast expenses based in part on future revenue projections. In addition, our ability to accurately forecast our revenue going forward is limited.

You must consider our prospects in light of the risks, expenses and difficulties we might encounter because we are at an early stage of development in a new and rapidly evolving market. Many of these risks are described under the sub-headings below. We may not successfully address any or all of these risks and our business strategy may not be successful.

WE HAVE A HISTORY OF LOSSES AND AN ACCUMULATED DEFICIT.

Since inception, we have incurred significant operating losses. We incurred operating losses of $4,183,522, $7,313,472 and $9,492,584 for the years ended October 31, 2003, 2002 and 2001, respectively. As of October 31, 2003, we had an accumulated deficit of $49,684,887. We expect to continue to incur net losses for the foreseeable future as we continue to further develop and complete the commercialization of our proposed product line. We are funding our operations through the sale of our securities and expect to continue doing so for the foreseeable future. Our ability to generate and sustain significant additional revenues or achieve profitability will depend upon the factors discussed elsewhere in this "Risk Factors" section, as well as numerous other factors outside of our control. We cannot assure you that we will achieve or sustain profitability or that our operating losses will not increase in the future. If we do achieve profitability, we cannot be certain that we can sustain or increase profitability on a quarterly or annual basis in the future. We expect to expend substantial financial resources on research and development, engineering, manufacturing, marketing, sales and administration as we continue to develop and begin to deploy our proposed product line. These expenditures will necessarily precede the realization of substantial revenues from sales of our products, which may result in future operating losses. We cannot assure you that we will achieve or sustain profitability or that our operating losses will not increase in the future. If we do achieve profitability, we cannot be certain that we can sustain or increase profitability on a quarterly or annual basis in the future.

WE WILL NEED ADDITIONAL CAPITAL FINANCING IN THE FUTURE.

We have sold $1 million in principal amount of our three year 7% Convertible Debentures ("Convertible Debentures") and upon the effectiveness of a registration statement (the "Registration Statement") relating to the Common Stock underlying these debentures, we expect to sell an additional $1 million in principal amount of such debentures. Although we believe that the net proceeds from the sale of the Convertible Debentures will be sufficient for our needs through April 1, 2004, thereafter, we will need to raise additional funds in order to realize our business plan. In addition, unforeseen contingencies and developments may arise that will require us to raise additional capital. We may have difficulty obtaining additional funds, and as if needed, and we may have to accept terms that would adversely affect our shareholders. Under the terms of the Convertible Debenture financing, except for certain prospective pre-approved transactions, we granted to the holders of the Convertible Debentures a right of first refusal to participate in the purchase of equity securities we propose to sell to third parties. The existence of these rights may impair our ability to obtain equity financing from third parties on terms satisfactory to us or at all because investors may be reluctant to devote the time and expense necessary to negotiate the terms of a transaction which we may not be able to fully consummate with them if holders of the Convertible Debentures elect to exercise

its rights. In addition, under the terms of the agreements entered into between

us and the purchasers of the Convertible Debentures, if the Registration Statement is not declared effective by June 28, 2004, then they are not required to purchase the $1 million principal amount of Convertible Debentures we anticipate selling to them following such effectiveness.

We also may be required to seek additional financing in the future to respond to increased expenses or shortfalls in anticipated revenues, accelerate product development and deployment, respond to competitive pressures, develop new or enhanced products, or take advantage of unanticipated acquisition opportunities. We cannot be certain we will be able to find such additional financing on commercially reasonable terms, or at all. If we are unable to obtain additional financing when needed, we could be required to modify our business plan in accordance with the extent of available financing. We also may not be able to accelerate the development and deployment of our products, respond to competitive pressures, develop or enhance our products or take advantage of unanticipated acquisition opportunities.

Our independent accountants have included a "going concern" exception in their audit reports on our 2003 financial statements. The going concern exception may make it more difficult for us to raise funds than if we did not have a "going concern" exception. The financial statements do not include any adjustment that might result from the outcome of such uncertainty.

OUR SUCCESS IS CONTINGENT UPON THE INCORPORATION OF OUR PROPOSED PRODUCTS INTO SUCCESSFUL PRODUCTS OFFERED BY LEADING EQUIPMENT MANUFACTURERS.

Our proposed products will not be sold directly to the end-user; rather, they will be components of other products. As a result, we must rely upon equipment manufacturers to design our products into their equipment. We must further rely on this equipment to be successful. If equipment that incorporates our products is not accepted in the marketplace, we may not achieve adequate sales volume of products, which would have a negative effect on our results of operations. Accordingly, we must correctly anticipate the price, performance and functionality requirements of these data equipment manufacturers. We must also successfully develop products that meet these requirements and make such products available on a timely basis and in sufficient quantities. Further, if there is consolidation in the data equipment manufacturing industry, or if a small number of data equipment manufacturers otherwise dominate the market for data equipment, then our success will depend upon our ability to establish and maintain relationships with these market leaders. If we do not anticipate trends in the market for products enabling the digital transmission of data, voice and video to homes and business enterprises over existing copper wire telephone lines and meet the requirements of equipment manufacturers, or if we do not successfully establish and maintain relationships with leading data equipment manufacturers, then our business, financial condition and results of operations will be seriously harmed.

BECAUSE WE WILL DEPEND ON THIRD PARTIES TO MANUFACTURE, ASSEMBLE AND TEST OUR PRODUCTS, WE MAY EXPERIENCE DELAYS IN RECEIVING SEMICONDUCTOR DEVICES.

We do not own or operate a semiconductor fabrication facility. Rather, our semiconductor devices will be manufactured at independent foundries. We intend to rely solely on third-party foundries and other specialist suppliers for all of our manufacturing, assembly and testing requirements. However, these

parties may not be obligated to supply products to us for any specific period, in any specific quantity or at any specific price, except as may be provided in a particular purchase order that has been accepted by one of them. As a result, we will not directly control semiconductor delivery schedules, which could lead to product shortages, poor quality and increases in the costs of our products. In addition, we may experience delays in receiving semiconductor devices from foundries due to foundry scheduling and process problems. We cannot be sure that we will be able to obtain semiconductors within the time frames and in the volumes required by us at an affordable cost or at all. Any disruption in the availability of semiconductors or any problems associated with the delivery, quality or cost of the fabrication assembly and testing of our products could significantly hinder our ability to deliver our products to our customers and may result in a decrease in sales of our products.

WE MAY INCUR SUBSTANTIAL EXPENSES DEVELOPING PRODUCTS BEFORE WE EARN ASSOCIATED NET REVENUES AND MAY NOT ULTIMATELY SELL A LARGE VOLUME OF OUR PRODUCTS.

We will be developing telecommunications products based on forecasts of demand and will incur substantial product development expenditures prior to generating associated net revenues. We will receive limited orders for products during the period that potential customers test and evaluate our products. This test and evaluation period typically lasts from three to six months or longer, and volume production of the equipment manufacturer's product that incorporates our products typically would not begin until this test and evaluation period has been completed. As a result, a significant period of time may lapse between our product development and sales efforts and the realization of revenues from volume ordering of products by customers. In addition, achieving a design win with a customer does not necessarily mean that this customer will order large volumes of our products. A design win is not a binding commitment by a customer to purchase products. Rather, it is a decision by a customer to use our products in the design process of that customer's products. A customer can choose at any time to discontinue using our products in that customer's designs or product development efforts. Even if our products are chosen to be incorporated into a customer's products, we may still not realize significant net revenues from that customer if that customer's products are not commercially successful.

WE MAY BE UNABLE TO ADEQUATELY PROTECT OUR PROPRIETARY RIGHTS OR MAY BE SUED BY THIRD PARTIES FOR INFRINGEMENT OF THEIR PROPRIETARY RIGHTS.

Our success depends significantly on our ability to obtain and maintain patent, trademark and copyright protection for our intellectual property, to preserve our trade secrets and to operate without infringing the proprietary rights of third parties. If we are not adequately protected, our competitors could use the intellectual property that we have developed to enhance their products and services, which could harm our business.

We will rely on patent protection, as well as a combination of copyright and trademark laws, trade secrets, confidentiality provisions and other contractual provisions, to protect our proprietary rights, but these legal means afford only limited protection. Despite any measures taken to protect our intellectual property, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. In addition, the laws of some foreign countries may not protect our proprietary rights as fully as do the laws of the United States. If we litigated to enforce our rights, it would be expensive, divert management resources and may not be adequate to protect our intellectual property rights.

The telecommunications industry is characterized by the existence of a large number of patents and frequent litigation based on allegations of trade secret, copyright or patent infringement. We may inadvertently infringe a patent of which we are unaware. In addition, because patent applications can take many years to issue, there may be a patent application now pending of which we are unaware that will cause us to be infringing when it is issued in the future. Although we are not currently involved in any intellectual property litigation, we may be a party to litigation in the future to protect our intellectual property or as a result of our alleged infringement of another's intellectual property, forcing us to do one or more of the following:

- Cease selling, incorporating or using products or services that incorporate the challenged intellectual property;

- Obtain from the holder of the infringed intellectual property right a license to sell or use the relevant technology, which license may not be available on reasonable terms; or

- Redesign those products or services that incorporate such technology.

A successful claim of infringement against us, and our failure to license the same or similar technology, could adversely effect our business, asset value or stock value. Infringement claims, with or without merit, would be expensive to litigate or settle, and would divert management resources.

OUR MARKET IS HIGHLY COMPETITIVE AND OUR PRODUCTS, TECHNOLOGY AND BUSINESS MAY NOT BE ABLE TO COMPETE EFFECTIVELY WITH OTHER PRODUCTS OR TECHNOLOGIES.

The markets for semiconductors and other high-speed telecommunications products are highly competitive, and we expect that they will become increasingly competitive in the future. Certain of our potential competitors operate their own fabrication facilities, have longer operating histories and possess substantially greater name recognition, financial, sales and marketing, manufacturing, technical, personnel, and other resources than we have. As a result, these competitors may be able to adapt more quickly to new or emerging technologies and changes in customer requirements. They may also be able to devote greater resources to the promotion and sale of their products. We will compete with numerous companies with well-established reputations in the broadband telecommunications industry, such as GlobespanVirata, Alcatel, PMC-Sierra, Texas Instruments, Infineon Technologies, Motorola and Broadcom. In all of our target markets, we also may face competition from newly established competitors, suppliers of products based on new or emerging technologies, and customers who choose to develop their own silicon solutions. We also expect to encounter further consolidation in markets in which we compete. Although we believe we will be able to compete based on the special features of our products, our products will incorporate new concepts and may not be successful even if they are superior to those of our competitors.

In addition to facing competition from the above-mentioned suppliers, our products will compete with products using other broadband access technologies, such as cable modems, wireless, satellite and fiber optic telecommunications technology. Commercial acceptance of any one of these competing solutions, or new technologies, could decrease demand for our proposed products. We cannot assure you that we will be able to compete successfully or that competitive pressures will not materially and adversely affect our

business, financial condition and results of operations.

WE MUST KEEP PACE WITH RAPID TECHNOLOGICAL CHANGES IN THE SEMICONDUCTOR INDUSTRY AND BROADBAND COMMUNICATIONS MARKET IN ORDER TO REMAIN COMPETITIVE.

Our future success will depend on our ability to anticipate and adapt to changes in technology and industry standards. We will also need to develop and introduce new and enhanced products to meet our customers' changing demands. The semiconductor industry and broadband communications market are characterized by rapidly changing technology, evolving industry standards, frequent new product introductions and short product life cycles. In addition, this industry and market continues to undergo rapid growth and consolidation. A continued slowdown in the semiconductor industry or other broadband communications markets could materially and adversely affect our business, financial condition and results of operations. Our success will also depend on the ability of our potential telecommunications equipment customers to develop new products and enhance existing products for the broadband communications markets and to introduce and promote those products successfully. The broadband communications markets may not continue to develop to the extent or in the timeframes that we anticipate. If new markets do not develop as we anticipate, or if upon their deployment our products do not gain widespread acceptance in these markets, our business, financial condition and results of operations could be materially and adversely affected.

BECAUSE OUR SUCCESS IS DEPENDENT UPON THE BROAD DEPLOYMENT OF DATA SERVICES BY TELECOMMUNICATIONS SERVICE PROVIDERS, WE MAY NOT BE ABLE TO GENERATE SUBSTANTIAL SALES OF OUR PRODUCTS IF SUCH DEPLOYMENT DOES NOT OCCUR.

Our proposed products will be incorporated in equipment that is targeted at end-users of data services offered by wireline telecommunications carriers. Consequently, the success of our products depends upon the decision by telecommunications service providers to broadly deploy data technologies and the timing of such deployment. If service providers do not offer data services on a timely basis, or if there are technical difficulties with the deployment of these services, sales of our products would be adversely affected, which would have a negative effect on our results of operations. Factors that may impact data deployment include:

- A prolonged approval process, including laboratory tests, technical trials, marketing trials, initial commercial deployment and full commercial deployment;
- The development of a viable business model for data services, including the capability to market, sell, install and maintain data services;
- Cost constraints, such as installation costs and space and power requirements at the telecommunications service provider's central office;
- Evolving industry standards; and
- Government regulation.

THE COMPLEXITY OF OUR PRODUCTS COULD RESULT IN UNFORESEEN DELAYS OR EXPENSE AND IN UNDETECTED DEFECTS, WHICH COULD ADVERSELY AFFECT THE MARKET ACCEPTANCE OF NEW PRODUCTS AND DAMAGE OUR REPUTATION WITH PROSPECTIVE CUSTOMERS.

Highly complex products such as the semiconductors that we expect to offer frequently contain defects and bugs when they are first introduced or as new versions are released. If our products contain defects, or have reliability, quality or compatibility problems, our reputation may be damaged and customers may be reluctant to buy our semiconductors, which could materially and adversely affect our ability to retain existing customers or attract new customers. In addition, these defects could interrupt or delay sales to our customers. In order to alleviate these problems, we may have to invest significant capital and other resources. Although our products will be tested by our suppliers, our customers and ourselves, it is possible that these tests will fail to uncover defects. If any of these problems are not found until after we have commenced commercial production of our products, we may be required to incur additional development costs and product recall, repair or replacement costs. These problems may also result in claims against us by our customers or others. In addition, these problems may divert our technical and other resources from other development efforts. Moreover, we would likely lose, or experience a delay in, market acceptance of the affected product, and we could lose credibility with our prospective customers.

WE HAVE NO AGREEMENT RELATING TO REVENUE GENERATING ACTIVITIES

We presently have no agreement or understanding with any third party as to commercial exploitation of for our proposed semiconductor line of products, and no assurance can be provided that we will be successful in concluding any significant-revenue generating agreement on terms commercially acceptable to us.

WE DEPEND ON ATTRACTING AND RETAINING KEY PERSONNEL

We are highly dependent on the principal members of our management and technology staff. The loss of their services might significant delay or prevent the achievement of development or strategic objectives. Our success depends on our ability to retain certain key employees and to attract additional qualified employees. We cannot assure you that we will be able to retain existing personnel or attract and retain highly qualified employees in the future.

OUR FILM IN DISTRIBUTION MAY NOT PRODUCE THE FINANCIAL RESULTS WE ANTICIPATE.

Our film in distribution ("Step Into Liquid") may not produce the financial results we are anticipating and therefore may have an adverse impact on our financial position. Some of the risks include:

- Cash flow assumptions are based on a revenue stream from the film that may not materialize due to lower than anticipate box office sales or sales of DVD's.

- We have contracted with a third party for distribution of the film in the United States. We cannot be assured that this distributor will perform as expected.

- We are contracting with foreign distributors in various countries. We are receiving guarantee payments before releasing the film. We cannot be assured of accurate reporting of foreign box office sales or that moneys due us from box office sales will ever be remitted.

WE CANNOT PREDICT THE EFFECT FUTURE SALES OF OUR COMMON STOCK WILL HAVE ON THE

MARKET PRICE OF OUR COMMON STOCK.

We cannot predict the effect, if any, that future sales of our Common Stock will have on the market price of our Common Stock prevailing from time to time. Sales of substantial amounts of Common Stock or the perception that such sales could occur may adversely affect prevailing market prices for our Common Stock.

OUR STOCK PRICE MAY BE VOLATILE.

The market price of our Common Stock will likely fluctuate significantly in response to the following factors, some of which are beyond our control:

- Variations in our quarterly operating results;
- Changes in financial estimates of our revenues and operating results by securities analysts;
- Changes in market valuations of telecommunications equipment companies;
- Announcements by us of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- Additions or departures of key personnel;
- Future sales of our Common Stock;
- Stock market price and volume fluctuations attributable to inconsistent trading volume levels of our stock;
- Commencement of or involvement in litigation; and
- Announcements by us or our competitors of technological innovations or new products.

In addition, the equity markets have experienced volatility that has particularly affected the market prices of equity securities issued by high technology companies and that often has been unrelated or disproportionate to the operating results of those companies. These broad market fluctuations may adversely effect the market price of our common stock.

WE HAVE RELIED ON THE PRIVATE PLACEMENT EXEMPTION TO RAISE SUBSTANTIAL AMOUNTS OF CAPITAL, AND COULD SUFFER SUBSTANTIAL LOSSES IF THAT EXEMPTION WAS DETERMINED NOT TO HAVE BEEN PROPERLY RELIED UPON

We have raised substantial amounts of capital in private placements from time to time. The securities offered in such private placements were not registered with the SEC or any state agency in reliance upon exemptions from such registration requirements. Such exemptions are highly technical in nature and if we inadvertently failed to comply with the requirements of any of such exemptive provisions, investors would have the right to rescind their purchase of our securities or sue for damages. If one or more investors were to successfully seek such rescission or institute any such suit, we could face severe financial demands that could materially and adversely affect our financial position.

WE DO NOT ANTICIPATE PAYING ANY DIVIDENDS ON OUR COMMON STOCK.

We have not paid any dividends on our common stock since our inception and do not anticipate paying any dividends on our common stock in the foreseeable future. Instead, we intend to retain any future earnings for use in the operation and expansion of our business.

WE HAVE ESTABLISHED SEVERAL ANTI-TAKEOVER MEASURES WHICH COULD DELAY OR PREVENT A CHANGE OF OUR CONTROL.

Under the terms of our amended and restated certificate of incorporation, the board of directors will be authorized, without any need for action by our stockholders, but subject to any limitations prescribed by law, to issue shares of our preferred stock in one or more series. Each series may consist of such number of shares and have the rights, preferences, privileges and restrictions, such as dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the right to increase or decrease the number of shares of any series, as the board of directors shall determine. The board of directors may issue preferred stock with voting or conversion rights that may have the effect of delaying, deferring or preventing a change in control of our company and that could adversely affect the market price of the common stock and the voting and other rights of the holders of common stock. Additionally, our board of directors adopted a stockholder rights plan and declared a dividend distribution of one right for each outstanding share of our common stock. Each right, when exercisable, entitles the registered holder to purchase securities at a specified purchase price, subject to adjustment. The rights plan may have the anti-takeover effect of causing substantial dilution to the person or group that attempts to acquire our company on terms not approved by the board of directors. The existence of the rights plan could limit the price that certain investors might be willing to pay in the future for shares of our capital stock and could delay, defer or prevent a merger or acquisition of our company that stockholders may consider favorable.

BECAUSE WE ARE SUBJECT TO SEC REGULATIONS RELATING TO LOW-PRICED STOCKS, THE MARKET FOR OUR COMMON STOCK COULD BE ADVERSELY AFFECTED.

The Securities and Exchange Commission has adopted regulations concerning low-priced (or "penny") stocks. The regulations generally define "penny stock" to be any equity security that has a market price less than $5.00 per share, subject to certain exceptions. If our shares continue to be offered at a market price less than $5.00 per share, and do not qualify for any exemption from the penny stock regulations, our shares will continue to be subject to these additional regulations relating to low-priced stocks.

The penny stock regulations require that broker-dealers, who recommend penny stocks to persons other than institutional accredited investors make a special suitability determination for the purchaser, receive the purchaser's written agreement to the transaction prior to the sale and provide the purchaser with risk disclosure documents that identify risks associated with investing in penny stocks. Furthermore, the broker-dealer must obtain a signed and dated acknowledgment from the purchaser demonstrating that the purchaser has actually received the required risk disclosure document before effecting a transaction in penny stock. These requirements have historically resulted in reducing the level of trading activity in securities that become subject to the penny stock rules.

The additional burdens imposed upon broker-dealers by these penny stock requirements may discourage broker-dealers from effecting transactions in the common stock, which could severely limit the market liquidity of our common stock and our shareholders' ability to sell our common stock in the secondary market.

ITEM 2. PROPERTIES

Our corporate headquarters are located at 5920 Friars Road, Suite 104, San Diego, California. This property is occupied under a five-year lease that commenced on February 1, 2000. Subsequent to October 31, 2003, we decided to

move our corporate headquarters to Portland, Oregon. The remaining lease cost (net of projected sublease income) estimated to be $75,530 will be recognized as a liability in the first fiscal quarter of 2004.

