NEW VISUAL ENTERTAINMENT INC
Form 10-Q
March 19, 2001

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

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended January 31, 2001

OR

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

For the transition period from _______ to _______

COMMISSION FILE NUMBER
0-21785

NEW VISUAL ENTERTAINMENT, INC.
(Exact Name of Registrant as Specified in its Charter)

UTAH	95-4543704
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

5920 FRIARS ROAD
SUITE 104
SAN DIEGO, CALIFORNIA 92108
(Address of Principal Executive Offices) (Zip Code)

(619) 692-0333
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES |X| NO |_|

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 24,782,771 shares of the registrant's Common Stock, $.001 par value, were outstanding as of March 6, 2001.

NEW VISUAL ENTERTAINMENT, INC. AND SUBSIDIARIES

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ITEM 1. FINANCIAL STATEMENTS

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

ASSETS

	October 31, 2000	January 31, 2001
		(Unaudited)
Current Assets:		
Cash	$ 189,234	$ 241,419
Receivable from related parties	27,563	30,200
Other current assets	30,227	8,394
Total Current Assets	247,024	280,014
Property and equipment - net of accumulated depreciation	393,787	358,907
Other assets	117,200	157,876
Film and video library	35,944	-
Projects under development	638,707	974,651
Total Assets	$ 1,432,662	$ 1,771,447

LIABILITIES AND STOCKHOLDERS' EQUITY

	October 31, 2000	January 31, 2001
Current Liabilities:		
Accounts payable and accrued expenses	$ 446,921	$ 259,325
Total Current Liabilities	446,921	259,325
Long-term debt	756,886	756,886
Total Liabilities	1,203,807	1,016,211
Commitments, Contingencies and Other Matters (Notes 2, 6, 7, 8 and 9)		
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; 100,000,000 shares Authorized; 24,072,455 and 24,801,118 shares issued and Outstanding at October 31, 2000 and January 31, 2001, Respectively	24,072	24,801

Additional paid-in capital	27,813,465	30,244,615
Unearned financing fees	(2,583,333)	(2,333,333)
Accumulated deficit at October 31, 1999	(12,300,033)	(12,300,033)
Deficit accumulated during the development stage	(12,725,316)	(14,880,814)
Total Stockholders' Equity	228,855	755,236
Total Liabilities and Stockholders' Equity	$ 1,432,662	$ 1,771,447

See notes to consolidated financial statements.

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NEW VISUAL ENTERTAINMENT, INC. AND SUBSIDIARIES
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

	For the Three Months Ended January 31,		For the Period f November 1, 1999
	2000	2001	January 31, 200
REVENUES	$ -	$ -	$ 12,200
OPERATING EXPENSES:			
Cost of sales	-	-	21,403
Amortization of costs of projects	15,406	-	-
Projects costs written off	10,884	-	114,613
Depreciation of property and equipment	15,469	34,880	132,052
Acquired in-process research and development Expenses	50,000	-	6,050,000
Compensatory element of stock issuances	34,050	-	3,258,549
Research and development	-	362,702	1,178,064
Selling, general and administrative expenses	157,724	500,472	2,445,242
TOTAL OPERATING EXPENSES	283,533	898,054	13,199,923
OPERATING LOSS	(283,533)	(898,054)	(13,187,723)
OTHER EXPENSES:			
Interest expense	-	7,444	26,424
Amortization of unearned financing costs	-	250,000	666,667
Litigation settlement in shares of common stock (Note 9)	-	1,000,000	1,000,000
TOTAL OTHER EXPENSES	-	1,257,444	1,693,091

NET LOSS	$ (283,533)	$ (2,155,498)	$(14,880,814)
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$ (.02)	$ (.09)	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	17,351,598	24,247,164	

See notes to consolidated financial statements.

NEW VISUAL ENTERTAINMENT, INC. AND SUBSIDIARIES
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)
FOR THE PERIOD FROM NOVEMBER 1, 1999 TO OCTOBER 31, 2000 AND
THE THREE MONTHS ENDED JANUARY 31, 2000 AND 2001

	Common Stock		Additional Paid-in
	Shares (1)	Amount	Capital
Balance - October 31, 1999	17,224,049	$ 17,224	$12,197,374
Issuance of common stock for cash ($1.00 to $4.00 per share)	805,994	805	2,733,583
Issuance of common stock for services:			
($1.00 to $1.40 per share for quarter ended January 31)	29,765	30	34,020
($1.20 to $12.00 per share for quarter ended April 30)	1,161,065	1,161	1,813,568
($3.00 to $7.88 per share for quarter ended July 31)	109,000	109	619,541
($.25 to $12.50 per share for quarter ended October 31)	84,084	84	28,038
Acquisition of Impact Pictures, Inc. ($4.00 per share)	12,500	13	49,987
Acquisition of New Wheel Technology, Inc. ($2.00 per share)	3,000,000	3,000	5,997,000
Issuance of common stock under consulting Agreement ($2.00 per share)	1,500,000	1,500	2,998,500
Issuances of stock for exercise of warrants ($2.40 per share)	68,750	69	164,931
Issuance of stock in connection with private Placement ($5.00 to $5.50 per share)	77,248	77	414,923
Value assigned to issuance of 200,000 warrants	-	-	762,000
Amortization of unearned financing costs	-	-	-
Net loss	-	-	-
Balance - October 31, 2000	24,072,455	$ 24,072	$27,813,465