In anticipation of moving our corporate headquarters to Portland, Oregon, we have leased 1,000 square feet of space on a month-to-month basis in Portland.

We also lease 2,251 square feet of space at 1024 Serpentine Lane, Pleasanton, California, which was previously used by NV Technology. This property is occupied under a lease that commenced on May 4, 2001 and which was amended on September 12, 2001. The lease expires on March 31, 2004. We are currently trying to find a subtenant for this property and have recognized the entire liability for the remaining cost ($28,850) of the lease in the financial statements for the year ended October 31, 2003.

ITEM 3. LEGAL PROCEEDINGS

We are not aware of any legal proceedings that would have a material impact on our financial condition, results of operations, business or prospects.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The following matters were submitted to a vote of security holders during the three months ended October 31, 2003:

(a) The 2003 annual meeting of the shareholders was held on August 25, 2003. Holders of 42,112,150 shares of the Company's common stock were present in person or by proxy at the meeting.

(b) Brad Ketch, Ray Willenberg, Jr., C. Rich Wilson III, Ivan Berkowitz, Bruce Brown, Thomas J. Cooper and John Howell were elected directors of the Company.

(c)

i. Article I of the Articles of Incorporation were amended to change the corporate name to Rim Semiconductor Company.
ii. Article IV of the Articles of Incorporation were amended to increase authorized shares of common stock from 100 million to 500 million.
iii. Marcum and Kliegman, LLP were appointed our independent auditors for fiscal year 2003.

(d) The meeting was called for the following purposes:

i. To elect Brad Ketch, Ray Willenberg, Jr., C. Rich Wilson III, Ivan Berkowitz, Bruce Brown, Thomas J.

Cooper and John Howell as directors of the Company. This proposal was approved as follows:

	Votes For	Votes Withhe
Brad Ketch	41,587,421	524,729
Ray Willenberg, Jr.	41,032,731	1,079,419
C. Rich Wilson III (1)	40,885,528	1,226,622
Ivan Berkowitz	40,563,800	1,548,350
Bruce Brown	40,500,767	1,611,383
Thomas J. Cooper	41,336,390	7445,760
John Howell	40,690,185	1,421,965

(1) Mr. Wilson resigned form his directorship and all other positions held with the Company as of December 31, 2003.

ii. To approve an amendment to Article I of our Articles of Incorporation to change our corporate name to Rim Semiconductor Company.

The stockholders approved this proposal with 41,970,911 votes cast for and 110,473 votes cast against. There were 30,766 abstentions and 23,767,764 broker non-votes.

iii. To approve an amendment to Article IV of our Articles of Incorporation to increase our authorized common stock from 100 million shares to 500 million shares.

The stockholders approved this proposal with 40,646,156 votes cast for and 1,449,407 votes cast against. There were 16,587 abstentions and 23,767,764 broker non-votes.

iv. To ratify the appointment of Marcum & Kliegman, LLP, as our independent auditors for the current fiscal year

The stockholders approved this proposal with 41,902,493 votes cast for and 191,175 votes cast against. There were 18,482 abstentions and 23,767,764 broker non-votes.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock, par value $.001 (the "Common Stock") is currently traded on the Nasdaq Stock Market's over-the-counter bulletin board (the "OTC Bulletin Board") under the trading symbol "NVEI."

The following table shows the quarterly high and low bid prices and

high and low ask prices for our common stock over the last three fiscal years, as reported on the OTC Bulletin Board. The prices represent quotations by dealers without adjustments for retail mark-ups, mark-downs or commission and may not represent actual transactions.

	BID		ASK	
	HIGH	LOW	HIGH	LOW
NOVEMBER 2002 THROUGH OCTOBER 2003				
First Quarter	$ .75	$ .36	$ .77	$.
Second Quarter	.45	.27	.46	.
Third Quarter	.42	.30	.42	.
Fourth Quarter	.41	.23	.42	.
NOVEMBER 2001 THROUGH OCTOBER 2002				
First Quarter	$ .73	$ .30	$ .80	$.
Second Quarter	1.79	.33	1.85	.
Third Quarter	1.35	.74	1.43	.
Fourth Quarter	.90	.35	.94	.

SHAREHOLDERS

As of January 26, 2004, there were approximately 1,027 record holders of the Common Stock of the Company. The Company believes that there are a significant number of shares of Common Stock held either in nominee name or street name brokerage accounts and consequently, the Company is unable to determine the number of beneficial owners of the Common Stock.

DIVIDENDS

We have not declared or paid any cash dividends on our capital stock and do not anticipate paying any cash dividends on our capital stock in the foreseeable future. Payment of dividends on the common stock is within the discretion of our Board of Directors. The Board currently intends to retain future earnings, if any, to finance our business operations and fund the development and growth of our business. The declaration of dividends in the future will depend upon our earnings, capital requirements, financial condition, and other factors deemed relevant by the Board.

RECENT SALES OF UNREGISTERED SECURITIES

Set forth below is a listing of all sales by the Company of unregistered equity securities during 2003, excluding sales that were previously reported on a Quarterly Report on Form 10-Q. Unless otherwise indicated, such sales were exempt from registration under the Securities Act of 1933, as amended (the "Act"), pursuant to Section 4(2) of the Act, as they were transactions not involving a public offering.

In January 2004, we:

- issued an aggregate of $1,000,000 in convertible promissory notes to

sixteen investors, which may be converted into shares of common stock at an exercise price of $.15;

- issued as part of the above transaction warrants to purchase 6,666,667 shares of common stock at an exercise price of $.25;
- issued 1,000,000 shares of common stock to one individual in exchange for consulting services valued at $240,000;
- issued to our board chair and senior vice president 400,000 shares of common stock in lieu of $100,000 in commissions;
- issued to our chief executive officer and president 40,000 shares of common stock in lieu of $10,000 in deferred compensation;
- issued to our chief financial officer 50,000 shares of common stock as part of his employment agreement;
- issued to our former vice president and secretary and board member 333,333 shares of common stock as part of his severance agreement; and
- sold an aggregate 100,000 shares of common stock to one investor for total proceeds of $17,500.

In December 2003, we:

- issued 2,800,000 shares of common stock to two companies in exchange for consulting services valued at $700,000;
- sold an aggregate of 931,667 shares of common stock to six investors for total proceeds of $177,500;
- issued 106,668 shares of common stock as part of an extension of past due convertible notes;
- issued 15,000 shares of common stock to one company in exchange for past services valued at $2,250; and

- cancelled 28,000 shares.

In November 2003, we:

- sold aggregate of 232,834 shares of common stock to six investors for total proceeds of $40,300.

In October 2003, we:

- sold an aggregate of 815,433 shares of common stock to twelve investors for total proceeds of $122,315;
- issued an aggregate of 450,000 shares of common stock upon conversion of convertible promissory notes held by seven investors, resulting in the cancellation of $90,000 in principal and interest that would have been outstanding under the notes.

In September 2003, we:

- sold an aggregate of 593,167 shares of common stock to 15 investors for total proceeds of $89,050;

- issued an aggregate of 700,000 shares of common stock to one investor upon the exercise of warrants at $.06 per share.

In August 2003, we:

- sold an aggregate of 450,100 shares of common stock to seven investors for total proceeds of $67,515; and

- issued an aggregate of 300,000 shares of common stock to one investor upon the exercise of warrants at $.06 per share.

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 the Securities Act or Regulation S under such Securities Act. Except with respect to securities sold under Regulation S, 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. Appropriate legends were affixed to the share certificates issued in all of the above 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. SELECTED FINANCIAL DATA

The selected consolidated financial data set forth below for the five years in the period ended October 31, 2003 has been derived from the Company's audited consolidated financial statements. This information should be read in conjunction with the audited consolidated financial statements and notes thereto.

	Year Ended October 31		
	2003	2002	2001
STATEMENT OF OPERATIONS DATA:			
Revenues	$ 379,980	$ --	$ --
Cost of Sales	192,889	--	--
Selling, general and administrative	4,189,348	6,014,912	4,086,795
Total operating expenses	4,563,502	7,313,472	9,492,584
Net loss	(3,316,500)	(9,467,123)	(11,875,915)
Basic and diluted net loss per share	$ (.05)	$ (.23)	$ (.46)
Weighted average number of common	60,643,489	41,861,295	25,988,990
BALANCE SHEET DATA AT PERIOD-END			

Current Assets	$ 324,801	$ 323,259	$ 560,109
Property and equipment, net	41,301	64,533	284,896
Film in Distribution	2,142,212	--	--
Projects under development	--	2,178,831	1,912,650
Total assets	8,272,350	8,332,199	2,791,297
Accounts payable and accrued expenses	1,744,833	2,247,585	1,435,024
Redeemable Series B Preferred Stock	3,192,000	--	--
Total liabilities	7,175,194	4,907,502	2,306,910
Redeemable Series B Preferred Stock	--	3,192,000	--
Total shareholders' equity (deficit)	$ 1,097,156	$ 232,697	$ 484,387

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

THE FOLLOWING COMMENTARY SHOULD BE READ IN CONJUNCTION WITH THE CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES CONTAINED ELSEWHERE IN THIS FORM 10-K. THE DISCUSSION CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. THESE STATEMENTS RELATE TO FUTURE EVENTS OR OUR FUTURE FINANCIAL PERFORMANCE. IN SOME CASES, YOU CAN IDENTIFY THESE FORWARD-LOOKING STATEMENTS BY TERMINOLOGY SUCH AS "MAY," "WILL," "SHOULD," "EXPECT," "PLAN," "ANTICIPATE," "BELIEVE," "ESTIMATE," "PREDICT," "POTENTIAL," "INTEND," OR "CONTINUE," AND SIMILAR EXPRESSIONS. THESE STATEMENTS ARE ONLY PREDICTIONS. OUR ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF A VARIETY OF FACTORS, INCLUDING, BUT NOT LIMITED TO, THOSE SET FORTH UNDER "RISK FACTORS" AND ELSEWHERE IN THIS FORM 10-K.

OVERVIEW

The Company is developing advanced transmission technology to enable data to be transmitted across copper telephone wire at speeds and over distances that exceed those offered by industry-leading DSL technology providers. We intend to market this breakthrough technology to leading equipment makers in the telecommunications industry. Through our subsidiary, NV Entertainment, we are recognizing gross profit from the revenues from the feature-length documentary, "Step into Liquid."

During fiscal 2003 the Company emerged from being a development stage business as a result of our film "Step Into Liquid" going into distribution. Our Telecommunications Business continues to be in the development stage.

Fiscal 2003 has been a year of consolidation and cost cutting for the Company. During the year we cut overhead cost approximately $100,000 per month and subsequent to year end have cut an additional $50,000 per month. These cost cutting measures combined with focusing the Company's Telecommunications Business will allow us to more carefully use moneys raised to complete development of our technology.

ENTERTAINMENT BUSINESS. The film has completed its domestic theater run grossing about $3.7 million in box office revenues. The remaining film revenues are licensing and foreign distribution guarantee fees. The film is currently being distributed to foreign markets. We anticipate revenues in fiscal 2004 will exceed fiscal 2003 revenues as we anticipate additional foreign revenues, television rights and DVD sales. The DVD sales are scheduled for release in the United States in April 2004. Revenues in 2004 are projected to meet or exceed

our invested capital of $2,250,000. After 2004 revenues will decline. The Entertainment Business should be cash flow positive in fiscal 2004.

TELECOMMUNICATIONS BUSINESS. We continued development of our technology during fiscal 2003 and are moving closer to having a semiconductor chip available. Currently we estimate that we will need to raise an additional $3 million to $4 million in order to complete the technology, produce a semiconductor chip and market the chip. We believe the Telecommunications Business will begin to generate revenues in the third or fourth calendar quarter of 2004.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, bad debts, investments, intangible assets and income taxes. Our estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

We have identified the accounting policies below as critical to our business operations and the understanding of our results of operations.

Revenue Recognition

We recognize film revenue from the distribution of our feature films and related products when earned and reasonably estimable in accordance with Statement of Position 00-2 -- "Accounting by Producers or Distributors of Films" (SOP 00-2). The following are the conditions that must be met in order to recognize revenue in accordance with SOP 00-2:

- persuasive evidence of a sale or licensing arrangement with a customer exists;
- the film is complete and, in accordance with the terms of the arrangement, has been delivered or is available for immediate and unconditional delivery;
- the license period of the arrangement has begun and the customer can begin its exploitation, exhibition or sale;
- the arrangement fee is fixed or determinable; and
- collection of the arrangement fee is reasonably assured.

Under a rights Agreement with the Company's distributor for its feature length film entitled "Step into Liquid" the Company shares with the distributor in the profits of STEP INTO LIQUID after the distributor recovers its marketing, distribution and other predefined costs and fees. The agreement provides for the payment of minimum guaranteed license fees, usually payable on delivery of the respective completed film, that are subject to further increase based on the actual distribution results in the respective territory.

In accordance with the provisions of SOP 00-2, a film is classified as a library title after three years from the film's initial release. The term library titles is used solely for the purpose of classification and for identifying previously

released films in accordance with the provisions of SOP 00-2. Revenue recognition for such titles is in accordance with our revenue recognition policy for film revenue.

Film Production Costs

Statement of Positions SOP-00-2, "Accounting by Producers or Distributors of Films" ("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). The Company makes certain estimates and judgments of its future gross revenue to be received for each film based on information received by its distributor, historical results and management's knowledge of the industry. Revenue and cost forecasts are continually reviewed by management and revised when warranted by changing conditions. A change to the estimate of gross revenues for an individual film may result in an increase or decrease to the percentage of amortization of capitalized film costs relative to a previous period.

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 film's fair value.

The Company commences amortization of capitalized film costs and accrues (expenses) of participation costs when a film is released and it begins to recognize revenue from the film.

Stock-Based Compensation

SFAS 123, SFAS 148 and APB 25 (and any related interpretations) will continue to have impact on our reporting and operating results as the Company has used stock in the past to raise capital and as a means of compensation to employees. We believe we will need to continue using stock for these same purposes.

RESEARCH AND DEVELOPMENT.

Research and development expenses relate to the design and development of new telecommunications products. Payments made to independent software developers under development agreements are capitalized to software development costs once technological feasibility is established or if the development costs have an alternative future use. Prior to establishing technological feasibility, software development costs are expensed to research and development costs and to cost of revenues subsequent to confirmation of technological feasibility. Internal development costs are capitalized to software development costs once technological feasibility is established. Technological feasibility is evaluated on a product-by-product basis.

Research and development expenses generally consist of salaries, related expenses for engineering personnel and third-party development costs.

RESULTS OF OPERATIONS

COMPARISON OF THE YEAR ENDED OCTOBER 31, 2003 AND THE YEAR ENDED OCTOBER 31, 2002

REVENUES. Revenues for fiscal 2003 of $380,000 were from our Entertainment Business. Revenues of $295,000 were in the form of guaranteed and license payments and the remainder was foreign distribution fees.

COST OF SALES. Cost of sales for fiscal 2003 of $193,000 is amortization of film cost for our film in distribution.

OPERATING EXPENSES. Operating expenses included research and development expenses, compensatory element of stock issuances, selling, general and administrative expenses and the costs of settlement of litigation. Total operating expenses decreased 38% to $4,564,000 for fiscal 2003 from $7,313,000 for fiscal 2002 or a $2,749,000 decrease. Selling, general and administrative expenses decreased 40% or $1,429,000 primarily as a result of a reduction in staffing, lower professional fees and lower travel and entertainment expenses. Research and development costs decreased $1,181,000 to $118,000 as we made significant advance payments for research and development in fiscal 2002. Compensatory element of stock issuances decreased 16% from $2,459,000 in fiscal 2002 to $2,062,000 in fiscal 2003 as we better managed the use of stock for compensation purposes. Projects written off increased by $57,000 (there were none written off in fiscal 2002) as we determined we would not pursue several projects.

OTHER EXPENSES. Other expenses included interest expense, amortization of unearned financing costs and a non-cash gain on the settlement of a law suit. Interest expense decreased $766,000 as a primarily as a result of issuing fewer convertible notes payable in fiscal 2003 that had interest of 50% for the life of the note due when the notes were paid, causing us to recognize the interest expense immediately in fiscal 2002. Additionally, including these notes, our overall debt level was lower in fiscal 2003 compared to fiscal 2002. Amortization of unearned financing costs decreased to $336,000 from $1,117,000 as a result of the Company issuing less debt with conversion features or warrants with strike prices less than the market price of the stock at the time of issuance. We record a non-cash gain of $1,474,000 on the settlement of a law suit with two former officers and shareholders. The gain was the result of the former officers returning 2,200,000 shares of stock.

NET LOSS. The net loss decreased 46% from $6,150,000 to $3,317,000 as the result of gross profit generated on the film ($187,000), lower operating expenses ($2,749,000), lower interest costs ($765,000), lower amortization of financing costs ($791,000) and the non-cash gain recorded as a result of the law suit settlement ($1,474,000).

COMPARISON OF THE YEAR ENDED OCTOBER 31, 2002 AND THE YEAR ENDED OCTOBER 31, 2001

REVENUES. Revenues for the fiscal years ended October 31, 2002 and October 31, 2001 were $0.

OPERATING EXPENSES. Operating expenses included research and development expenses, compensatory element of stock issuances, selling, general and administrative expenses and the costs of settlement of litigation. Total operating expenses decreased to $7,313,000 for fiscal 2002 from $9,493,000 for fiscal 2001. The decrease was principally related to reductions in general and administrative expenses. Compensatory element of stock issuances for general and administrative expenses decreased from $3,559,000 to $2,459,000 and selling, general and administrative expenses decreased from $4,087,000 to $3,556,000 as general and administrative costs associated with our Pleasanton office were significantly reduced in the fourth quarter of fiscal 2001. Research and development expenses increased to $1,299,000 in fiscal 2002 from $839,000 in fiscal 2001. During the second quarter of the 2001 fiscal period, 250,000 shares of common stock valued at $1,000,000 were issued in connection with certain disputes arising from a non-consummated merger between New Visual Corporation and Astounding.com, Inc. There was no similar event during the 2002 fiscal period.

OTHER EXPENSES. Other expenses included amortization of unearned financing costs and interest expense. Total other expenses decreased from $2,383,000 in fiscal 2001 to $2,154,000 in fiscal 2002. Interest expense increased from $337,000 in fiscal 2001 to $1,036,000 in fiscal 2002, primarily resulting from the interest component of convertible notes payable issued during the fiscal year ended October 31, 2002. In addition, several of these

convertible notes were convertible into common stock at a conversion rate lower than the market price of our common stock at the time of issuance of the notes. As a result, there was an additional charge to amortization of unearned financing costs of $654,000. The increases in these expenses were offset by a reduction in the costs of amortization of unearned financing costs of $322,000 in connection with a long-term debt 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.

NET LOSS. The Company's net loss was $9,467,000, or $0.23 per common share, for the fiscal year ended October 31, 2002, a decrease from the net loss of $11,876,000, or $0.46 per common share, for the fiscal year ended October 31, 2001.

CONTRACTUAL OBLIGATIONS

We are committed to making cash payments in the future in connection with our operating leases, convertible notes payable, convertible debentures and notes payable. We have no off-balance sheet debt or other unrecorded obligations and we have not guaranteed the debt of any other party. Below is a schedule of the future payments that we are obligated to make based on agreements in place as of October 31, 2003:

	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007
Operating leases	$ 103,285	$ 15,834	$	$
Convertible notes payable	360,000			
Convertible debentures	300,000			

Notes payable	740,311			
License and Development Fee	95,000			
Series B convertible preferred stock		1,197,000	1,596,000	399,000
Total	$ 1,598,596	$ 1,212,834	$ 1,596,000	$ 399,000

(1) Payment is contingent upon the level of receipts the Company receives from its joint venture that produced the film Step Into Liquid. Dependent upon the performance of the film in foreign distribution and DVD sales the entirety of the $743,000 could come due in fiscal 2004.

On January 6, 2004 the Company issued $1,000,000 of 7% convertible debentures due December 31, 2006. The debentures have a three year term and are convertible to common stock at $.15 per share. As part of this transaction warrants to purchase 6,666,667 shares of common stock at an exercise price of $.25 were issued to the debenture holders.

LIQUIDITY AND CAPITAL RESOURCES

Cash balances totaled $320,000 as of October 31, 2003 and $312,000 as of October 31, 2002.

Net cash used in operating activities was $2,283,000 in fiscal 2003, $3,986,000 in fiscal 2002 and $4,281,000, in fiscal 2001.

Operations have been financed principally through sales of common stock, the exercise of warrants and options to purchase common stock, the issuance of convertible notes payable and notes payable. Net proceeds from financing activities amounted to approximately $3,144,000 for fiscal 2003, $5,201,000 for fiscal 2002 and $5,642,000 for fiscal 2001. Net proceeds from convertible notes and debentures payable amounted to approximately $551,000 in fiscal 2003, $1,795,000 in fiscal 2002 and $615,000 in fiscal 2001. Proceeds

from the exercise of options and warrants amounted to approximately $60,000 in fiscal 2003, $728,000 in fiscal 2002 and $100,000 in fiscal 2001. The Company received net proceeds from the sale of common stock amounting to approximately $2,764,000 in fiscal 2003, $1,977,000 in fiscal 2002 and $5,427,000 in fiscal 2001. Notes payable were issued amounting to approximately $0, $700,000 and $0 in fiscal 2003, fiscal 2002 and fiscal 2001, respectively. Notes payable amounting to $231,000 were repaid in fiscal 2003 and $500,000 were repaid in fiscal 2001.

Stock was issued in payment of expenses amounting to approximately $2,062,000 in fiscal 2003, $2,459,000 in fiscal 2002 and $3,559,000 in fiscal 2001. Stock was returned to the Company in settlement of litigation in the amount of $1,474,000 during fiscal 2003. Stock was issued in settlement of litigation in the amount of $1,000,000 during fiscal 2001.

In April 2000, we entered into a joint venture production agreement to produce a feature length film for theatrical distribution. Under the agreement, we are providing the funding for the production in the amount of up to $2,250,000 and, in exchange, we will receive a 50% share in all net profits from

worldwide distribution and merchandising, after receiving funds equal to our initial investment of up to $2,250,000. As of October 31, 2003, we had a receivable from the joint venture in the amount of $2,167,000. The film is now in distribution. We expect to receive distributions in fiscal 2004 in excess of $2,167,000.

Research and development expenses totaled approximately $118,000 in fiscal 2003, $1,299,000 in fiscal 2002 and $839,000 in fiscal 2001. During the fiscal year ended October 31, 2003 the Company paid $639,000 in technology development fees.

As of October 31, 2003 we have outstanding convertible notes payable totaling $1,103,000. We agreed to pay the principal and interest in 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 notes are convertible at any time, in whole or in part, into shares of common stock at conversion prices ranging from $0.40 to $1.00 per share.

In June 2000, we entered into five long-term credit facilities, pursuant to which we borrowed $750,000. The balance on these notes at October 31, 2003 is $256,886. The maturity date on these notes has been extended beyond its original maturity date until we close our next round of financing.

In April 2002, we entered into a license and development agreement with Adaptive Networks, Inc., which included development services relating to our FPGA-based prototype. We agreed to pay Adaptive an aggregate of $1,559,000 for these services. As of October 31, 2003, the remaining balance due to Adaptive is $95,000 under the license and development agreement.

In April 2002, in consideration of the grant of a technology license from Adaptive Networks, Inc., we assumed certain debt obligations of Adaptive to Zaiq Technologies, Inc. ("Zaiq"). We then issued 3,192 shares of Series B Preferred Stock, valued at $3,192,000, with a liquidation preference of $1,000 per share, and paid $250,000 in cash to Zaiq in satisfaction of the Zaiq debt. We must offer to redeem all of the Series B Preferred Stock if we close a corporate transaction resulting in a change of control or a financing transaction of at least $15 million. If we close a financing transaction of at least $3 million but less than $15 million, we must offer to redeem a portion of the Series B Preferred Stock based on a fraction, the numerator of which is the cash proceeds we receive in the financing transaction and the denominator of which is $15 million. We are also required to offer to redeem the outstanding Series B Preferred Stock in eight equal quarterly payments beginning March 31, 2005 and ending December 31, 2006.

In July 2002, we borrowed $500,000 from the Charles R. Cono Trust. These borrowings are unsecured and bear interest at 10% per annum. Principal and accrued interest are payable three days after we receive a written demand for payment. The balance on this note at October 31, 2003 is $483,425.

On October 31, 2003 the Company entered into a 7% convertible debenture agreement in the amount of $300,000. The debentures are convertible to common stock at $.26 per share and are due April 30, 2004. The Company also issued warrants to the debenture holder at a strike price of $.15 per share. This was subsequently paid in January 2004.

On January 6, 2004 the Company issued $1,000,000 of 7% convertible

debentures due December 31, 2006. The debentures have a three year term and are convertible to common stock at $.15 per share. As part of this transaction warrants to purchase 6,666,667 shares of common stock at an exercise price of $.25 were issued to the debenture holders.

Taking into account the proceeds of the Convertible Debentures, the Company believes that it has sufficient cash resources available to maintain its operations through April 2004. Assuming that the proceeds of the Additional debentures are received, the Company believes that it has sufficient cash resources available to maintain its operations through July 2004. Thereafter, unless the Film business generates revenues, the Company will need to raise an additional $4 million to $5 million to realize its business plan as contemplated and complete the design, development, and testing of the Company's proposed semiconductor chip.

While the Company is actively seeking to raise additional capital, at the present time it has no commitments for any such financing, and there can be no assurance that additional capital will be available to the Company on commercially acceptable terms. The financial statements accompanying this report for the year ended October 31, 2003, includes an explanatory paragraph relating to the uncertainty of the Company's ability to continue as a going concern, which may make it more difficult for the Company to raise additional capital.

Furthermore, it is anticipated that any successful financing will have a significant dilutive effect on existing stockholders. The inability to obtain such financing will have a material adverse effect on the Company, its operations and future business prospects.

Management believes funds on hand and available sources of financing will enable us to meet our liquidity needs for at least the next three months. However, funding for our operations has become more difficult to secure and more expensive than in prior periods due to the current economic and stock market climate, our recent stock price and market volatility, and general market conditions in the semiconductor and telecommunications industries. Management continues to take steps to reduce monthly cash outlays through arrangements with vendors to accept longer payment terms and reductions of recurring expenses, when possible, including potential staff and management changes. However, additional cash must be raised in order to continue to meet liquidity needs and satisfy the Company's proposed business plan. Management is presently investigating potential financing transactions that it believes can provide additional cash for operations and lead to profitability 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 us to meet liquidity needs in the future, there can be no assurance that these efforts will be successful.

GOING CONCERN CONSIDERATION

We have continued losses in each of our years of operation, negative cash flow and liquidity problems. These conditions raise substantial doubt about our 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 we be unable to continue as a going concern.

We have been able to continue based upon our receipt of funds from the issuance of equity securities and borrowings, and by acquiring assets or paying expenses by issuing stock. Our continued existence is dependent upon our continued ability to raise funds through the issuance of our securities or borrowings, and our 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 $10,588,000 through sales of common stock and $3,697,000 from borrowings from November 1, 2000 through October 31, 2003, 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.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (" FIN 45"). FIN 45 requires a company, at the time it issues a guarantee, to recognize an initial liability for the fair value of obligations assumed under the guarantee and elaborates on existing disclosure requirements related to guarantees and warranties. The initial recognition requirements of FIN 45 are effective for guarantees issued or modified after December 31, 2002 and adoption of the disclosure requirements are effective for the Company during the first quarter ending January 31, 2003. The adoption of FIN 45 had no significant impact on its consolidated financial position or results of operations.

In January 2003, the FASB issued FASB Interpretation No. 46 (" FIN 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after March 15, 2004. The adoption of FIN 46 had no significant impact on its consolidated financial position or results of operations.

In April 2003, FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." The Statement amends and clarifies accounting for derivative instruments, including certain derivative instruments imbedded in other contracts, and for hedging activities under Statement 133. This Statement is effective for contracts entered into or modified after June 30, 2003, except as stated below and for hedging relationships designated after June 30, 2003. The guidance should be applied prospectively. The provisions of this Statement that relate to Statement 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003 should continue to be applied in accordance with their respective effective dates. In addition, certain provisions relating to forward purchases or sales of when-issued securities, or other securities that do not yet exist, should be applied to existing contracts as well as new contracts entered into after June 30, 2003. The adoption of SFAS No. 149 had no significant impact on its consolidated financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". SFAS No. 150 establishes standards for classification and measurement in the

statement of financial position of certain financial instruments with characteristics of both liabilities and equity. It requires classification of a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS. No 150 is effective for financial instruments entered into or modified after May 31, 2003 and, otherwise, is effective at the beginning of the first interim period beginning after June 15, 2003. As a result of implementing SFAS No. 150 the Company has changed the classification of its Series B Convertible Preferred Stock to a long term liability from previously being classified between the liability and equity section.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not currently have any indebtedness or income from foreign sources that would subject us to market risk. We do not engage in commodity futures trading or hedging activities and do not participate in derivative financial instrument transactions for trading or other speculative purposes. In addition, we do not engage in interest rate swap transactions that could expose us to market risk. However, to the extent that changes in interest rates and currency exchange rates affect general economic conditions, we may be affected by such changes.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our audited Consolidated Balance Sheets as of October 31, 2003 and 2002 and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended October 31, 2003, 2002 and 2001 are included in this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As indicated in the certifications following the signatures to this report, the Chief Executive Officer and Chief Financial Officer of the Company have evaluated the Company's disclosure controls and procedures prior to the filing of this report. Based on that evaluation, these officers have concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company required to be included in the Company's periodic filings under the Securities Exchange Act of 1934, as amended.

Subsequent to that evaluation, there have not been changes in the Company's internal controls or in other factors that could have materially affected or are reasonably likely to affect internal control over financial reporting.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

DIRECTORS AND EXECUTIVE OFFICERS

The individuals who serve as our executive officers and directors are:

Name	Age	Position(s) Held
Brad Ketch	41	President, Chief Executive Officer and Director
Ray Willenberg, Jr.	52	Chairman of the Board and Executive Vice President
James W. Cruckshank	49	Chief Financial Officer
Ivan Berkowitz	56	Vice Chairman of the Board(1)
Bruce Brown	66	Director(1)
Thomas J. Cooper	54	Director
John Howell	58	Director

(1) Member of the Audit Committee and the Compensation Committee.

BRAD KETCH. Mr. Ketch has served the Company in various roles since March 2002. In March 2002, Mr. Ketch became a consultant with us on our broadband technology and served in that capacity until July 2002, when he became our Chief Marketing Officer. He has served as our President and Chief Executive Officer, as well as a director, since December 2002. With over 18 years experience creating shareholder value through broadband telecommunications products and services, Mr. Ketch, from October 2001 to March 2002, served as CEO of Kentrox LLC, a manufacturer and marketer of data networking equipment. At Kentrox, Mr. Ketch was responsible for a company with 260 employees and $90 million in annual revenues. From January 2001 to October 2001 Mr. Ketch implemented strategic plans for telecom service providers and equipment manufacturers through his telecommunications consulting company, Brad Ketch & Associates, of which he was founder and President. From February 1999 to January 2001 he was Senior Vice President of Sales and Marketing for HyperEdge Corporation, a company he co-founded. HyperEdge acquired and integrated broadband access equipment manufacturers to further enable service providers to deliver broadband access to the "Last Mile." From August 1997 through February 1999, Mr. Ketch implemented strategic business and technical plans for competitive local exchange carrier network access and created products targeted at the incumbent local exchange carrier market as a consultant to various telecommunications companies as a consultant with Brad Ketch & Associates. Prior to August 1997 he served in various capacities at Nortel, Advanced Fibre Communications and Cincinnati Bell. Mr. Ketch has a Bachelor of Arts degree in Economics from Wheaton College and a MBA from Northwestern University.

RAY WILLENBERG, JR. Mr. Willenberg served as our President, Chief Executive Officer and Chairman of the Board from April 1997 to March 2002, and was elected a director in October 1996. Mr. Willenberg joined us as Vice President and corporate Secretary in 1996. He currently serves as our Executive Vice President and Chairman of the Board of Directors. From 1972 to 1995, Mr. Willenberg was Chief Executive Officer of Mesa Mortgage Company in San Diego, California.

JAMES W. CRUCKSHANK. Mr. Cruckshank has served as our Chief Financial Officer since December 2003. He holds a B.B.A. in Accounting, Marketing and Management from the University of Portland and a M.B.A. from The University of Notre Dame. Since November of 2003, Mr. Cruckshank has been a partner in Tatum CFO Partners LLP. From March 2003 to December 2003 Mr. Cruckshank was an independent financial consultant. From November 2001 to March 2003, Mr. Cruckshank was Vice President of Finance of Christenson Electric, Inc. From March 2000 to October 2001, Mr. Cruckshank served as Chief Financial Officer for a number of internet startup companies. From January 1999 to February 2000, Mr. Cruckshank was Vice President and Chief Financial Officer of Assisted Living

Concepts, Inc. From February 1984 to January 1999, Mr. Cruckshank was Corporate Controller and Assistant Treasurer of Schnitzer Steel Industries, Inc. a publicly traded company. Prior to that Mr. Cruckshank was with PriceWaterhouse Coopers for six years.

IVAN BERKOWITZ. Mr. Berkowitz has served as a member of our board of directors since August 2000 and was named Vice Chairman of the Board in June 2001. Since 1993, Mr. Berkowitz has served as the managing general partner of Steib & Company, a privately held New York-based investment company. Currently, Mr. Berkowitz serves on the board of directors of ConnectivCorp, a deep content provider that facilitates online connections between consumers and health-oriented companies. Since 1989, Mr. Berkowitz has served as President of Great Court Holdings Corporation, a privately held New York-based investment company. Mr. Berkowitz holds a B.A. from Brooklyn College, an MBA from Baruch College, City University of New York, and a Ph.D. in International Law from Cambridge University.

BRUCE BROWN. Mr. Brown has served as a member of our board of directors since June 2000. Over the past 30 years, Mr. Brown has been an independent director and producer of motion pictures. He was nominated for an Academy Award in 1971 for directing "ON ANY SUNDAY," a motorcycle adventure film starring Steve McQueen. Mr. Brown has earned worldwide distinction as the director and producer of the first of its kind documentary, "ENDLESS SUMMER," which is the second highest grossing documentary film of all time. Its sequel, "ENDLESS SUMMER 2," also directed by Mr. Brown, grossed more than $10 million in its first year of theatrical distribution. Mr. Brown has collaborated with us to produce a new surfing adventure film for mainstream theatrical release. Mr. Brown's other movie credits include "SLIPPERY WHEN WET," "SURFIN' SHORTS," "SURF CRAZY," "SURFIN' HOLLOW DAYS," "BAREFOOT ADVENTURE" and "WATERLOGGED."

THOMAS J. COOPER. Mr. Cooper has served as a member of our board of directors since March 2002. From June 1 to December 2, 2002, Mr. Cooper served as our President and Chief Executive Officer. Mr. Cooper has been engaged in the development, creation and management of global sales and marketing platforms for businesses operating in the areas of high technology, real estate, office automation, and telecommunications for the past 30 years. From 1994 to 2002, Mr. Cooper served in various high-ranking positions at GlobespanVirata Corporation

(formerly Virata), most recently as Senior Vice President, Corporate Development (from July 1999 to February 2002), where he was responsible for the development and implementation of long range growth strategies, including defining global partnership initiatives; identifying potential acquisition and joint venture candidates; and directing strategic investment of corporate capital into select ventures in which the company acquired minority stakes. From 1994 until 1999, Mr. Cooper served as Virata's Senior Vice President, Worldwide Sales and Marketing, where he oversaw all aspects of the company's product sales and marketing, corporate marketing/communications and public relations. During his tenure, Virata grew its revenues from $8.9 million in 1998, $9.3 million in 1999, and $21.8 million in 2000, to over $120 million in 2001.

Prior to joining Virata, Mr. Cooper served in senior sales and management positions at Hewlett-Packard, Trammell Crow Company, Rubloff, Inc., Network Equipment Technologies and Pedcom, Inc. He also has seven pending U.S. patents for networking method or product. Mr. Cooper also serves on the boards of directors of Bsafeonline.com, Inc., a distributor of Internet filtering and security applications, and RolaTube Technology, Ltd., the developer and patent-holder of a new materials technology called Bi-stable Reeled Composite (BRC) technology, which is headquartered in the United Kingdom. After earning a Bachelor of Arts degree from Hamilton College, Mr. Cooper graduated MAGNA CUM LAUDE from the University of Toledo, where he earned his MBA.

JOHN HOWELL. Mr. Howell has served as a member of our board of directors since April 2000 and was our Executive Vice President from July 2000 until October 2002. In October 2002, Mr. Howell was named Executive Vice President of Kingdom Ventures, Inc., a manufacturer and global distributor of products and services primarily marketed to the faith-based consumer. Mr. Howell also serves as a director of Kingdom Ventures, Inc. From January 1998 until October 1998, Mr. Howell served as Vice President of TeraGLOBAL Communications

Corp., a manufacturer of hardware for the convergence of voice, video and data. From 1997 to 1998, Mr. Howell was Chief Executive Officer of EVERSYS Corporation, a manufacturer of computer equipment for the local area network. Mr. Howell has a Bachelor of Science degree in Aerospace Engineering from Oregon State University.

C. RICH WILSON III. Mr. Wilson resigned as Vice President, Secretary and as a member of the Board of Directors effective December 31, 2003. Mr. Wilson had served as Vice President, Secretary and a member of our Board of Directors since April 2000.

BOARD OF DIRECTORS; ELECTION OF OFFICERS

All directors hold office until the next annual meeting of shareholders and until their successors are duly elected and qualified. Any vacancy occurring in the Board of Directors may be filled by the shareholders, the Board of Directors, or if the Directors remaining in office constitute fewer than a quorum of the Board of Directors, they may fill the vacancy by the affirmative vote of a majority of the Directors remaining in office. A director elected to fill a vacancy is elected for the unexpired term of his predecessor in office. Any directorship filled by reason of an increase in the number of directors shall expire at the next shareholders' meeting in which directors are elected, unless the vacancy is filled by the shareholders, in which case the term shall expire on the later of (i) the next meeting of the shareholders or (ii) the term designated for the director at the time of creation of the position being

filled.

Our executive officers are elected by and serve at the pleasure of our Board of Directors.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires each of our officers and directors and each person who owns more than 10% of a registered class of our equity securities to file with the SEC an initial report of ownership and subsequent reports of changes in such ownership. Such persons are further required by SEC regulation to furnish us with copies of all Section 16(a) forms (including Forms 3, 4 and 5) that they file. Based solely on our review of the copies of such forms received by us with respect to fiscal year 2003, or written representations from certain reporting persons, we believe all of our directors and executive officers met all applicable filing requirements, except as described in this paragraph. Brad Ketch filed a late Form 3 for fiscal year 2003.

Audit Committee Financial Expert

We have no financial expert. It is difficult for a company with a financial profile such as ours to attract and to afford a director who qualifies as a financial expert. Nevertheless, our board intends to seek and consider retaining over fiscal 2004 an appropriate candidate who qualifies as financial expert.

Code of Ethics

We have not yet adopted a code of ethics. Our Board of Directors intends to adopt, during fiscal 2004, establishing a code of ethics that complies with the applicable guidelines issued by the Securities and Exchange Commission.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth all compensation earned by the Company's Chief Executive Officer and President and the other executive officers of the Company whose total annual salaries and bonuses exceeded $100,000 for the year ended October 31, 2003 (the "Named Executive Officers"):

SUMMARY COMPENSATION TABLE

Name and Principal Position(s)	Year	Salary	Other Annual Compensation	Re A
Brad Ketch	2003	$ 225,833	$ --	
President and Chief Executive	2002	60,000	--	
Officer (1)	2001	--	--	
Ray Willenberg, Jr.	2003	177,694 (3)	--	
Chairman of the Board, Chief	2002	258,406 (4)	--	
Executive Officer, President	2001	229,167	--	

and Executive Vice President (2)					
C. Rich Wilson III	2003	156,083		--	
Former Vice President and	2002	166,329	(6)	91,875	(7)
Secretary (5)	2001	149,580		--	
Thomas J. Sweeney	2003	129,848		--	
Former Chief Financial	2002	133,455	(9)	--	
Officer (8)	2001	82,294		--	
Thomas J. Cooper	2003	71,424		--	
Former Chief Executive	2002	129,500	(11)	--	
Officer (10)	2001	--		--	

(1) Mr. Ketch was appointed Chief Executive Officer on December 2, 2002.
(2) Mr. Willenberg served as our President and Chief Executive Officer until June 1, 2002, when Mr. Cooper became Chief Executive Officer and Mr. Willenberg became Executive Vice President.
(3) Includes $28,106 in commissions paid Mr. Willenberg per his employment agreement. The Company owed Mr. Willenberg $463,878 in unpaid commissions as of October 31, 2003.
(4) Includes $14,250 in earned, but deferred payroll unpaid as of October 31, 2002.
(5) Mr. Wilson served as Vice President and Secretary from April 2000 until his resignation from all positions with the Company on December 31, 2003.
(6) Includes $29,999 in earned, but deferred payroll unpaid as of October 31, 2002.
(7) Represents the issuance to Mr. Wilson in February 2002 of 250,000 shares of common stock valued at $0.37 per share.
(8) Mr. Sweeney served as Chief Financial Officer until his resignation on December 12, 2003. Mr. Sweeney's employment was at will.
(9) Includes $13,514 in earned, but deferred payroll unpaid as of October 31, 2002.
(10) Mr. Cooper served as our Chief Executive Officer from June 1, 2002 until December 2, 2002.
(11) Includes $62,500 in earned, but deferred payroll unpaid as of October 31, 2002 and $4,500 of consulting fees paid to Mr. Cooper prior to his employment with us.
(12) Includes 1,500,000 options cancelled pursuant to Mr. Cooper's Severance Agreement. See "Item 13 - Certain Relationships and Related Transactions - Thomas J. Cooper."