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(1) Share amounts have been restated to reflect the 1-for-4 reverse stock split effected on June 22, 2000.

See notes to consolidated financial statements.

NEW VISUAL ENTERTAINMENT, INC. AND SUBSIDIARIES
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)
FOR THE PERIOD FROM NOVEMBER 1, 1999 TO OCTOBER 31, 2000 AND
THE THREE MONTHS ENDED JANUARY 31, 2000 AND 2001

	Unearned Financing Costs	Accumulated Deficit	Total Stockholders' Equity
Balance - October 31, 1999	$ -	$(12,300,033)	$ (85,435)
Issuance of common stock for cash ($1.00 to $4.00 per share)	-	-	2,734,388
Issuance of common stock for services:			
($1.00 to $1.40 per share at January 31)	-	-	34,050
($1.20 to $12.00 per share at April 30)	-	-	1,814,729
($3.00 to $7.88 per share at July 31)	-	-	619,650
($.25 to $12.50 per share at October 31)	-	-	28,122
Acquisition of Impact Pictures, Inc. ($4.00 per share)	-	-	50,000
Acquisition of New Wheel Technology, Inc. ($2.00 per share)	-	-	6,000,000
Issuance of common stock under consulting Agreement ($2.00 per share)	(3,000,000)	-	-
Issuances of stock for exercise of warrants ($2.40 per share)	-	-	165,000
Issuance of stock in connection with private Placement ($5.50 per share)	-	-	415,000
Value assigned to issuance of 200,000 warrants	-	-	762,000
Amortization of unearned financing costs	416,667	-	416,667
Net loss	-	(12,725,316)	(12,725,316)
Balance - October 31, 2000	$ (2,583,333)	$(25,025,349)	$ 228,855

Accumulated deficit as of October 31, 1999	$(12,300,033)
Accumulated deficit during development stage (year ended October 31, 2000)	(12,725,316)
Total Accumulated Deficit as of October 31, 2000	$(25,025,349)

See notes to consolidated financial statements.

NEW VISUAL ENTERTAINMENT, INC. AND SUBSIDIARIES
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)
FOR THE PERIOD FROM NOVEMBER 1, 1999 TO OCTOBER 31, 2000 AND
THE THREE MONTHS ENDED JANUARY 31, 2000 AND 2001

	Common Stock		Additional Paid-in
	Shares (1)	Amount	Capital
Three Months Ended January 31, 2000:			
Balance - October 31, 1999	17,224,049	$ 17,224	$12,197,374
Issuance of common stock for cash ($1.00 to 1.40 per share)	177,462	177	211,732
Issuance of common stock for services ($1.00 to $1.40 per share)	29,765	30	34,020
Acquisition of Impact Pictures, Inc. ($4.00 per share)	12,500	13	49,987
Net loss	-	-	-
Balance - January 31, 2000	17,443,776	$ 17,444	$12,493,113
Three Months Ended January 31, 2001:			
Balance - October 31, 2000	24,072,455	$ 24,072	$27,813,465
Issuance of common stock for cash ($2.68 to $5.00 per share)	240,904	241	704,759
Issuance of common stock with attached Warrants ($4.02 per share)	174,714	175	489,024
Issuance of common stock with attached Warrants ($5.10 per share)	30,600	31	85,649
Issuance of stock in connection with Private Placement ($4.35 to $5.50 per share)	32,445	32	151,968
Issuance of shares in connection with litigation settlement	250,000	250	999,750
Amortization of unearned financing costs	-	-	-
Net loss	-	-	-
Balance - January 31, 2001	24,801,118	$ 24,801	$30,244,615

(1) Share amounts have been restated to reflect the 1-for-4 reverse stock split effected on June 22, 2000.

See notes to consolidated financial statements.