In accordance with the rules of the SEC, other compensation in the form of perquisites and other personal benefits has been omitted for the named executive officers because the aggregate amount of these perquisites and other personal benefits was less than the lesser of $50,000 or 10% of annual salary and bonuses for the named executive officers.

STOCK OPTIONS GRANTED DURING THE YEAR ENDED OCTOBER 31, 2003.

The following table sets forth information with respect to the stock options granted in the last fiscal year to the persons set forth in the Summary Compensation Table (the "named executive officers").

OPTION GRANTS IN THE LAST FISCAL YEAR

	Number of Securities Underlying Options Granted (#)	Percent of Total Options Granted To Employees In Fiscal Year	Exercise or Base Price ($/Share)
Brad Ketch	1,500,000	100%	$ 0.64

(1) In accordance with SEC rules, the Black-Scholes option pricing model was chosen to estimate the grant date present value of the options set forth in this table. Our use of this model should not be construed as an endorsement of its accuracy at valuing options. All stock option valuation models, including the Black-Scholes model, require a prediction about the future movement of the stock price. The following assumptions were made for purposes of calculating the grant date present value for the options granted: expected life of this option of five years, volatility at 72.32% dividend yield of 0.0% and discount rate of 1.5%.

YEAR-END OPTION VALUES. The following table sets forth information as of October 31, 2003 concerning options held by the named executive officers.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

	Shares Acquired on Exercise (#)	Realized ($)	Number of Securities Underlying Unexercised Options at Fiscal Year End	
			Exercisable	Unexercisable
Brad Ketch	--	--	605,000	1,350,000
Ray Willenberg, Jr.	--	--	1,117,500	2,500
C. Rich Wilson III	--	--	742,500	2,500
James W. Cruckshank	--	--	--	--
Thomas J. Sweeney	--	--	--	--

COMPENSATION OF DIRECTORS

It is our policy to pay each outside director $2,000 for each meeting of our Board of Directors attended and for each committee meeting attended. In fiscal 2003 the directors waived their board meeting and committee meeting fees until the Company's financial condition improves. In addition, we have granted stock and stock options to the directors to compensate them for their services. Our directors are eligible to receive stock option grants under our 2000 Omnibus Securities Plan. During 2002, we granted Bruce Brown and Ivan Berkowitz, our non-employee directors, options to purchase 150,000 and 250,000 shares of our common stock, respectively at an exercise price of $0.42 per share. The options were all granted under our 2000 Omnibus Securities Plan and vested quarterly on April 30, 2002, July 31, 2002, October 31, 2002 and January 31, 2003. We reimburse our directors for reasonable expenses incurred in traveling to and from board or committee meetings.

EMPLOYMENT AGREEMENTS WITH EXECUTIVE OFFICERS

BRAD KETCH. On December 2, 2002, we entered into an employment

agreement with Brad Ketch pursuant to which Mr. Ketch was retained as our Chief Executive Officer. The agreement entered into with Mr. Ketch in December 2002 replaced the agreements previously entered into with Mr. Ketch (and discussed below) pursuant to which he was retained in various other capacities. Mr. Ketch's current agreement with us began on December 2, 2002 for a three-year term and provided for Mr. Ketch to receive an initial base salary of $250,000, with an annual bonus to be paid at the discretion of the Board of Directors in either cash or stock. In addition, the agreement provides for Mr. Ketch to receive an option to purchase 1,500,000 shares of our Common Stock at a per share exercise price of $0.64. The options vest in 12 quarterly installments of 125,000, beginning March 1, 2003.

Mr. Ketch's agreement provided that he may be terminated for "cause," as defined in his employment agreement. If Mr. Ketch is terminated without "cause" or left New Visual for "good reason," each as defined in the agreement, he will receive a severance payment equal to two years of his base salary on the date of his termination. If Mr. Ketch is terminated without cause or with good reason within one year after a "change of control," as defined in the agreement, he will receive a severance payment equal to two years of his base salary and an amount equal to two times the amount of his last bonus received.

Prior to our entering into the agreement with Mr. Ketch retaining his as our Chief Executive Officer, we entered into several agreements with him during fiscal year 2002. In March 2002, we entered into a one-year consulting arrangement with Mr. Ketch, in which we retained Mr. Ketch to provide consulting and advisory services with respect to our technology for transmitting high speed data over extended ranges of copper telephone wire. Pursuant to this consulting agreement, we agreed to pay Mr. Ketch $15,000 per month and granted him an option to purchase 50,000 shares of our common stock at an exercise price of $1.02 per share. The option was exercisable upon grant.

In July 2002, we entered into an employment agreement and a second stock option agreement with Mr. Ketch whereby he became our Chief Marketing Officer. This employment agreement, which was for a three year term, began on July 1, 2002, and provided for a base salary of $15,000 per month, an annual bonus to be paid at the discretion of the Board of directors in either cash or stock, and a stock option grant of 405,000 shares, of which 105,000 vested on the date of grant. The remaining options vest quarterly, beginning on May 31, 2003, in equal amounts of 37,500 shares. These options have an exercise price of $1.09 per share.

RAY WILLENBERG, JR. On February 11, 2000, we entered into an employment agreement with Ray Willenberg, Jr., our Chief Executive Officer during part of the 2002 fiscal year. The agreement began on April 1, 2000 for a three year term and provided for Mr. Willenberg to receive an initial base salary of $250,000, with annual increases of $50,000 each April. Mr. Willenberg agreed to forego this increase in both 2001 and 2002. On March 22, 2002, in connection with the hiring of Thomas J. Cooper as our Chief Executive Officer, we entered into a new employment agreement with Mr. Willenberg. Pursuant to this new agreement, Mr. Willenberg agreed to continue to serve as our Chief Executive Officer until June 1, 2002 and to serve as an Executive Vice President thereafter. Under the terms of the new agreement, Mr. Willenberg will continue to serve as our Chairman of the Board and as the President of our wholly-owned subsidiary, NV Entertainment, Inc. Mr. Willenberg is entitled to receive a base salary of $175,000 per year. He is also entitled to an annual bonus based upon the annual revenues we receive in connection with our feature film production, STEP INTO LIQUID, and the gross

proceeds we receive from sales of our equity or debt securities obtained as a result of Mr. Willenberg's personal efforts.

Mr. Willenberg may be terminated for "cause," as defined in his employment agreement. If Mr. Willenberg is terminated without "cause" or leaves New Visual for "good reason," each as defined in the agreement, he will receive a severance payment equal to two years of his base salary on the date of his termination. If Mr. Willenberg is terminated without cause or with good reason within one year after a "change of control," as defined in the agreement, he will receive a severance payment equal to two years of his base salary and an amount equal to two times the amount of his last bonus received.

C. RICH WILSON III. On February 25, 2002, we entered into an employment agreement with C. Rich Wilson III to serve as our Vice President and Secretary. Mr. Wilson's agreement commenced March 1, 2002 and was for a one-year term, which provided for automatic renewals for successive one-year terms unless earlier terminated pursuant to the terms of the agreement or with 60 days notice prior to the end of its term. Under the agreement, Mr. Wilson's base salary was $160,000 per year. Mr. Wilson was also entitled to an annual bonus, payable in cash or stock, in the discretion of the Board, and an annual bonus based upon the annual revenues we receive in connection with our feature film production, STEP INTO LIQUID.

Mr. Wilson's agreement provided that he could be terminated for "cause" as defined in his employment agreement. If Mr. Wilson were terminated without "cause" or left the Company for "good reason," each as defined in the agreement, the agreement provided for him to receive a severance payment equal to the longer of that period of time remaining in his employment agreement or nine months. If Mr. Wilson were terminated without cause or with good reason within one year after a "change of control," as defined in the agreement, he was to receive a severance payment equal to two years of his base salary plus an amount equal to two times the amount of his last bonus received. Mr. Wilson resigned as Vice President, Secretary and as a member of the Board of Directors effective December 31, 2003. Upon his resignation Mr. Wilson received compensation through February 25, 2004, a stock grant of 333,333, 1% of the gross received by the Company from Top Secret Productions, LLC and he was allowed to retain his options until their scheduled expiration dates.

THOMAS J. COOPER. On March 22, 2002, we entered into an employment agreement with Thomas J. Cooper to serve as our Chief Executive Officer commencing June 1, 2002. Mr. Cooper's agreement, which was for a three-year term, began on March 22, 2002 and was terminated on December 2, 2002. The agreement provided for Mr. Cooper to receive an annual base salary of $250,000 per year, commencing June 1, 2002. Prior to that date, the agreement provided for Mr. Cooper to receive a base salary of $125,000 per year. The agreement also entitled Mr. Cooper to an annual bonus, payable in cash or stock, in the discretion of the Board. In addition, the agreement provided for Mr. Cooper to receive an option to purchase 1,500,000 shares of our common stock. This option was terminated pursuant to our Separation Agreement with Mr. Cooper, which is described below under the heading "Certain Relationships and Related Transactions."

Mr. Cooper's agreement provided that he could be terminated for "cause," as defined in his employment agreement. If Mr. Cooper were terminated without "cause" or left New Visual for "good reason," each as defined in the agreement, the agreement provided for him to receive a severance payment equal

to two years of his base salary on the date of his termination. If Mr. Cooper were terminated without cause or with good reason within one year after a "change of control," as defined in the agreement, he was to receive a severance payment equal to two years of his base salary and an amount equal to two times the amount of his last bonus received.

Mr. Cooper resigned as Chief Executive Officer for personal reasons effective December 2, 2002. The foregoing termination and severance provisions were not implicated by Mr. Cooper's resignation. In connection with his resignation, we entered into a Separation Agreement with Mr. Cooper. See "Item 13--Certain Relationships and Related Transactions - Thomas J. Cooper." The Board and Compensation Committee believe the terms of the Separation Agreement were fair to both parties and in the best interests of the Company and its shareholders.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

There are no compensation committee interlocks between the members of our Compensation Committee and any other entity. Bruce Brown and Ivan Berkowitz are the members of the Compensation Committee. None of the current members of the Compensation Committee was, or has ever been, an officer or employee of ours or any of our subsidiaries.

On April 9, 2000, we entered into an agreement with Mr. Brown, as well as with Dana Brown and John-Paul Beeghly (collectively, the "Brown Partners") in which we agreed to form a venture and produce our STEP INTO LIQUID motion picture. In this agreement, we agreed to finance the production of the film for up to $2,250,000. Upon its release, we will receive all revenues generated by the film until such time as we recover 100% of our investment in the film. Once we recoup our investment in the venture, 50% of the net profits generated by the film will be paid to the Brown Partners and 50% will be paid to the Company.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as of January 26, 2004, concerning all persons known by us to own beneficially more than 5% of our common stock and concerning shares beneficially owned by each director and named executive officer and by all directors and executive officers as a group. Unless expressly indicated otherwise, each shareholder exercises sole voting and investment power with respect to the shares beneficially owned. The address for each of our executive officers and directors is 5920 Friars Road, Suite 104, San Diego, CA 92108.

In accordance with the rules of the SEC, the table gives effect to the shares of common stock that could be issued upon the exercise of outstanding options and common stock purchase warrants within 60 days of January 26, 2004. Unless otherwise noted in the footnotes to the table and subject to community property laws where applicable, the following individuals have sole voting and investment control with respect to the shares beneficially owned by them. The address of each executive officer and director is c/o New Visual Corporation, 5920 Friars Road, Suite 104, San Diego, California 92108. We have calculated the percentages of shares beneficially owned based on 76,657,851 shares of common stock outstanding at January 26, 2004.

PERSON OR GROUP	SHARES BENEFICIALLY O		Perc
	Number		
Brad Ketch	1,995,000	(2)	2
Ray Willenberg, Jr.	2,929,375	(3)	3
C. Rich Wilson III	1,424,875	(4)	1
Thomas J. Cooper	532,258	(5)	
John Howell	375,000	(6)	
Bruce Brown	174,000	(7)	
Ivan Berkowitz	1,331,875	(8)	1
James W. Cruckshank	50,000		
All executive officers and directors as a group (8 persons)	8,812,383	(9)	11
Charles R. Cono	3,904,500	(10)	5
Zaiq Technologies, Inc.	8,184,615	(11)	10

* Less than 1%.

(1) Percentage of beneficial ownership as to any person as of a particular date is calculated by dividing the number of shares beneficially owned by such person by the sum of the number of shares outstanding as of such date and the number of unissued shares as to which such person has the right to acquire voting and/or investment power within 60 days.
(2) Includes options to purchase 1,955,000 shares of common stock.
(3) Includes options to purchase 1,120,000 shares of common stock.
(4) Includes options to purchase 745,000 shares of common stock.
(5) Includes options to purchase 500,000 shares of common stock.
(6) Includes options to purchase 14,000 shares of common stock.
(7) Includes options to purchase 160,000 shares of common stock.
(8) Includes options to purchase 785,000 shares of common stock.
(9) Includes options to purchase an aggregate 5,405,000 shares of common stock.
(10) Includes 3,904,500 shares of common stock held by the Charles R. Cono Trust, of which Mr. Cono is the trustee. Mr. Cono's address is 550 Baltimore Drive, La Mesa, California 91942-1176.
(11) Reflects common stock issuable on conversion of 3,192 shares of Series B Preferred Stock at an assumed conversion price of $0.00039 on February 21, 2003. The address of Zaiq Technologies, Inc. is 78 Dragon Court, Woburn, MA 01801.

EQUITY COMPENSATION PLAN INFORMATION

We have three compensation plans (excluding individual stock option grants outside of such plans) under which our equity securities are authorized for issuance to employees, directors and consultants in exchange for services -

the 2000 Omnibus Securities Plan (the "2000 Plan"), the 2001 Stock Incentive Plan (the "2001 Plan"), and the 2003 Consultant Stock Plan (the "Consultant Plan") (collectively, the "Plans"). Our shareholders approved the 2000 Plan and 2001 Plan, and the Consultant Plan has not yet been submitted to the shareholders for approval.

The following table presents information as of October 31, 2003 with respect to compensation plans under which equity securities were authorized for issuance, including the 2000 Plan, the 2001 Plan, the Consultant Stock Plan and

agreements granting options or warrants outside of these plans.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants or Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants or Rights	Fu Com
Equity compensation plans approved by security holders	2,188,750	$ 1.25	
Equity compensation plans not approved by security holders	7,135,443	$ 2.33	
Total	9,324,193	$ 2.08	

NON-SHAREHOLDER APPROVED PLANS. The following is a description of outstanding options and warrants granted to employees, directors, advisory directors, consultants and investors outside of the Plans.

As of October 31, 2003, we have outstanding options and warrants to purchase an aggregate of 7,135,443 shares of our common stock that were granted outside of the Plans. Of this number, options to acquire 1,442,500 shares were granted during fiscal 2000 to eight present or former directors, officers, employees and advisory directors at exercise prices ranging from $4.00 to $4.40. These options expire five years from their grant date. 275,000 of these options vested immediately. 1,027,500 of the options vest in four equal annual installments, with one quarter vesting upon issuance. Of the remaining options, 35,000 vested immediately and the remainder vested in six quarterly installments of 17,500 shares each.

We have outstanding options to purchase 375,000 shares of common stock that were granted during fiscal 2001 outside of the Plans. These options, which expire ten years from their grant date, were granted to five advisory directors at exercise prices ranging from $1.07 to $4.00. 275,000 of these options vested immediately. The remaining 100,000 options vested one-quarter immediately and the remainder in three annual installments.

We have outstanding options to purchase an aggregate of 875,000 shares of common stock that were granted during fiscal 2002 outside of the Plans to five directors, executive officers and consultants. These options expire ten years from their grant date. 500,000 of the options have an exercise price of $0.39 and vested 50% on the grant date and the remainder in four quarterly installments. The remaining options have an exercise price of $1.02. 200,000 of these options vested in installments between April and October 2002, and 175,000 of the options vested on the grant date.

We have outstanding options to purchase 1,500,000 shares of common stock that were granted in fiscal 2003 outside of the Plans. These options, which expire ten years from their grant date, were granted to our current Chief Executive Officer at an exercise price of $0.64 per share. The options vest over three years in 12 equal quarterly installments.

There are outstanding warrants to purchase an aggregate of 1,342,943 shares of common stock that we granted in fiscal 2001 to 23 investors. 1,000,000 of these warrants have a three-year term and have an exercise price of $6.00. 88,000 of these warrants have a three year term and have an exercise price of lesser of $6.10 per share or 50% of market ($.33 at October 31, 2003). 87,357 of these warrants have a three-year term and have an exercise price of $4.02. 67,586 of these warrants have a three-year term and have an exercise price of $5.10. 100,000 of these warrants have a five year term and an exercise price of $2.50 with respect to 50,000; $5.00 with respect to 25,000 and $10.00 with respect to 25,000.

There are outstanding warrants that we granted during fiscal 2002 to four consultants to purchase an aggregate of 500,000 shares of common stock outside of the Plans. 200,000 of these warrants have an exercise price of $0.51 and expire in November 2005. 300,000 of these warrants have a three year term and exercise prices as follows: $0.75 as to 50,000 shares, $1.25 as to 50,000 shares, $1.75 as to 100,000 shares, and $2.25 as to 100,000 shares.

There are outstanding warrants that we granted during fiscal 2003 to a shareholder and a consultant. 500,000 of these warrants have a two year term and an exercise price of $.40. 600,000 of these warrants have a 35-month term (under certain circumstances the Company may accelerate the expiration date) and an exercise price of $.15.

The Consultant Plan was adopted in January 2003 and authorizes the issuance of up to 6,000,000 non-qualified stock options or stock awards to consultants to the Company. Directors, officers and employees are not eligible to participate in the Consultant Plan. To date, we have issued a total of 3,200,000 shares of common stock under the Consultant Plan to four consultants.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

JAMES W. CRUCKSHANK. On December 8, 2003, we entered into an employment agreement with Mr. Cruckshank to serve as our Chief Financial Officer. Under the Agreement, Mr. Cruckshank received 50,000 shares of Common Stock and is paid, with respect to each day actually worked, $700 in cash and $480 Common Stock. Mr. Cruckshank is also eligible for quarterly stock grants based upon completion of certain agreed upon objectives. The agreement is cancelable by the Company immediately for "cause," with 15 days notice without "cause," and with 30 days notice if he leaves the Company for "good reason," each as defined in the agreement. In the event cancellation is without "cause" or for "good reason," after April 8, 2004 until December 8, 2004 Mr. Cruckshank will receive two months severance based upon base pay and from December 8, 2004 and thereafter six months severance based on base pay.

THOMAS J. COOPER. On December 2, 2002, we entered into a Separation Agreement with Mr. Cooper relating to his resignation as our Chief Executive Officer. Mr. Cooper remains a director of the Company. Under the agreement, we reimbursed Mr. Cooper for expenses of $10,000 incurred during his employment and paid him deferred salary of $57,692.30 (the "Salary Payment") on or before March 31, 2003. The Salary Payment is payable in two installments, the first of which, totaling $10,000 was due and paid on or before February 15, 2003. The remainder of $47,692.30 is due on March 31, 2003. If we fail to make the remaining payment pursuant to this schedule, we must pay Mr. Cooper interest at a rate of 24% per year on any unpaid amounts. We also agreed to continue Mr. Cooper's health insurance benefits for up to six months. Pursuant to the terms of the Separation

Agreement, the 1,500,000 stock options granted to Mr. Cooper in connection with his role as Chief Executive Officer were terminated. Mr. Cooper retained other options previously granted to him and remains a director of the Company.

CHARLES R. CONO. In July 2002, we borrowed $500,000 from the Charles R. Cono Trust, a significant shareholder. The note reflecting this loan was due and payable with 10% interest on or before November 1, 2002 (the "July Note"). Also in July 2002, we entered into a consulting agreement with Mr. Cono in which we agreed to pay Mr. Cono $250,000 in exchange for his consulting services upon our receipt of gross revenues of at least $2,250,000 from our motion picture, STEP INTO LIQUID. On November 13, 2002, and effective as of October 31, 2002, we

entered into a promissory note with the Charles R. Cono Trust in the amount of $514,520.55 that amended, restated and replaced in all respects the July Note. This promissory note, which bears interest at 10% per year, is due and payable upon three days demand by Mr. Cono, which could not be made prior to December 16, 2002. This note is currently outstanding.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Aggregate fees billed by the Company's principal accountants, Marcum & Kliegman LLP, for audit services related to the most recent two fiscal years, and for other professional services billed in the most recent two fiscal years, were as follows:

	FISCAL 2003	FISCAL 2002
Audit Fees (1)	$ 142,000	$ 142,900
Audit-Related Fees (2)	10,720	7,400
Tax Fees (3)	15,043	15,200
All Other Fees	--	16,500
Total	$ 167,763	$ 182,000

(1) Comprised of the audit of the Company's annual financial statements and reviews of the Company's quarterly financial statements, as well as consents related to and reviews of other documents filed with the Securities and Exchange Commission.
(2) Comprised of acquisition due diligence and consultations regarding financial accounting and reporting.
(3) Comprised of services for tax compliance, tax return preparation, tax advice and tax planning.

The Audit Committee reviewed the non-audit services rendered by Marcum & Kliegman LLP in and for fiscal 2002 and fiscal 2003 as set forth in the above table and concluded that such services were compatible with maintaining the accountants' independence. Under the Sarbanes-Oxley Act of 2002, all audit and non-audit services performed by the Company's independent accountants must now be approved in advance by the Audit Committee to assure that such services do not impair the accountants' independence from the Company. Accordingly, the Audit Committee has adopted an Audit and Non-Audit Services Pre-Approval Policy (the "Policy") which sets forth the procedures and the conditions pursuant to which services to be performed by the independent accountants are to be pre-approved. Pursuant to the Policy, certain services described in detail in the Policy may be pre-approved on an annual basis together with pre-approved

maximum fee levels for such services. The services eligible for annual pre-approval consist of services that would be included under the categories of Audit Fees, Audit-Related Fees and Tax Fees in the above table as well as services for limited review of actuarial reports and calculations. If not pre-approved on an annual basis, proposed services must otherwise be separately approved prior to being performed by the independent accountants. In addition, any services that receive annual pre-approval but exceed the pre-approved maximum fee level also will require separate approval by the Audit Committee prior to being performed. The Audit Committee may delegate authority to pre-approve audit and non-audit services to any member of the Audit Committee, but may not delegate such authority to management.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) Index to Financial Statements and financial statement schedules, filed as part of this report:

INDEPENDENT AUDITORS' REPORT	F-1
CONSOLIDATED BALANCE SHEETS At October 31, 2003 and 2002	F-2
CONSOLIDATED STATEMENTS OF OPERATIONS For the Years Ended October 31, 2003, 2002 and 2001	F-3
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY For the Years Ended October 31, 2003, 2002 and 2001	F-4 to F-9
CONSOLIDATED STATEMENTS OF CASH FLOWS For the Years Ended October 31, 2003, 2002 and 2001	F-10
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	F-11 to F-24

(c) Exhibits.

3.1 Articles of Amendment to the Articles of Incorporation of New Visual Entertainment, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Report on Form 10-Q for the period ended July 31, 2001).

3.2 Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 of the Company's Annual Report on Form 10-KSB/A for the fiscal year ended October 31, 1999 (the "1999 10-KSB/A")).

3.3 Certificate of Designation of Series A Preferred Stock (incorporated by reference to Exhibit A of Exhibit 4.1 of the Company's Registration Statement on Form 8-A, filed with the Commission on August 10, 2000).

3.4 Certificate of Designation of Series B Preferred Stock (incorporated

by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2002 (the "April 2002 10-Q"))

3.5 Bylaws of New Visual Corporation, as amended (incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the period ended January 31, 2002 (the "January 2002 10-Q")).

4.1 Specimen Stock Certificate (incorporated by reference to Exhibit 3.1 of the 1999 10-KSB/A.

4.2 Rights Agreement by and between New Visual Entertainment, Inc. and First Union National Bank, dated August 9, 2000 (incorporated by reference to Exhibit 4.2 of the 1999 10-KSB/A).

4.3 Warrant, dated as of October 31, 2003 issued in favor of Melton Management Limited (1)

10.1 Agreement to Produce Film, dated April 9, 2000 between New Visual Entertainment, Inc., Bruce Brown, Dana Brown and John-Paul Beeghly (incorporated by reference to Exhibit 10.2 of the Company's Annual Report on Form 10-KSB for the period ended October 31, 2000 (the "2000 10-KSB")). *

10.2 2000 Omnibus Securities Plan of New Visual Entertainment, Inc. (incorporated by reference to Appendix A of the Company's definitive Proxy Statement filed with the Commission on May 2, 2000). *

10.3 Form of Credit Agreement dated June 29, 2000 by the Company and each of the following trusts: Epics Events Trust, Ltd.; Exodus Systems Trust, Ltd.; Prospect Development Trust, Ltd.; Pearl Street Investments Trust, Ltd.; and Riviera Bay Holdings Trust, Ltd. (incorporated by reference to Exhibit 10.3 of the Company's Report on Form 10-Q for the period ended July 31, 2000 (the "July 2000 10-QSB")).

10.4 Form of Amendment to Credit Agreement dated November 13, 2000 by New Visual Entertainment Inc. and each of the following trusts: Epics Events Trust, Ltd.; Exodus Systems Trust, Ltd.; Prospect Development Trust, Ltd.; Pearl Street Investments Trust, Ltd.; and Riviera Bay Holdings Trust, Ltd. (incorporated by reference to Exhibit 10.9 of the 2000 10-KSB).

10.5 Consulting Agreement dated as of March 6, 2001, by and between New Visual Entertainment, Inc. and Strategica Services Corporation (incorporated by reference to Exhibit 10.9 of the Company's Annual Report for the fiscal year ended October 31, 2001 (the "2001 10-K")).

10.6 Consulting Agreement dated as of May 1, 2001, by and between New Visual Entertainment, Inc. and Advisor Associates Inc. (incorporated by reference to Exhibit 10.1 of the Company's Report on Form 10-Q for the period ended April 30, 2001).

10.7 Office Building Lease dated May 4, 2001, by and between Valley Park Associates LLC and New Wheel Technology, Inc., a subsidiary of New Visual Entertainment, Inc. (incorporated by reference to Exhibit 10.11 of the 2001 10-K).

10.8 2001 Stock Incentive Plan for New Visual Corporation (incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-8 (No. 333-68716), as filed with the Commission on August 30, 2001). *

10.9 Consulting Agreement dated August 30, 2001, by and between New Visual Corporation and Jack Burstein (incorporated by reference to Exhibit 10.13 of the 2001 10-K).

10.10 Stock Option Agreement dated August 30, 2001, by and between New Visual Corporation and Jack Burstein (incorporated by reference to Exhibit 10.14 of the 2001 10-K).

10.11 Promissory Note dated September 6, 2001 by John Howell in favor of New Visual Corporation (incorporated by reference to Exhibit 10.15 of the 2001 10-K). *

10.12 First Amendment to Office Building Lease dated September 12, 2001, by and between Valley Park Associates, LLC and New Wheel Technology, Inc., a subsidiary of New Visual Entertainment, Inc. (incorporated by reference to Exhibit 10.16 of the 2001 10-K).

10.13 Technology Planning and Assistance Agreement dated September 28, 2001, by and between New Visual Corporation and Adaptive Networks, Inc. (incorporated by reference to Exhibit 10.17 of the 2001 10-K).

10.14 Convertible Promissory Note dated October 10, 2001 by New Visual Corporation in favor of Nellie Streeter Crane, Ltd. (incorporated by reference to Exhibit 10.18 of the 2001 10-K).

10.15 Warrant Certificate, issued to Advisor Associates, Inc. in October 2001. (1)

10.16 Convertible Promissory Note dated October 15, 2001 by New Visual Corporation in favor of Quail Run Trust Limited (incorporated by reference to Exhibit 10.19 of the 2001 10-K).

10.17 Convertible Promissory Note dated October 23, 2001 by New Visual Corporation in favor of Charles R. Cono (incorporated by reference to Exhibit 10.20 of the 2001 10-K).

10.18 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 2001 10-K).

10.19 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).

10.20 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).

10.21 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). *

10.22 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). *

10.23 Warrant Agreement dated February 11, 2002, by and between New Visual Corporation and Elite Financial Communications, LLC (incorporated by reference to Exhibit 10.6 of the January 2002 10-Q).

10.24 Consulting Agreement dated February 22, 2002, by and between New Visual Corporation and Bruce McLeod (incorporated by reference to Exhibit 10.19 of the April 2002 10-Q).

10.25 Employment Agreement dated February 25, 2002, by and between New Visual Corporation and C. Rich Wilson III (incorporated by reference to Exhibit 10.11 of the January 2002 10-Q).*

10.26 Restricted Stock Award Agreement dated as of February 25, 2002, by and between New Visual Corporation and John Howell (incorporated by reference to Exhibit 10.12 of the January 2002 10-Q).*

10.27 Consulting Agreement dated February 26, 2002, by and between New Visual Corporation and Thomas J. Cooper (incorporated by reference to Exhibit 10.13 of the January 2002 10-Q). *

10.28 Stock Option Agreement dated February 26, 2002, by and between New Visual Corporation and Thomas J. Cooper (incorporated by reference to Exhibit 10.14 of the January 2002 10-Q). *

10.29 Convertible Promissory Note dated March 8, 2002, by New Visual Corporation in favor of Tony Finn (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the period ended July 31, 2002 (the "July 2002 10-Q)).

10.30 Convertible Promissory Note dated March 8, 2002, by New Visual Corporation in favor of James Joseph Redmon (incorporated by reference to Exhibit 10.2 of the July 2002 10-Q).

10.31 Convertible Promissory Note dated March 22, 2002, by New Visual Corporation in favor of the M. Lucile Way Trust (incorporated by reference to Exhibit 10.3 of the July 2002 10-Q).

10.32 Convertible Promissory Note dated March 22, 2002, by New Visual Corporation in favor of D W Construction, Inc. (incorporated by reference to Exhibit 10.4 of the July 2002 10-Q).

10.33 Employment Agreement dated March 22, 2002, by and between New Visual Corporation and Thomas J. Cooper (incorporated by reference to Exhibit 10.10 of the April 2002 10-Q). *

10.34 Stock Option Agreement dated March 22, 2002, by and between New Visual Corporation and Thomas J. Cooper (incorporated by reference to Exhibit 10.11 of the April 2002 10-Q). *

10.35 Employment Agreement dated March 22, 2002, by and between New Visual

Corporation and Ray Willenberg, Jr. (incorporated by reference to Exhibit 10.12 of the April 2002 10-Q). *

10.36 Stock Option Agreement dated March 22, 2002, by and between New Visual Corporation and Ray Willenberg, Jr. (incorporated by reference to Exhibit 10.13 of the April 2002 10-Q). *

10.37 Stock Option Agreement dated March 22, 2002, by and between New Visual Corporation and Brad Ketch (incorporated by reference to Exhibit 10.14 of the April 2002 10-Q). *

10.38 Consulting Agreement dated March 22, 2002, by and between New Visual Corporation and Brad Ketch. (1)*

10.39 Convertible Promissory Note dated April 5, 2002, by New Visual Corporation in favor of D W Construction, Inc. (incorporated by reference to Exhibit 10.5 of the July 2002 10-Q).

10.40 Development and License Agreement dated as of April 17, 2002, by and between Adaptive Networks, Inc. and New Visual Corporation (Confidential treatment has been granted with respect to certain portions of this exhibit. Omitted portions have been filed separately with the Commission) (incorporated by reference to Exhibit 10.15 of the April 2002 10-Q).

10.41 Right of First Refusal, Credit of Payments and Revenue Sharing Agreement dated as of April 17, 2002, by and among New Visual Corporation, Adaptive Networks and Certain Shareholders of Adaptive Networks, Inc. (incorporated by reference to Exhibit 10.16 of the April 2002 10-Q).

10.42 Receivables Purchase and Stock Transfer Restriction Agreement dated as of April 17, 2002, by and among New Visual Corporation, Zaiq Technologies, Inc. and Adaptive Networks, Inc. (incorporated by reference to Exhibit 10.17 of the April 2002 10-Q).

10.43 Receivables Purchase and Stock Transfer Restriction Agreement dated as of April 17, 2002, by and among New Visual Corporation, TLSI, Inc. and Adaptive Networks, Inc. (incorporated by reference to Exhibit 10.18 of the April 2002 10-Q).

10.44 Convertible Promissory Note dated May 21, 2002, by New Visual Corporation in favor of John Marsden (incorporated by reference to Exhibit 10.6 of the July 2002 10-Q).

10.45 Convertible Promissory Note dated May 21, 2002, by New Visual Corporation in favor of Randy Arnett (incorporated by reference to Exhibit 10.7 of the July 2002 10-Q).

10.46 Convertible Promissory Note dated May 30, 2002, by New Visual Corporation in favor of the M. Lucile Way Trust (incorporated by reference to Exhibit 10.8 of the July 2002 10-Q).

10.47 Convertible Promissory Note dated May 31, 2002, by New Visual Corporation in favor of Robert E. Casey, Jr. (incorporated by reference to Exhibit 10.9 of the July 2002 10-Q).

10.48 Convertible Promissory Note dated June 12, 2002, by New Visual Corporation in favor of Bonnie Davis (incorporated by reference to Exhibit 10.10 of the July 2002 10-Q).

10.49	Employment Agreement dated July 1, 2002, by and between New Visual Corporation and Brad Ketch (incorporated by reference to Exhibit 10.11 of the July 2002 10-Q).*
10.50	Consulting Agreement dated as of July 17, 2002, by and between New Visual Corporation and Charles R. Cono (incorporated by reference to Exhibit 10.13 of the July 2002 10-Q).
10.51	Promissory Note dated July 17, 2002, by New Visual Corporation in favor of Charles R. Cono Trust, Charles R. Cono, TTEE (incorporated by reference to Exhibit 10.14 of the July 2002 10-Q).
10.52	Consulting Agreement dated as of July 30, 2002, by and between New Visual Corporation and Advisor Associates, Inc. (incorporated by reference to Exhibit 10.15 of the July 2002 10-Q).
10.53	Severance Agreement and General Release dated September 17, 2002 and effective September 30, 2002 by and between New Visual Corporation and John Howell. (1)*
10.54	Consulting Agreement dated as of September 2002, by and between New Visual Corporation and Starburst Innovations, LLC. *
10.55	Agreement dated as of September 2002 by and between New Visual Corporation and Starburst Innovations, LLC. (1)
10.56	Regulation S Purchase Agreement dated September 23, 2002 between New Visual Corporation and Starz Investments Limited. (1)
10.57	Promissory Note dated October 29, 2002 in favor of Robert E Casey, Jr. (incorporated by reference to Exhibit 10.57 of the Annual Report for the year ended 2002).
10.58	Severance Agreement and Release dated December 2, 2002, by and between New Visual Corporation and Thomas J. Cooper. (incorporated by reference to Exhibit 10.58 of the Annual Report for the year ended 2002).
10.59	Employment Agreement dated December 2, 2002, by and between New Visual Corporation and Brad Ketch. (incorporated by reference to Exhibit 10.59 of the Annual Report for the year ended 2002). *
10.60	Stock Option Agreement dated December 2, 2002, by and between New Visual Corporation and Brad Ketch. (incorporated by reference to Exhibit 10.60 of the Annual Report for the year ended 2002). *
10.61	Promissory note dated October 31, 2002 in favor of Charles R Cono Trust, Charles R. Cono, TTEE (incorporated by reference to Exhibit 10.1 of the Company's Report on Form 8-K dated October 31, 2002).
10.62	Securities Purchase Agreement dated as of October 31, 2003 by and between New Visual and Melton Management Limited (1)
10.63	Employment Agreement dated November 21, 2003, by and between New Visual Corporation and James W. Cruckshank (1) *
10.64	Letter agreement between ARTISAN PICTURES INC. and New Visual

Corporation (1)

21.1 Subsidiaries of the Registrant (incorporated by reference to Exhibit 21.1 of the Annual Report for the year ended 2002)

23.1 Consent of Marcum & Kliegman LLP, Independent Auditors (1)

31.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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(1) Filed herewith.
* Signifies a management agreement or compensatory plan or arrangement.

2. None.

3. The management contracts or compensatory plans or arrangements are followed by an asterisk (*) in the list of Exhibits found in part (c) of this Item 15.

(b) Reports on Form 8-K

Form 8-K dated August 25, 2003, was filed pursuant to Item 5 (Other Events and Regulation FD Disclosure)

This 8-K reported on the results of the annual shareholders meeting.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: January 29, 2004 NEW VISUAL CORPORATION

By: /s/ Brad Ketch

Brad Ketch
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ Brad Ketch Brad Ketch	President, Chief Executive Officer and Director (PRINCIPAL EXECUTIVE OFFICER)	January 29
/s/ James W. Cruckshank James W. Cruckshank	Chief Financial Officer (PRINCIPAL FINANCIAL OFFICER AND PRINCIPAL ACCOUNTING OFFICER)	January 29
/s/ Ray Willenberg, Jr. Ray Willenberg, Jr.	Chairman of the Board	January 29
/s/ Ivan Berkowitz Ivan Berkowitz	Director	January 29
/s/ Bruce Brown Bruce Brown	Director	January 29
/s/ Thomas J. Cooper Thomas J. Cooper	Director	January 29
/s/ John Howell John Howell	Director	January 29

NEW VISUAL CORPORATION AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

Board of Directors
New Visual Corporation

We have audited the accompanying consolidated balance sheets of New Visual Corporation and Subsidiaries (the "Company") as of October 31, 2003 and 2002 and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended October 31, 2003, 2002 and 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of New Visual Corporation and Subsidiaries at October 31, 2003 and 2002 and the results of their operations and their cash flows for each of the three years ended October 31, 2003, 2002 and 2001 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As shown in the consolidated financial statements, the Company incurred net losses of $3,316,500, $9,467,123 and $11,875,915 during the years ended October 31, 2003, 2002 and 2001, respectively. As of October 31, 2003, the Company had a working capital deficiency of approximately $3,658,000. These conditions raise substantial doubt

about the Company's ability to continue as a going-concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ MARCUM & KLIEGMAN LLP

New York, New York
January 21, 2004

NEW VISUAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	2
ASSETS	
Current Assets:	
Cash	$
Receivable from officers	
Other current assets	
Total Current Assets	
Property and equipment - net	
Technology license and capitalized software development fee	5
Film In Distribution - net	2
Projects in Development	
Other assets	
Total Assets	$ 8
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities:	
Convertible notes payable	$ 1
Convertible debentures	
Notes payable	
Accounts payable and accrued expenses	1
License and development fees payable	
Total Current Liabilities	3
Redeemable Series B preferred stock	3
Total Liabilities	7

Redeemable Series B preferred stock	
Commitments, Contingencies and Other Matters	
Stockholders' Equity:	
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; 500,000,000 shares Authorized (100,000,000 as of October 31, 2002); 70,676,682 and 49,787,069 shares issued and outstanding at October 31, 2003 and 2002, respectively	
Additional paid-in capital	51
Unearned financing fees	
Unearned compensation	(
Accumulated deficit	(49,
Total Stockholders' Equity	1
Total Liabilities and Stockholders' Equity	$ 8

The accompanying notes are an integral part of these consolidated financial s

NEW VISUAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended Octo	
	2003	2002
REVENUES	$ 379,980	$ --
OPERATING EXPENSES:		
Cost of sales	192,889	
Projects written off	56,864	
Research and development	117,901	1,298,560
Compensatory element of stock issuances for selling, general and administrative expenses	2,062,081	2,459,158
Selling, general and administrative expenses	2,127,267	3,555,754
Litigation settlement	6,500	--
Loss on disposal of equipment	--	--
TOTAL OPERATING EXPENSES	4,563,502	7,313,472
OPERATING LOSS	(4,183,522)	(7,313,472)
OTHER (INCOME) EXPENSES:		
Interest expense	270,587	1,036,434
Non Cash Gain - Litigation Settlement	(1,474,000)	--

Amortization of unearned financing costs	336,391	1,117,217
TOTAL OTHER (INCOME) EXPENSES	(867,022)	2,153,651
NET LOSS	$ (3,316,500)	$ (9,467,123)
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$ (.05)	$ (.23)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	60,643,489	41,861,295

The accompanying notes are an integral part of these consolidated financial statem

NEW VISUAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED OCTOBER 31, 2003, 2002 AND 2001

	Common Stock	
	Shares	Amount
Balance - November 1, 2002	49,787,069	$ 49,787
Issuance of common stock for cash ($.13 to $.30 per share)	17,112,611	17,113
Issuance of common stock for conversion of promissory notes and interest ($.15 to $1.00 per share)	1,225,941	1,226
Issuance of common stock for deferred payroll	88,710	89
Issuance of common stock under consulting agreements ($.32 to $.64 per share)	3,621,875	3,622
Cancellation of shares under legal settlement	(2,200,000)	(2,200)
Cashless exercise of warrants	40,476	40
Exercise of warrants	1,000,000	1,000
Stock offering costs		
Value assigned to beneficial conversion		
Value assigned to warrants issued to consultants		
Value assigned to options issued to consultants		
Amortization of unearned compensation expense		
Amortization of unearned financing costs		
Net loss		
Balance - October 31, 2003	70,676,682	$ 70,677

The accompanying notes are an integral part of these consolidated financial statem

NEW VISUAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED OCTOBER 31, 2003, 2002 AND 2001

	Unearned Financing Costs	Unearned Compensation
Balance - November 1, 2002	$ (214,952)	$ (331,581)
Issuance of common stock for cash ($.13 to $.30 per share)		
Issuance of common stock for conversion of promissory notes and interest ($.15 to $1.00 per share)		
Issuance of common stock for deferred payroll		
Issuance of common stock under consulting agreements ($.32 to $.64 per share)		(1,539,250)
Cancellation of shares under legal settlement		
Cashless exercise of warrants		
Exercise of warrants		
Stock offering costs		
Value assigned to beneficial conversion	(137,113)	
Value assigned to warrants issued to consultants		(588,232)
Value assigned to options issued to consultants		(7,600)
Amortization of unearned compensation expense		2,062,081
Amortization of unearned financing costs	336,391	
Net loss		
Balance - October 31, 2003	$ (15,674)	$ (404,582)

The accompanying notes are an integral part of these consolidated financia

NEW VISUAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED OCTOBER 31, 2003, 2002 AND 2001

Common Stock

	Shares	Amount
Balance - November 1, 2001	30,003,681	$ 30,003
Issuance of common stock under consulting agreements ($.40 to $1.24 per share)	1,967,312	1,968
Issuance of common stock for cash ($.25 to $1.00 per share)	6,448,675	6,449
Cash received for subscription receivable		
Issuance of common stock in connection with the exercise of warrants ($.25 per share)	2,912,000	2,912
Cashless exercise of warrants	736,008	736
Issuance of common stock for conversion of promissory notes and interest ($.40 to $.70 per share)	4,497,967	4,498
Issuance of common stock for release of claims	1,261,946	1,262
Issuance of common stock for technology license acquisition	624,480	624
Issuance of common stock to employees	1,035,000	1,035
Issuance of common stock for financing fee	300,000	300
Stock offering costs		
Value assigned to beneficial conversion		
Value assigned to warrants issued to consultants		
Value assigned to options issued to consultants		
Amortization of unearned compensation expense		
Amortization of unearned financing costs		
Net loss		
Balance - October 31, 2002	49,787,069	$ 49,787

The accompanying notes are an integral part of these consolidated financia

NEW VISUAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED OCTOBER 31, 2003, 2002 AND 2001

	Unearned Financing Costs	Unearned Compensation
Balance - November 1, 2001	$ (537,380)	$ (481,751)
Issuance of common stock under consulting agreements ($.40 to $1.24 per share)		(344,280)
Issuance of common stock for cash ($.25 to $1.00 per share)		
Cash received for subscription receivable		

Issuance of common stock in connection with the exercise of warrants ($.25 per share)		
Cashless exercise of warrants		
Issuance of common stock for conversion of promissory notes and interest ($.40 to $.70 per share)		
Issuance of common stock for release of claims		
Issuance of common stock for technology license acquisition		
Issuance of common stock to employees		(100,000)
Issuance of common stock for financing fee	(141,000)	
Stock offering costs		
Value assigned to beneficial conversion	(653,789)	
Value assigned to warrants issued to consultants		(467,370)
Value assigned to options issued to consultants		(183,500)
Amortization of unearned compensation expense		1,245,320
Amortization of unearned financing costs	1,117,217	
Net loss		
Balance - October 31, 2002	$ (214,952)	$ (331,581)

The accompanying notes are an integral part of these consolidated financia

NEW VISUAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED OCTOBER 31, 2003, 2002 AND 2001

	Common Stock	
	Shares	Amount
Balance - November 1, 2000	24,072,455	$ 24,072
Issuance of common stock for cash ($.25 to $5.00 per share)	1,212,254	1,212
Issuance of common stock with attached warrants ($4.02 per share for quarter ended January 31)	174,714	175
Issuance of common stock with attached warrants ($5.10 per share for quarter ended January 31)	30,600	31
Issuance of common stock with attached warrants ($2.80 to $5.10 per share for quarter ended April 30)	104,571	105
Issuance of common stock in connection with Private Placement ($4.35 to $5.50 per share for quarter ended January 31)	32,445	32
($2.60 to $3.37 per share for quarter ended April 30)	207,307	207
($1.74 to $2.80 per share for quarter ended July 31)	1,446,355	1,446
Issuance of common stock in connection with litigation settlement	250,000	250
Issuance of stock to Vice-Chairperson of Board of		

Directors for services ($1.8984 per share at June 11)	500,000	500
Issuance of stock under consulting agreement ($2.90 to $3.90 per share at July 31)	50,960	51
Issuance of stock under consulting agreements ($.41 to $.95 per share at October 31)	1,175,000	1,175
Issuance of stock in connection with exercising of option ($.27 at September 30)	750,000	750
Value assigned to warrants issued to consultants at quarter ended July 31		
Value assigned to options issued to consultants at August 30		
Value assigned to warrants issued to consultants at quarter ended October 31		
Value assigned to options issued to advisory board members at quarter ended October 31		
Cancellation of common stock issued for cash	(2,980)	(3)
Amortization of unearned financing costs		
Amortization of unearned compensation expenses		
Net loss		
Balance - October 31, 2001	30,003,681	$ 30,003

The accompanying notes are an integral part of these consolidated financia

NEW VISUAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED OCTOBER 31, 2003, 2002 AND 2001

	Unearned Financing Costs	Unearned Compensation
Balance - November 1, 2000	$ (2,583,333)	$
Issuance of common stock for cash ($.25 to $5.00 per share)		
Issuance of common stock with attached warrants ($4.02 per share for quarter ended January 31)		
Issuance of common stock with attached warrants ($5.10 per share for quarter ended January 31)		
Issuance of common stock with attached warrants ($2.80 to $5.10 per share for quarter ended April 30)		
Issuance of common stock in connection with Private Placement ($4.35 to $5.50 per share for quarter ended January 31) ($2.60 to $3.37 per share for quarter ended April 30) ($1.74 to $2.80 per share for quarter ended July 31)		
Issuance of common stock in connection with litigation settlement		

Issuance of stock to Vice-Chairperson of Board of Directors for services ($1.8984 per share at June 11)		
Issuance of stock under consulting agreement ($2.90 to $3.90 per share at July 31)		
Issuance of stock under consulting agreements ($.41 to $.95 per share at October 31)		
Issuance of stock in connection with exercising of option ($.27 at September 30)		
Value assigned to warrants issued to consultants at quarter ended July 31		
Value assigned to options issued to consultants at August 30		(540,000)
Value assigned to warrants issued to consultants at quarter ended October 31		
Value assigned to options issued to advisory board members at quarter ended October 31		(151,194)
Cancellation of common stock issued for cash		
Amortization of unearned financing costs	2,045,953	
Amortization of unearned compensation expenses		209,443
Net loss		
Balance - October 31, 2001	$ (537,380)	$ (481,751)

The accompanying notes are an integral part of these consolidated financia

NEW VISUAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended Oct	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (3,316,500)	$ (9,467,123
Adjustments to reconcile net loss to net cash used in operating activities:		
Consulting fees and other compensatory elements of stock issuances	2,062,081	2,429,659
Stock issued for litigation settlement	--	--
Unusual item - gain on Litigation settlement	(1,474,000)	--
Loss on disposal of equipment	--	--
Projects written-off	56,864	--
Amortization of unearned financing costs	336,391	1,117,217
Amortization of film in production costs	192,889	--
Depreciation	23,232	77,260
Change in Assets (increase) decrease:		
Other current assets	(3,365)	92,766
Due from related parties	10,033	160,859
Other assets	1,540	18,963
Change in Liabilities increase (decrease):		
Accounts payable and accrued expenses	(172,462)	1,584,573

NET CASH USED IN OPERATING ACTIVITIES	(2,283,297)	(3,985,826
CASH USED IN INVESTING ACTIVITIES		
Acquisition of property and equipment	--	(2,513
Proceeds from sale of equipment	--	145,616
Projects under development	(213,134)	(266,181
Acquisition of license	(639,000)	(1,075,000
NET CASH USED IN INVESTING ACTIVITIES	(852,134)	(1,198,078
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock	2,936,693	2,224,422
Offering costs related to stock issuances	(172,957)	(246,993
Proceeds from convertible debentures	300,000	--
Proceeds from convertible notes payable	287,000	1,795,250
Proceeds from notes payable	--	700,000
Repayments of notes payable	(231,096)	--
Repayments of convertible notes payable	(36,000)	--
Proceeds from exercise of options and warrants	60,000	728,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	3,143,640	5,200,679
INCREASE IN CASH	8,209	16,77
CASH - BEGINNING OF YEAR	311,577	294,80
CASH - ENDING OF YEAR	$ 319,786	$ 311,57
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ --	$ --
Income taxes	$ --	$ --
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Compensation satisfied by issuance of common stock	$ 55,001	$ 29,500
Notes and interest satisfied by issuance of common stock	$ 377,750	$ 2,183,626
Accrued interest added to convertible notes payable	$ 156,000	$ --
Common stock issued for acquisition of license	$ --	$ 750,000
Redeemable Series B Preferred Stock issued for acquisition of license	$ --	$ 3,192,000

The accompanying notes are an integral part of these consolidated financial stat

NEW VISUAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - PRINCIPLES OF CONSOLIDATION, BUSINESS AND CONTINUED OPERATIONS

The consolidated financial statements include the accounts of New Visual Corporation ("New Visual") and its wholly owned operating subsidiaries, NV Entertainment, Inc. (including its 50% owned subsidiary Top Secret Productions, LLC), 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. The Company consolidates its 50% owned subsidiary Top Secret Productions, LLC due to the Company's control of management, board of directors and financial matters.

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, a development stage-company. As a result of the change in business focus, the Company became a development stage entity commencing November 1, 1999. With the completion of the film "Step Into Liquid" and its revenue generation during the fourth quarter of fiscal 2003 the Company was no longer considered a development stage entity. The Company's Telecommunication Segment has generated no revenues to date.

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 years ended October 31, 2003, 2002 and 2001, the Company incurred net losses of approximately $3,317,000, $9,467,000 and $11,876,000, respectively, and as of October 31, 2003, had a working capital deficiency of approximately $3,658,000. As of December 31, 2003, the Company raised $1 million from the sale of its three-year 7% Convertible Debentures and, upon the effectiveness of a registration statement relating to the shares of Common Stock underlying such debentures, which the Company expects to file shortly, the Company expects to sell an additional $1 million of such debentures. Notwithstanding the amounts raised, 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 on commercially acceptable terms to allow it to expand its planned operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plan in this regard is to obtain other debt and equity financing until profitable operation and positive cash flows are achieved and maintained. Except as noted above the Company has no commitment for such financing.

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 Segment is dependent on future revenues from the Company's film "Step Into Liquid." The success of the Telecommunications Segment is dependent on the Company's ability to successfully commercialize its developed technology.

Through its subsidiary NV Entertainment the Company has operating revenues for its Entertainment Segment, but may continue to report operating losses for this segment. The Telecommunications Segment will have no operating revenues until successful commercialization of its developed technology, but will continue to incur substantial operating expenses, capitalized costs and operating losses.

The Company funded its operations during 2003, 2002 and 2001 through sales of its common stock, proceeds from notes and convertible notes and the exercise of options and warrants resulting in approximate net proceeds to the Company of $3,411,000, $5,201,000 and $6,142,000, respectively. The Company is exploring other financing alternatives, including private placements and other offerings. Subsequent to October 31, 2003, the Company placed $1,000,000 of convertible debentures (see Note 17).

The Company's ability to continue as a going concern is dependent upon obtaining additional financing. These 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 ACCOUNTING POLICIES

Accounting Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash, accounts payable, accrued expenses and convertible notes approximate fair value because of their immediate or short-term nature. The fair value of long-term notes payable approximates their carrying value because the stated rates of the debt either reflect recent market conditions or are variable in nature.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed on a straight-line method over the estimated useful lives of the assets, which generally range from five to seven years. Maintenance and repair expenses are charged to operations as incurred.

Film In Distribution

Statement of Positions 00-2, "Accounting by Producers or Distributors of Films" ("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-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). The Company makes certain estimates and judgments of its future gross revenue to be received for each film based on information received by its distributors, historical results and management's knowledge of the industry. Revenue and cost forecasts are continually reviewed by management and revised when warranted by changing conditions. A change to the estimate of gross revenues for an individual film may result in an increase or decrease to the percentage of amortization of capitalized film costs relative to a previous period.

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 film's fair value. The Company adopted the standard effective November 1, 2001, which did not have a material effect on the Company's financial position or results of operations.

The Company commences amortization of capitalized film costs and accrues (expenses) participation costs when a film is released and it begins to recognize revenue from the film. The Company had amortization costs of $192,889, $0 and $0 for the years ended October 31, 2003, 2002 and 2001, respectively.

Project In Development

During the year ended October 31, 2003, several projects under development were determined to have no estimated realizable value and were accordingly written-off. Project costs written-off during the year ended October 31, 2003 were $56,864.

Income Taxes

Income taxes are accounted for in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). SFAS No. 109 employs an asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to the difference between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Under SFAS No. 109, the effect on deferred income taxes of a change in tax rates is recognized income in the period that includes the enactment date.

Revenue Recognition

The Company recognizes film revenue from the distribution of its feature film and related products when earned and reasonably estimable in accordance with SOP 00-2. The following conditions must be met in order to recognize revenue in accordance with SOP 00-2:

- persuasive evidence of a sale or licensing arrangement with a customer exists;

- the film is complete and, in accordance with the terms of the arrangement, has been delivered or is available for immediate and unconditional delivery;
- the license period of the arrangement has begun and the customer can begin its exploitation, exhibition or sale;
- the arrangement fee is fixed or determinable; and
- collection of the arrangement fee is reasonably assured.

Under a rights Agreement with Artisan ("Artian") the Company's domestic distributor for its feature length film entitled "Step Into Liquid", the Company shares with Artisan in the profits of STEP INTO LIQUID after Artisan recovers its marketing, distribution and other predefined costs and fees. The agreement provides for the payment of minimum guaranteed license fees, usually payable on delivery of the respective completed film, that are subject to further increase based on the actual distribution results in the respective territory. Minimum guaranteed license fees totaled $200,000 during the year ended October 31, 2003 and was recorded as revenue.

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.

Capitalized Software Development Costs

Capitalization of computer software development costs begins upon the establishment of technological feasibility. Technological feasibility for the

Company's computer software is generally based upon achievement of a detail program design free of high-risk development issues and the completion of research and development on the product hardware in which it is to be used. The establishment of technological feasibility and the ongoing assessment of recoverability of capitalized computer software development costs requires considerable judgment by management with respect to certain external factors, including, but not limited to, technological feasibility, anticipated future gross revenue, estimated economic life and changes in software and hardware technology.

Amortization of capitalized computer software development costs commences when the related products become available for general release to customers. Amortization is provided on a product-by-product basis. The annual amortization is the greater of the amount computed using (a) the ratio that current gross revenue for a product bears to the total of current and anticipated future gross revenue for that product, or (b) the straight-line method over the remaining estimated economic life of the product.

The Company periodically performs reviews of the recoverability of such capitalized software costs. At the time a determination is made that capitalized amounts are not recoverable based on the estimated cash flows to be generated from the applicable software, the capitalized costs of each software product is then valued at the lower of its remaining unamortized costs or net realizable value.

The Company has no amortization expense for the years ended October 31, 2003, 2002 and 2001 for its capitalized software development costs.

Advertising

Advertising costs are charged to operations when incurred. Advertising expense was $0, $0 and $942 for the years ended October 31, 2003, 2002 and 2001, respectively.

Loss Per Common Share

Basic loss per common share is computed based on weighted average shares outstanding and excludes any potential dilution. Diluted loss per share reflects the potential dilution from the exercise or conversion of all dilutive securities into common stock based on the average market price of common shares outstanding during the period. No effect has been given to outstanding options, warrants or convertible debentures in the diluted computation, as their effect would be antidilutive.

The number of potentially dilutive securities excluded from computation of diluted loss per share was approximately 21,387,483, 18,910,000 and 9,828,000 for the years ended October 31, 2003, 2002 and 2001, respectively.

Stock-Based Compensation

The Company follows SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 establishes accounting and reporting standards for stock-based employee compensation plans. This statement allows companies to choose between the fair value-based method of accounting as defined in this statement and the intrinsic value-based method of accounting as prescribed by Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees."

The Company has elected to continue to follow the accounting guidance provided by APB 25, as permitted for stock-based compensation relative to the Company's employees. Stock and options granted to other parties in connection with providing goods and services to the Company are accounted for under the fair value method as prescribed by SFAS 123.

In December 2002, the Financial Accounting Standard Board ("FASB") issued SFAS No. 148, "Accounting for Stock-Based Compensation -Transition and Disclosure - an Amendment of FASB Statement No. 123".This statement amends SFAS No. 123 to

provide alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. In addition, SFAS No.148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 also requires that those effects be disclosed more prominently by specifying the form, content, and location of those disclosures. The Company has adopted the increased disclosure requirements of SFAS No. 148 during the year ended October 31, 2003.

	For the year ende	
	2003	2002

Net loss, as reported	$ (3,316,500)	$ (9,467,1
Add: Stock-based employee compensation expense included in reported net loss	--	
Less: Total stock-based employee compensation expense determined under the fair value-based method for all awards	(676,396)	(2,626,5
Proforma net loss	$ (3,992,896)	$ (12,093,6
Basic and Diluted Net Loss:		
As reported	$ (.05)	$ (.
Proforma	$ (.07)	$ (.

Impairment of Long-Lived Assets

Pursuant to SFAS No. 144, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", the Company evaluates its long-lived assets for financial impairment, and continues to evaluate them as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

The Company evaluates the recoverability of long-lived assets by measuring the carrying amount of the assets against the estimated undiscounted future cash flows associated with them. At the time such evaluations indicate that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values.

Impact of Recently Issued Accounting Standards

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (" FIN 45"). FIN 45 requires a company, at the time it issues a guarantee, to recognize an initial liability for the fair value of obligations assumed under the guarantee and elaborates on existing disclosure requirements related to guarantees and warranties. The initial recognition requirements of FIN 45 are effective for guarantees issued or modified after December 31, 2002 and adoption of the disclosure requirements are effective for the Company during the first quarter ending January 31, 2003. The adoption of FIN 45 had no significant impact on its consolidated financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46 (" FIN 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have

sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is

effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after March 15, 2004. The Company does not expect the adoption of FIN 46 will have a significant impact on its consolidated financial position or results of operations.

In April 2003, FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." The Statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under Statement 133. This Statement is effective for contracts entered into or modified after June 30, 2003, except as stated below and for hedging relationships designated after June 30, 2003. The guidance should be applied prospectively. The provisions of this Statement that relate to Statement 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003 should continue to be applied in accordance with their respective effective dates. In addition, certain provisions relating to forward purchases or sales of when-issued securities, or other securities that do not yet exist, should be applied to existing contracts as well as new contracts entered into after June 30, 2003. The adoption of SFAS No. 149 had no significant impact on its consolidated financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". SFAS No. 150 establishes standards for classification and measurement in the statement of financial position of certain financial instruments with characteristics of both liabilities and equity. It requires classification of a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS. No 150 is effective for financial instruments entered into or modified after May 31, 2003 and, otherwise, is effective at the beginning of the first interim period beginning after June 15, 2003. As a result of implementing SFAS No. 150 the Company has changed the classification of its Series B Convertible Preferred Stock to a long term liability from previously being classified between the liability and equity sections.

Comprehensive Income

The Company has no material components of other comprehensive income and, accordingly, net loss approximates comprehensive loss for all periods presented.

Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation.

NOTE 3 - ACQUISITIONS

NV Technology, Inc.

In February 2000, the Company completed the acquisition of New Wheel, a development-stage, California-based, technology company. New Wheel was merged with Astounding Acquisition Corp., a Delaware corporation and wholly owned subsidiary of New Visual. The Company now uses New Wheel to conduct the development of its broadband technology ("NV Technology"). An aggregate of 3,000,000 restricted shares of common stock valued at $6,000,000 were issued to the New Wheel stockholders in consideration of the merger. Accordingly, the $6,000,000 was charged to operations during the year ended October 31, 2000. See

Note 15 for discussion of a settlement agreement with the former owners of New Wheel.

NOTE 4 - NOTE RECEIVABLE FROM RELATED PARTIES

On September 6, 2001, the Company converted advances made to an officer in the amount of $99,656 into a promissory note, which was payable on demand and bore an interest rate of 7.0% per annum. On January 1, 2002, the Company converted additional advances made to the officer in the amount of $67,631 into a promissory note, which was payable on demand and bore an interest rate of 7.0% per annum.

On September 30, 2002, the Company and the officer discussed above mutually decided to end their relationship. The principal balance of $167,287 and accrued interest of $11,113 was satisfied by the Company agreeing to provide the officer with a termination payment equal to the remaining balance of the note receivable and accrued interest. The $178,400 was charged to selling, general and administrative expenses for the year ended October 31, 2002.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment, consists of the following:

	At October 31,	
	2003	2002
Furniture and fixtures	$ 54,097	$ 54,097
Camera equipment	298,109	298,109
Office equipment	109,515	109,515
	461,721	461,721
Less: Accumulated depreciation	420,420	397,188
Total	$ 41,301	$ 64,533

For the years ended October 31, 2003, 2002 and 2001, depreciation expense was $23,232, $77,260 and $118,693, respectively.

NOTE 6 - TECHNOLOGY LICENSE AND DEVELOPMENT AGREEMENT

On April 17, 2002, the Company entered into a development and license agreement with Adaptive Networks, Inc. ("ANI") to acquire a worldwide, perpetual license to ANI's Powerstream technology, intellectual property, and patent portfolio for use in products relating to all applications in the field of the copper telephone wire telecommunications network. In consideration of the grant of the license, the Company assumed certain debt obligations of ANI to Zaiq Technologies, Inc. ("Zaiq") and TLSI, Inc. ("TLSI"). The Company then issued 3,192 shares of its Series B Preferred Stock, valued at $3,192,000, with a liquidation preference of $1,000 per share and paid $250,000 in cash to Zaiq in satisfaction of the Zaiq debt. The Company also issued 624,480 shares of common stock, valued at $750,000, to TLSI in satisfaction of the TLSI debt. The value of the consideration issued by the Company in connection with the license agreement totaled $4,192,000.

The Company also agreed to pay ANI a development fee of $1,559,000 for software development services and to pay ANI a royalty equal to a percentage of the net sales of products sold by the Company and license revenue received by the Company. As of October 31, 2003, $95,000 of this development fee was outstanding.

The Company capitalized the consideration issued in connection with the license fee and development fee totaling $5,751,000. The Company's technical employees and advisors concluded that as of March 2002 the Company had established technological feasibility for its ultimate telecommunication product to be marketed (see Note 1). Additional development services and testing, to be performed principally by ANI, are necessary to complete the product development.

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.

NOTE 7 - FILM IN DISTRIBUTION

In April 2000, the Company entered into a joint venture production agreement to produce a feature length film ("Step Into Liquid") for theatrical distribution. The Company agreed to provide 100% of the funding for the production in the amount of up to $2,250,000 and, in exchange, received 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. As of October 31, 2003 the Company has funded a net of $2,335,101 for completion of the film. The film is currently in distribution. Top Secret has recognized revenues of $379,980 for the year ended October 31, 2003. As of October 31, 2003 the Company had not received any cash distributions from the joint venture. The Company's management believes revenues from the film will more than adequate to cover the capitalized production costs. The Company had amortization costs of $192,889, $0 and $0 for the years ended October 31, 2003, 2002 and 2001, respectively, for the film. The total film production costs and related amounts capitalized are as follows:

	October 31,	
	2003	
Released films	$ 2,335,101	$
Less cumulative amortization of film production costs	192,889	
Total film production costs capitalized for released films	2,142,212	
Films in production	--	2
Films in development or pre-production (1)	--	
Total film production costs capitalized, net	$ 2,142,212	$ 2

(1) In the fourth quarter of fiscal 2003 the Company wrote-off $56,864 in costs capitalized for future film projects, which the Company determined would not be put into production.

NOTE 8 - CONVERTIBLE NOTES PAYABLE

During fiscal 2003, 2002 and 2001, the Company entered into several convertible promissory note agreements with various trusts and individuals. The Company agreed to pay the principal and an additional amount equal to 50% of the principal. The notes are due when the Company reaches certain milestones from the distribution of its motion picture (Note 7). 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 conversion prices ranging from $.33 to $1.00. These and the Company's other notes are summarized in the table below:

	October 31,	
	2003	2002
Note payable (1)	$ 250,000	$ 250,000
Notes payable (ten notes) (2)	483,000	704,500
Note payable, 9% interest (3)	10,000	--
Notes payable (four notes), 12% interest (4)	360,000	--
Total	$ 1,103,000	$ 954,500

(1) Due when receipts received by the Company from the joint venture exceed $375,000.
(2) Due when receipts received by the Company from the joint venture exceed $2,250,000.
(3) Due when receipts received by the Company from the joint venture exceed $750,000.
(4) Notes had an original due date of November 21, 2003. The note holders extended the due date until January 7, 2004 in exchange for 160,000 shares of common stock. In January 2004 the Company paid $180,000 of principal payments and further extended the notes until the next round of financing is completed.

During the year ended October 31, 2003, holders of convertible notes converted principal of $258,500 and accrued interest of $119,250 into 1,225,941 shares of the Company's common stock

Several of the above convertible note agreements that were entered into during the fiscal year ended October 31, 2003 and 2002, were convertible into common stock at a conversion rate lower than the market price at the issuance of the convertible notes. The value of such beneficial conversion features was $137,113 and $653,789, respectively and such amount was charged to financing costs during the fiscal year ended October 31, 2003 and 2002.

NOTE 9 - CONVERTIBLE DEBENTURES

On October 31, 2003, the Company entered into a 7% convertible debenture agreement in the amount of $300,000. The debentures are convertible to common stock at $.26 per share and are due April 30, 2004. The Company also issued warrants to the debenture holder at a strike price of $.15 per share. The warrants were convertible into common stock at a conversion rate lower than the market price at the issuance of the warrants, subject to the holders cashless exercise rights. The value of such beneficial conversion features was $133,852.

NOTE 10 - NOTES PAYABLE

The Company has the following notes payable outstanding at October 31:

	2003	
Note Payable (five individual notes with identical terms), unsecured, 6% interest, due June 29, 2004	$ 256,886	$
Note payable, 10% interest, unsecured, due on demand with three days notice	483,425	
Note payable, unsecured, 10% interest, due April 29, 2003	--	
Total	$ 740,311	$

NOTE 11 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued liabilities consist of the following:

	At October 31,	
	2003	2002
Accrued Officers Compensation, bonuses and payroll	$ 494,248	$ 515,903
Professional fees	471,213	623,044
Interest payable	478,289	541,350
Consulting fees	45,251	62,018
Miscellaneous	255,882	505,280
	$ 1,744,883	$ 2,247,595

NOTE 12 - PREFERRED STOCK

REDEEMABLE SERIES B PREFERRED STOCK

On April 10, 2002, the Company amended its Articles of Incorporation and designated 4,000 of its authorized preferred stock as a Series B Preferred Stock, with a liquidation preference of $1,000 per share.

The Company may redeem any or all of the shares of Series B Preferred Stock at any time or from time to time at a per share redemption price equal to the preference amount.

The Series B Preferred Stock are mandatorily redeemable by the Company at the liquidation preference as follows:

(i) Closing of financing transaction of at least $15 million.

(ii) Closing of a corporate transaction, (such as a merger, consolidation, reorganization, sale of significant assets, etc.) resulting in a change of control.

(iii) In the event the Company completes a financing, which is at least $3 million but less than $15 million, the Company must partially redeem the Series B Preferred Stock based on a fraction, the numerator of which is the net cash proceeds received by the Company, as a result of the financing transaction, and the denominator of which is $15 million.

(iv) The Company is obligated to redeem any outstanding Series B Preferred Stock at its liquidation preference, in eight equal quarterly payments, commencing on March 31, 2005 and ending on December 31, 2006.

Holders of Series B Preferred Stock are entitled to receive dividends if, as and when declared by the Company's Board of Directors in preference to the holders of its common stock and of any other stock ranking junior to the Series B Preferred Stock with respect to dividends.

The Company cannot declare or pay any dividend or make any distribution on its common stock unless a dividend or distribution of at least two times the dividend paid on the common stock is also paid on the Series B Preferred Stock. Holders of Series B Preferred Stock are also entitled to share pro-rata (based on the aggregate liquidation preference) in any dividend, redemption or other distribution made to any other series of the Company's preferred stock. The Series B Preferred Stock does not have voting rights, except as required by law.

Each share of the Series B Preferred Stock is convertible into shares of the Company's common stock by dividing $1,000 by the conversion price. The conversion price is the fair market value of the Company's common stock at the time of conversion, but not to be less than $.34 per share, subject to

adjustment, and not to exceed $4.00 per share, subject to adjustment. Holders of the Series B Preferred Stock were granted piggy-back registration rights to register common shares reserved for such conversion.

In April 2002, the Company issued 3,192 shares of its Series B Preferred Stock, with redemption and liquidation preference of $3,192,000, in connection with the development and license agreement discussed in Note 6. As of October 31, 2003 and 2002, there were 4,000 authorized shares Series B Preferred Stock and 3,192 shares issued and outstanding. Based on the Company's evaluation relating to SFAS No. 150, the Series B Preferred Stock was reclassified to liabilities during the fourth quarter ended October 31, 2003.

SERIES C, SERIES D, SERIES E, SERIES F AND SERIES G CONVERTIBLE PREFERRED STOCK

On February 24, 2003 the Company amended its Articles of Incorporation and designated 100,000 shares of its authorized preferred stock as Series C Preferred Stock. On May 16, 2003, the Company amended this designation and fixed the number of shares designated as Series C Preferred Stock as 57,894.201. On

June 13, 2003 and June 27, 2003, the Company amended its Articles of Incorporation and designated 9,090.909 shares of its authorized preferred stock as Series D Preferred Stock and 25,000 shares of its authorized preferred stock as Series E Preferred Stock. All of the designated Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock were issued in May and June 2003, to collateralize proposed loans to the Company of approximately $1,500,000, $400,000 and $500,000.

The shares are returnable to the Company upon demand in the event the proposed loans are not completed. The Company has not received any monies from the proposed loans.

The 57,894.201 shares of Series C preferred were returned to the Company. In November 2003 the Company issued 15,152 shares of Series C preferred, to collateralize a proposed loan to the Company of $2,000,000. The shares are returnable to the Company upon demand in the event the proposed loan is not completed.

On August 7, 2003 the Company amended its Articles of Incorporation and designated 10,297.118 shares of its authorized preferred stock as Series F Preferred Stock and 10,297.118 shares of its authorized preferred stock as Series G Preferred Stock. All of the designated Series F Preferred Stock and Series G Preferred Stock were issued in August 2003, to collateralize proposed loans to the Company of approximately $1,000,000. All Series F and Series G Preferred Stock have been returned to the Company.

None of these Series C, D, E, F and G are classified as outstanding as of October, 31, 2003 as such shares are issuable upon the funding of the loans. If the loans are not funded by January 31, 2004, all such shares are to be returned to the Company.

The terms of the Series C, Series D, Series E, Series F and Series G Preferred Stock are substantially the same. None of the series is entitled to receive dividends or to vote, except as required by Utah law, and none of the series is subject to mandatory redemption. The aggregate liquidation preference of each series is equal to the unpaid balance of principal and interest on the proposed loan to be collateralized by the shares of such series. In the event of a default under such proposed loan, the Series C, Series D, Series E, Series F or Series G Preferred Stock, as applicable, can be converted into common stock of the Company to liquidate the unpaid balance of the loan and related interest.

NOTE 13 - STOCKHOLDERS' EQUITY

Preferred Stock and Rights Dividend

Effective June 22, 2000, the Company amended its Articles of Incorporation to decrease the number of authorized shares of preferred stock from 200,000,000 to 15,000,000, and to decrease the par value of the preferred stock from $30.00 to $0.01 per share.

The Company adopted a stockholder rights plan, in which one right was distributed on August 21, 2000 as a dividend on each outstanding share of common stock to stockholders of record on that date. Each right will entitle the

stockholders to purchase 1/1000th of a share of a new series of junior participating preferred stock of the Company at an exercise price of $200 per

right. The rights will be exercisable only if another person acquires or announces its intention to acquire beneficial ownership of 20% or more of the Company's common stock. After any such acquisition or announcement, the Company's stockholders, other than the acquirer, could then exercise each right they hold to purchase the Company's common stock at a 50% discount from the market price. In addition, if, after another person becomes an acquiring person, the Company is involved in a merger or other business combination in which it is not the surviving corporation, each right will entitle its holder to purchase a number of shares of common stock of the acquiring company having a market value equal to twice the exercise price of the right. Prior to the acquisition by a person or group of beneficial ownership of 20% or more of the Company's common stock, at the option of the Board of Directors, the rights are redeemable for $0.001 per right. The rights will expire on August 21, 2004.

On July 27, 2000, the Company created a series of preferred stock, designated as "Series A Junior Participating Preferred Stock". 200,000 shares of the Series A Junior Participating Preferred Stock are initially reserved for issuance upon exercise of the rights. Subject to the rights of the holders of any shares of any series of preferred stock ranking prior and superior to the Series A Preferred Stock with respect to dividends, the holders of shares of Series A Preferred Stock, in preference to the holders of common stock, shall be entitled to receive, when, as and if declared by the Board of Directors, quarterly dividends payable in cash on the last day of each quarter in each year, commencing on the first quarterly dividend payment date after the first issuance of a share or fraction of a share of Series A Preferred Stock, in an amount per share equal to the greater of $1.00 or 1,000 times the aggregate per share amount of all cash and non-cash dividends or other distributions, other than a dividend payable in shares of common stock. Each share of Series A Preferred Stock shall entitle the holder to 1,000 votes. Upon any liquidation, no distribution shall be made to the holders of shares of stock ranking junior to the Series A Preferred, unless the holders of shares of Series A Preferred Stock shall have received $1,000 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon. The shares of Series A Preferred Stock shall not be redeemable. No Series A Preferred Stock was issued during the years ended October 31, 2003, 2002 and 2000, respectively.

Common Stock

Effective November 12, 2003, the Company amended its Articles of Incorporation and increased the authorized number of common stock from 100,000,000 to 500,000,000.

Common Stock Issuances During the Year Ended October 31, 2003:

In December 2002, 2.2 million shares of the Company's common stock previously issued to the former owners of New Wheel and former officers of the Company were returned to the Company, resulting in a non-cash gain of $1,474,000.

During the quarter ended January 31, 2003, the Company issued 88,710 shares of common stock to two officers of the Company in satisfaction of $55,001 in accrued compensation.

During the year ended October 31, 2003, the Company sold 17,112,611 shares of common stock to investors for cash proceeds of $2,936,693, as indicated below.

- During the quarter ended January 31, 2003, the Company sold 4,328,587 shares of common stock for $908,406.

- During the quarter ended April 30, 2003, the Company sold 6,668,339 shares of common stock for $1,116,299.

- During the quarter ended July 31, 2003, the Company sold 4,256,485

shares of common stock for $633,108.

During the quarter ended October 31, 2003, the Company sold 1,859,200 shares of common stock for $278,880.

During the year ended October 31, 2003, principal and accrued interest of several convertible promissory notes, totaling $377,750, were converted into 1,225,941 shares of the Company's common stock (Note 8).

During the quarter ended January 31, 2003, the Company issued 421,875 shares of its common stock valued at $245,250, in connection with various consulting agreements and services.

During the quarter ended April 30, 2003, the Company issued 3,200,000 shares of its common stock valued at $1,294,000, in connection with various consulting agreements and services.

During the quarter ended October 31, 2003, warrants to purchase 1,000,000 share of common stock were exercised at $.06 per share, resulting in proceeds to the Company totaling $60,000.

During the quarter ended April 30, 2003, the Company issued 40,476 shares of its common stock due to a cashless exercise of warrants to purchase 100,000 shares of common stock.

Common Stock Issuances During the Year Ended October 31, 2002:

In February 2002, the Company issued an aggregate of 1,261,946 shares of its common stock to seven 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.

In February 2002, the Company issued a stock award of 500,000 shares of common stock to an executive officer in consideration of his services to the Company. The stock award was granted pursuant to the Company's 2000 Plan. The executive officer purchased the shares for $.001 per share. The value assigned to the stock award was $225,000 and was charged to operations during the year ended October 31, 2002.

In February 2002, the Company issued 485,000 shares of restricted common stock to two employees in consideration of their services to the Company. The value assigned to the common stock totaled $178,738 and was charged to operations for the year ended October 31, 2002.

During October 2002, the Company issued 50,000 shares of common stock, valued at $29,500, for deferred salary due to an employee.

During the year ended October 31, 2002, the Company sold 6,448,675 shares of common stock to investors for cash proceeds of $2,120,925, as indicated below. Such sales were sold in private transactions in reliance on various exemptions from the registration requirements of the Securities Act.

During the quarter ended January 31, 2002, the Company sold 1,445,015 shares of common stock for $409,501.

During the quarter ended April 30, 2002, the Company sold 4,123,989 shares of common stock for $1,275,224.

During the quarter ended July 31, 2002, the Company sold 284,671 shares of common stock for $190,200.

During the quarter ended October 31, 2002, the Company sold 595,000 shares of common stock for $246,000.

During the quarter ended January 31, 2002, the Company issued 950,000 shares of its common stock as consideration for consulting services performed by four consultants. Shares issued under these arrangements were valued at $494,898, which was all charged to operations during the year ended October 31, 2002.

During the quarter ended April 30, 2002, the Company issued 306,250 shares of its common stock as consideration for consulting services performed by two consultants. Shares issued under these arrangements were valued at $131,500, which was all charged to operations during the year ended October 31, 2002.

During the quarter ended July 31, 2002, the Company issued 359,500 shares of its common stock as consideration for consulting services performed by two consultants at prices ranging from $.95 to $1.24 per share, totaling $344,280.

During the quarter ended October 31, 2002, the Company issued 351,562 shares of its common stock as consideration for consulting services performed by two consultants at prices from $.45 to $.64 per share, totaling $188,202.

During March 2002, the Company issued 736,008 shares of its common stock due to a cashless exercise of warrants to purchase 1,000,000 shares of common stock.

During the year ended October 31, 2002, warrants to purchase 2,912,000 shares of common stock were exercised at $.25 per share, resulting in proceeds totaling $728,000.

During the year ended October 31, 2002, principal and accrued interest of several convertible promissory notes, totaling $2,183,626, was converted into 4,497,967 shares of the Company's common stock.

During April 2002, the Company issued 624,480 shares of common stock, valued at $750,000, in connection with its technology license agreement with ANI (Note 6).

Common Stock Issuances During the Year Ended October 31, 2001:

Private Placement:

On November 17, 2000, and as amended on January 22, 2001, the Company entered into a private placement agreement with various investors to sell $5,000,000 of the Company's common stock in several tranches at a purchase price equal to 87% of the average market price of the Company's common stock over the five days preceding the closing of each drawdown.

The Company can sell stock to the investors in five-day intervals not to exceed $500,000 per sale. The investor may refuse to purchase the stock in the event the average purchase price is below $2.00 per share, or if the trading volume is below a certain number of shares within the period, or if the Company sells

capital stock in excess of $5,000,000.

The Company may not apply any portion of the draw downs towards payment of any costs related to its production of the Company's pending motion picture project.

In addition, the investors received warrants to purchase 4,000,000 shares of common stock to be issued in two series (3,000,000 Series A warrants and 1,000,000 Series B warrants). Each Series A warrant can be exercised at a price per share equal to the lesser of $6.00 or 50% of the average of the closing sales price of the Company's common stock over the five consecutive trading days immediately preceding the date of the exercise of the warrants. Each Series B warrant can be exercised at a price per share of $6.00. The Series B warrants have a cashless exercise provision. Both the Series A and Series B warrants expired on November 17, 2003.

For the years ended October 31, 2001 and 2000, the Company has sold 1,686,107 and 77,248 shares of its common stock, respectively, under the above agreement and received proceeds of $3,515,454 and $415,000, respectively. As of October 31, 2001, this private placement was terminated. The Company does not expect any future proceeds from this private placement.

Other:

During the year ended October 31, 2001, the Company issued 1,212,254 shares of restricted common stock to investors for cash proceeds of $1,073,475, as indicated below.

During December 2000, the Company sold 219,904 shares of common stock for $600,000.

During January 2001, the Company sold 21,000 shares of common stock for $105,000.

In August of 2001, the Company issued 221,966 shares of common stock for $166,475.

In October of 2001, the Company issued 749,384 shares of common stock for $205,500. The Company received $202,000 in October of 2001 and the remaining $3,500 was recorded as a subscription receivable and collected subsequent to October 31, 2001.

In February of 2001, the Company issued 250,000 shares of common stock valued at $1,000,000 pursuant to a litigation settlement agreement with Astounding.com, Inc. and Jack Robinson. This settlement has been recorded during the three months ended January 31, 2001.

During January 2001, the Company issued 30,600 shares of common stock with 15,300 attached warrants for $85,680. The attached warrants have an exercise price of $5.10 per share and expire in January 2004.

During January 2001, the Company issued 174,714 shares of common stock with 87,357 attached warrants for $489,199. The warrants have an exercise price of $4.02 per share and expire in January 2004.

In April of 2001, the Company cancelled 2,980 shares for which the Company was to receive $30,001. The shares issued were recorded by the Company but never

issued to the investor.

During March and April 2001, the Company issued 104,571 shares of common stock with 52,286 attached warrants for total proceeds of $292,800. The warrants have an exercise price of $5.10 per share and expire in 3 years from the date of their respective issuances.

In May of 2001, the Company issued 500,000 shares to its Board of Directors' Vice Chairperson for past services, which were valued at $1.89 per share, or $949,200, and all of which was charged to operations during the year ended October 31, 2001.

During the quarter ended July 31, 2001, the Company issued 50,960 shares of common stock between $2.90 and $3.90 per share for consulting services, valued at $171,744 and all of which was charged to operations during the year ended October 31, 2001.

During September and October of 2001, the Company issued to various consultants 1,175,000 shares of common stock for consulting services valued at $559,250 and all of which was charged to operations during the year ended October 31, 2001.

Stock Option Plans

Stock Options

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 nonstatutory 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. The Stockholders of the Company ratified the 2001 Plan in July 2002.

In January 2003, the Board of Directors of the Company approved the 2003 Consultant Stock Plan and authorizes the issuance of up to 6,000,000 non-qualified stock options or stock awards to consultants to the Company. Directors, officers and employees are not eligible to participate in the Consultant Plan. A total of 3,200,000 shares of common stock have been issued under the Consultant Plan to four consultants. As of October 31, 2003 no options have been awarded under the 2003 Plan.

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. During the year ended October 31, 2002, 2,500 options were cancelled.

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

per share. 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 an advisory board member, options under the Company's 2000 Omnibus Securities Plan to purchase 40,000 shares of its common stock at an exercise price of $.42 per share. 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 $.30 per share, or $12,000.

On July 1, 2002, the Company granted its Chief Marketing Officer non-qualified stock options under its 2000 Plan to purchase 405,000 shares of common stock at an exercise price of $1.09 per share. Options covering 105,000 shares are exercisable immediately and the remaining vest in eight equal quarterly installments starting May 31, 2003. These options expire on July 1, 2012.

On April 30, 2003, the Company granted one of its advisory board member options under the Company's 2000 Omnibus Securities Plan to purchase 40,000 shares of its common stock at an exercise price of $.31 per share. The options vest in annual installments of 13,334, 13,333 and 13,334 commencing April 30, 2004. The fair value of stock options estimated on the date of grant using the Black-Scholes option pricing model was $.19 per share, or $7,600.

Options Outside of the Plan:

On February 25, 2002, the Company granted its then Chief Executive Officer 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 February 22, 2002, the Company granted non-qualified stock options to purchase 250,000 shares of common stock to a consultant at an exercise price of $.40 per share. The options vest in five equal quarterly installments starting February 22, 2002. These options expire on February 22, 2012. The fair value of stock options estimated on the date of grant using the Black-Scholes option pricing model was $.32, or $80,000. On September 11, 2002, the consulting agreement was cancelled and the Company cancelled 50,000 of the above options.

On March 22, 2002, the Company granted outside the Company's stock option plans to a director and employee who became its Chief Executive Officer on June 1, 2002, options to purchase 1,500,000 shares of its common stock at $1.02. The options vest in four equal quarterly installments starting June 1, 2002. These options were to expire on March 22, 2012. During December 2002, the above Officer terminated his employment with the Company and forfeited his 1,500,000 options.

On March 22, 2002, the Company granted its Chief Executive Officer on that date options outside the Company's stock option plans to purchase 100,000 shares of its common stock at $1.02. The options vest immediately and expire on March 22, 2012.

On March 22, 2002, the Company granted two consultants options outside the Company's stock option plans to purchase 75,000 shares of its common stock at $1.02. The options vest immediately and expire on March 22, 2012. The fair value of stock options estimated on the date of grant using the Black-Scholes option pricing model was $1.16, or $87,000.

On December 3, 2002, the Company granted the Company's Chief Executive Officer options outside the Company's stock option plans to purchase 1,500,000 shares of its common stock at $.64. The options vest 125,000 each quarter commencing March 1, 2003.

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

	Under the Plans	Weighted Average Exercise Price	Outsi Pl
Balance at October 31, 2000	--	$ --	1,
Options granted:			
2000 Plan	516,000	3.92	
2001 Plan	750,000	.27	
Outside the option plans	--	--	
Options expired/cancelled:			
2000 Plan	(3,750)	3.92	
Options exercised:			
2001 Plan	(750,000)	.27	
Balance at October 31, 2001	512,250	3.92	1,
Options granted:			
In the Plans	1,707,500	.58	
Outside the option plans	--	--	2,
Options expired/cancelled:			
In the Plans	(51,000)	3.74	
Outside the option plans	--	--	(
Options exercised in the plans	--	--	
Balance at October 31, 2002	2,168,750	1.29	4,
Options granted:			
In the Plans	40,000	.31	
Outside the option plans			1,
Options expired/cancelled:			
In the Plans	(20,000)	3.92	
Outside the option plans			(1,
Options exercised in the plans			
Balance at October 31, 2003	2,188,750	$ 1.25	4,
Exercisable at October 31, 2003	1,823,438	$ 1.15	3,
Exercisable at October 31, 2004	2,087,084	$ 1.27	3,
Exercisable at October 31, 2005	2,175,417	$ 1.26	4,
Exercisable at October 31, 2006	2,188,750	$ 1.25	4,

The exercise price for options outstanding as of October 31, 2003 ranged from $0.31 to $4.40.

At October 31, 2003, 311,250 options are available under the 2000 Plan, 0 options are available under the 2001 Plan and 2,800,000 options or stock awards are available under the 2003 Plan.

The weighted average fair value at date of grant for options granted during 2003 and 2002 was $0.44 and $0.72 per option, respectively. The fair value of options at date of grant was estimated using the Black-Scholes option pricing model utilizing the following assumptions:

	2003	2002	
Risk-free interest rates	1.00% to 1.50%	5.00% to 5.50%	
Expected option life in years	5	5	
Expected stock price volatility	72.32% to 228.70%	51.65% to 53.89%	4
Expected dividend yield	0%	0%	

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 per share, or $66,000.

On February 11, 2002, the Company granted a company warrant to purchase 300,000 shares of its common stock at an exercise price ranging from $.75 to $2.25. The fair value of stock warrants estimated on the date of grant using the Black-Scholes option pricing model is $4,500.

On July 30, 2002, the Company granted a consulting company warrants to purchase 1,000,000 shares of its common stock at an exercise price of $.75. These warrants replaced warrants covering 1,000,000 shares of common stock issued to the consulting company in May 2001 that had exercise prices of $2.50 (as to 500,000 shares), $5.00 (as to 250,000 shares) and $10.00 (as to 250,000 shares). The fair value of stock warrants estimated on the date of grant using the Black-Scholes option pricing model is $.47 per share, or $467,370.

On February 12, 2003, the Company granted a warrants to purchase 500,000 shares of its common stock at an exercise price of $.40 in connection with the sale of 500,000 shares of its common stock. The fair value of the stock warrants estimated on the date of grant using the Black-Scholes option pricing model is approximately $.14 per share or $173,919.

On November 21, 2002, the Company granted warrants to purchase 100,000 shares of its common stock at an exercise price of $.25. The warrants vested immediately and expire on November 21, 2007. The fair value of the stock warrants estimated on the date of grant using the Black-Scholes option pricing model is $.37 per share, or $36,952.

On April 29, 2003, the Company granted a consulting firm a warrants to purchase 1,000,000 shares of its common stock at an exercise price of $0.06. The warrants vested immediately and expire on May 3, 2006. In exchange for the issuance, the Company cancelled warrants to purchase 1,000,000 shares of its common stock, which were issued on July 30, 2002 at an exercise price of $0.75. The fair value of stock warrants estimated on the date of the grant using the Black-Scholes

option pricing model is $.02 per share or $243,461.

On October 31, 2003 the Company granted a warrant to purchase 600,000 shares of its common stock at an exercise price of $.15 in connection with the placement of $300,000 of convertible debentures. The fair value of the stock warrants estimated on the date of grant using the Black-Scholes option pricing model is $.22 per share or $133,900.

Warrants Exercised

During the year ended October 31, 2002, warrants to purchase 2,912,000 shares of common stock were exercised at $.25 per share, resulting in proceeds totaling $728,000.

During March 2002, warrants to purchase 1,000,000 shares of common stock were exercised on a cashless basis, for which the Company issued 736,008 shares of common stock.

During the year ended October 31, 2003, warrants to purchase 1,000,000 shares of common stock were exercised at $.06 per share, resulting in proceeds totaling $60,000.

During February 2003, warrants to purchase 100,000 shares of common stock were exercised on a cashless basis, for which the Company issued 40,476 shares of common stock.

At October 31, 2003, the Company had outstanding warrants to purchase shares of common stock as follows:

Grant Date	Number of Shares	Exercise Price	Expiration Date
November 17, 2000	1,000,000	$ 6.00	November 17,
November 17, 2000	88,000	(1)	November 17,
March 12, 2001	67,586	5.10	March 12, 20
March 12, 2001	87,357	4.02	March 12, 20
June 14, 2001	50,000	2.50	June 30, 20
June 14, 2001	25,000	5.00	June 30, 20
June 14, 2001	25,000	10.00	June 30, 20
November 5, 2001	200,000	0.51	November 5, 2
February 11, 2002	50,000	0.75	February 11,
February 11, 2002	50,000	1.25	February 11,
February 11, 2002	100,000	1.75	February 11,
February 11, 2002	100,000	2.25	February 11,
February 12, 2003	500,000	0.40	February 12,
October 31, 2003	600,000	0.15	September 30, 20
Exercisable at October 31, 2003	2,942,943	$0.15 to $10.00	November 17, 20 September 30,

(1) Lesser of $6.00 or 50% of market ($0.17 at 10/31/03).
(2) Under certain conditions the Company may accelerate the expiration date.

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	2,942,943
Options to purchase common stock	6,381,250
Convertible notes payable and accrued interest	2,675,055
Series B Preferred stock (based on a floor conversion price of $.34 at October 31, 2003)	9,388,235
Total as of October 31, 2003	21,387,483
Substantial issuances after October 31, 2003 through January 23, 2004:	
Common stock issable upon conversion of convertible note and warrants issued in conjunction with new financing	13,333,334
Common stock issued in connection with consulting agreements	3,800,000
Convertible notes payable and accrued interest	106,668
Sale of common stock for cash	1,264,501
Common stock issued for deferred salaries and for past services	838,333

NOTE 14 - INCOME TAXES

At October 31, 2003, the Company had approximately $39,555,000 of net operating loss carry forwards for income tax purposes, which expire as follows:

Year	Net Operating Losses
2011	$ 1,583,000
2012	4,714,000
2018	4,472,000
2019	1,698,000
2020	4,759,000
2021	9,503,000
2022	10,229,000
2023	2,597,000

$	39,555,000
	==========

At October 31, 2003 and 2002, the Company has a deferred tax asset of approximately $19,716,000 and $18,826,000, respectively, representing the benefits of its net operating loss and certain expenses not currently deductible for tax purposes, principally related to the granting of stock options and warrants and the difference in tax basis of certain intangible assets. The Company's deferred tax asset has been fully reserved by a valuation allowance since realization of its benefit is uncertain. The difference between the Federal statutory tax rate of 34% and the Company's effective Federal tax rate of 0% is due to the increase in the valuation allowance of $890,000 (2003), $4,550,000 (2002) and $4,204,000 (2001). The Company's ability to utilize its carry forwards may be subject to any annual limitation in future periods, pursuant to Section 382 of the Internal Revenue Code of 1986, as amended.

NOTE 15 - COMMITMENTS, CONTINGENCIES AND OTHER MATTERS

Employment Agreements

On February 25, 2002, the Company entered into a one-year employment agreement with its Vice President and Secretary, C. Rich Wilson III. The agreement provides for the Company to pay a base salary of $13,383 per month. The employee may receive an annual bonus to be determined at the sole discretion of the Board of Directors. Mr. Wilson resigned as Vice President and Secretary and from the Company's board of directors effective December 31, 2003.

On March 22, 2002, the Company entered into a new three-year employment agreement with its Chief Executive Officer at the time, Ray Willenberg, Jr. Pursuant to the agreement, Mr. Willenberg continued to serve as the Company's Chief Executive Officer until June 1, 2002, at which time Mr. Willenberg stepped down as CEO and became an Executive Vice President of the Company. The employment agreement provides for a base salary of $14,583 per month and options to purchase 100,000 shares of common stock at $1.02 per share. All options are exercisable immediately and expire ten years from the grant date. In addition, the employment agreement provides for a bonus based on monies raised by the Company from debt or equity offerings.

On March 22, 2002, the Company entered into a three-year employment agreement with its then Chief Executive Officer, Thomas Cooper. Pursuant to the agreement, Mr. Cooper worked part-time until June 1, 2002, at which time he assumed the role of Chief Executive Officer. The Company agreed to pay a base salary of $10,417 per month prior to June 1, 2002 and $20,833 per month after June 1, 2002. In addition, Mr. Cooper may receive an annual bonus based on his performance as determined at the sole discretion of the Board of Directors. Pursuant to the terms of the agreement, Mr. Cooper was issued options to purchase 1,500,000 shares of the Company's common stock at $1.02 per share. The options vest in twelve equal quarterly installments starting June 1, 2002. These options were to expire on March 22, 2012 but were forfeited subsequent to October 31, 2002 when Mr. Cooper terminated his employment with the Company.

On July 1, 2002, the Company entered into a three-year employment agreement with its then Chief Marketing Officer, Brad Ketch. Brad Ketch subsequently became the Company's Chief Executive Officer and entered into a new employment agreement. Pursuant to the agreement, the Company will pay Mr. Ketch a base salary of

$15,000 per month and an annual bonus based upon his performance, as determined at the sole discretion of the Board of Directors. In addition, the employment agreement provides non-qualified stock options to purchase 405,000 shares of common stock at $1.09 per share. Options with respect to 105,000 shares are exercisable immediately and the remaining vest in eight equal quarterly installments, starting May 31, 2003. These options expire on July 1, 2012.

On December 2, 2002, the Company entered into a new three-year employment agreement with its Chief Marketing Officer replacing the executive's former employment agreement. Under the terms of the new agreement, the executive will become the Company's President and Chief Executive Officer and receive a base salary of $20,833 per month. In addition, the employment agreement provides that the executive will be entitled to receive an annual bonus at the discretion of the Board of Directors of the Company. Pursuant to the terms of the agreement, the executive was issued options to purchase 1,500,000 shares of the Company's common stock at $.64 per share. The options vest in twelve equal, quarterly installments starting March 1, 2003. The options expire on December 2, 2012.

Leases

On January 3, 2000, the Company entered into an operating lease for office space in San Diego, California. The lease commenced on February 1, 2000 and expires in January 2005. The lease provides for a minimum annual rental of approximately $54,000, with a 3% annual increase each year, starting on February 1, 2001 and each year thereafter. Subsequent to October 31, 2003, the Company decided to move its corporate headquarters to Portland, Oregon. The remaining lease cost (net of projected sublease income) estimated to be $75,530 will be recognized as a liability in the first fiscal quarter of 2004.

In anticipation of moving its corporate headquarters to Portland, Oregon, the Company has leased space on a month-to-month basis in Portland.

On May 4, 2001, the Company terminated an operating lease for office space in Livermore, California, which commenced on March 1, 2000. Meanwhile, the Company entered into an operating lease for office space in Pleasanton, California. The lease commenced on June 1, 2001 and expires on March 31, 2004. The lease provides for a minimum annual rental of approximately $120,000 for the first year and $156,000 the following years. During August 2001, the Company reduced its rental space and amended its lease agreement in Pleasanton. The amended lease provides for a minimum annual rental at approximately $43,000 for the first year, $56,000 for the second year and $69,240 in the last year.

The Company's future minimum lease payments are as follows:

Years Ending October 31:	
2004	$ 103,285
2005	15,834
	$ 119,119

Rent expense for the years ended October 31, 2003, 2002 and 2001 was $177,462, $115,500 and $136,000, respectively.

Concentration of Credit Risk

The Company maintains cash balances in two financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to $100,000 per institution. From time to time, the Company's balances may exceed these limits. At October 31, 2003 and 2002, uninsured cash balances were approximately $0 and $212,000, respectively. The Company believes it is not exposed to any

significant credit risk for cash.

Settled Legal Proceedings

On June 28, 2002, the Company entered into a settlement agreement and mutual releases in certain litigation filed by the former owners of New Wheel and former officers of the Company ("Blevins and Shepperd"). Under the terms of the settlement agreement, Blevins and Shepperd returned to the Company in December 2002, 2.2 million shares of the Company's common stock previously issued to them in connection with the acquisition of New Wheel (Note 3). During the quarter ended January 31, 2003, the Company recorded a gain from this settlement agreement of $1,474,000.

NOTE 16 - SEGMENT INFORMATION

Summarized financial information concerning the Company's reportable segments is shown in the following table:

	Telecommunication Business	Entertainment Business	Una
For the Year Ended October 31, 2003:			
Net Sales	$ --	$ 379,980	$
Operating Loss	$ (334,746)	$ (211,681)	$ (3
Depreciation	$ 8,212	$ 13,686	$
Total Identifiable Assets	$ 5,761,429	$ 2,181,161	$
For the Year Ended October 31, 2002:			
Net Sales	$ --	$ --	$
Operating Loss	$ (1,869,946)	$ --	$ (5
Depreciation	$ 14,913	$ 14,792	$
Total Identifiable Assets	$ 5,783,427	$ 2,226,787	$
For the Year Ended October 31, 2001:			
Net Sales	$ --	$ --	$
Operating Loss	$ (846,902)	$ --	$ (8
Depreciation	$ 14,007	$ 16,893	$
Total Identifiable Assets	$ 57,723	$ 2,069,457	$

NOTE 17 - SUBSEQUENT EVENTS

Common Stock

In January 2004, the Company:

- issued an aggregate of $1,000,000 in convertible promissory notes to sixteen investors, which may be converted into shares of common stock at an exercise price of $.15;
- issued as part of the above transaction warrants to purchase 6,666,667 shares of common stock at an exercise price of $.25; and
- issued 1,000,000 shares of common stock to one individual in exchange for consulting services valued at $240,000;
- issued to its board chair and senior vice president 400,000 shares of common stock in lieu of $100,000 in commissions;

- issued to its chief executive officer and president 40,000 shares of common stock in lieu of $10,000 in deferred compensation;
- issued to its chief financial officer 50,000 shares of common stock as part of his employment agreement;
- issued to its former vice president and secretary and board member 333,333 shares of common stock as part of his severance agreement;
- sold an aggregate 100,000 shares of common stock to one investor for total proceeds of $17,500.

In December 2003, the Company:

- issued 2,800,000 shares of common stock to two companies in exchange for consulting services valued at $700,000;
- sold an aggregate of 931,667 shares of common stock to six investors for total proceeds of $177,500;
- issued 106,668 shares of common stock as part of an extension of past due convertible debentures;
- issued 15,000 shares of common stock to one company in exchange for past services valued at $2,250; and
- cancelled 28,000 shares.

In November 2003, the Company:

- sold aggregate of 232,834 shares of common stock to six investors for total proceeds of $40,300.

Consulting Agreements

On December 31, 2003 the Company entered into a two month agreement with a consultant for an investor relations program. On December 2, 2003 the Company renewed consulting contracts with two investor relation firms.

New Employment Agreement

In December 2003, the Company entered into an employment agreement with Mr. Cruckshank to serve as its Chief Financial Officer. Under the Agreement, Mr. Cruckshank received a 50,000 share stock grant upon employment and will receive $700 in cash and $480 per day in common stock for actual days worked. Mr. Cruckshank is also eligible for quarter stock grants based upon completion of certain agreed upon objectives. This agreement commenced December 8, 2003 and is cancelable immediately for "cause," with 15 days notice without "cause," and with 30 days notice if he leaves the Company for "good reason," each as defined in the agreement. In the event cancellation is without "cause" or for "good reason," after April 8, 2004 until December 8, 2004, Mr. Cruckshank will receive two months severance based upon base pay and from December 8, 2004 and thereafter six months severance based on base pay.

Vice President and Corporate Secretary resigned

Mr. Wilson resigned as Vice President and Secretary and from the Company's board of directors effective December 31, 2003.

NOTE 18 - QUARTERLY RESULTS (UNAUDITED)

	Quarter Ended			
	January 31	April 30	July 31	Oct
2003				
Revenues	$ --	$ --	$ --	$
Net Income (Loss)	$ 175,234	$ (1,430,042)	$ (1,022,387)	$ (
Income (Loss) per share - Basic and Diluted (a)	$ --	$ (0.02)	$ (0.02)	$
2002				
Revenues	$ --	$ --	$ --	$
Net Loss	$ (1,941,584)	$ (3,182,061)	$ (2,282,532)	$ (
Loss per share - Basic and Diluted (a)	$ (0.06)	$ (0.08)	$ (0.05)	$

(a) Per common share amounts for the quarters and full year have been calculated separately. Accordingly, quarterly amounts do not add to the annual amount because of differences in the weighted average common shares outstanding during each period due to the effect of the Company's issuing shares of its common stock during the year.