NEW VISUAL ENTERTAINMENT, INC. AND SUBSIDIARIES
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)
FOR THE PERIOD FROM NOVEMBER 1, 1999 TO OCTOBER 31, 2000 AND
THE THREE MONTHS ENDED JANUARY 31, 2000 AND 2001

	Unearned Financing Costs	Accumulated Deficit	Total Stockholders' Equity
Three Months Ended January 31, 2000:			
Balance - October 31, 1999	$ -	$(12,300,033)	$ (85,435)
Issuance of common stock for cash ($1.00 to 1.40 per share)	-	-	211,909
Issuance of common stock for services ($1.00 to $1.40 per share)	-	-	34,050
Acquisition of Impact Pictures, Inc. ($4.00 per share)	-	-	50,000
Net loss	-	(283,533)	(283,533)
Balance - January 31, 2000	$ -	$(12,583,566)	$ (73,009)
Three Months Ended January 31, 2001:			
Balance - October 31, 2000	$ (2,583,333)	$(25,025,349)	$ 228,855
Issuance of common stock for cash ($2.68 to $5.00 per share)	-	-	705,000
Issuance of common stock with attached Warrants ($4.02 per share)	-	-	489,199
Issuance of common stock with attached Warrants ($5.10 per share)	-	-	85,680
Issuance of stock in connection with Private Placement ($4.35 to $5.50 per share)	-	-	152,000
Issuance of shares in connection with litigation settlement	-	-	1,000,000
Amortization of unearned financing costs	250,000	-	250,000
Net loss	-	(2,155,498)	(2,155,498)

Balance - January 31, 2001	$ (2,333,333)	$(27,180,847)	$ 755,236
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Accumulated deficit as of October 31, 1999	$(12,300,033)
Accumulated deficit during development stage (November 1, 1999 to January 31, 2001)	(14,880,814)

Total accumulated deficit as of January 31,2001	$(27,180,847)
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See notes to consolidated financial statements.

NEW VISUAL ENTERTAINMENT, INC. AND SUBSIDIARIES
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
FOR THE PERIOD FROM NOVEMBER 1, 1999 TO OCTOBER 31, 2000 AND
THE THREE MONTHS ENDED JANUARY 31, 2000 AND 2001

	For the Three Months Ended January 31,		For the Per November 1,
	2000	2001	January 31
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$ (283,533)	$ (2,155,498)	$(14,880,
Adjustments to reconcile net loss to net cash used In operating activities:			
Compensatory elements of stock issuances	34,050	-	3,258,
Stock issued for acquired in-process research and development	50,000	-	6,050,
Stock issued for litigation settlement	-	1,000,000	1,000,
Projects costs written-off	10,884	-	114,
Amortization of unearned financing costs	-	250,000	666,
Depreciation of property and equipment	15,469	34,880	132,
Amortization of costs of projects	15,406	-	
Increase (decrease) from changes in:			
Other current assets	-	21,833	(8,
Due from related parties	-	(2,638)	1,
Projects under development	(15,143)	(300,000)	(955,
Accounts payable and accrued expenses	(75,000)	(187,596)	(161,
Other assets	(4,500)	(40,676)	(152,
NET CASH USED IN OPERATING ACTIVITIES	(252,367)	(1,379,695)	(4,935,
CASH USED IN INVESTING ACTIVITIES			
Acquisition of property and equipment	(3,452)	-	(388,

CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of common stock	211,909	1,431,880	4,581,
Proceeds from note payable	-	-	756,
Proceeds from exercise of warrants	-	-	165,
NET CASH PROVIDED BY FINANCING ACTIVITIES	211,909	1,431,880	5,503,
(DECREASE) INCREASE IN CASH	(43,910)	52,185	178,
CASH AND CASH EQUIVALENTS - BEGINNING	62,872	189,234	62,
CASH AND CASH EQUIVALENTS - ENDING	$ 18,962	$ 241,419	$ 241,
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest	$ -	$ -	$
Income taxes	$ -	$ 800	$

See notes to consolidated financial statements.

NEW VISUAL ENTERTAINMENT, INC. AND SUBSIDIARIES
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
JANUARY 31, 2001

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying financial statements are unaudited. These statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the financial statements reflect all adjustments (which include only normal recurring adjustments) necessary to state fairly the financial position and results of operations as of and for the periods indicated. These financial statements should be read in conjunction with the Company's financial statements and notes thereto for the year ended October 31, 2000, included in the Company's Form 10-KSB as filed with the SEC.

PRINCIPLES OF CONSOLIDATION

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

DESCRIPTION OF BUSINESS

The Company (previously known as Bellwether Investment Inc.) 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, the Company acquired New Wheel Technology, Inc., a development stage, California-based, technology company, in February of 2000 (Note 2). As a result of the change in business focus, the Company has become a development stage entity commencing November 1, 1999. The Company also produces and distributes 2-D and 3-D filmed entertainment.

CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject the Company to concentrations of credit risks, are principally trade accounts receivable. The Company maintains an allowance for uncollectible accounts receivable and, generally, does not require collateral. At January 31, 2001 and October 31, 2000, no allowance for uncollectible accounts was deemed necessary by management.

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NEW VISUAL ENTERTAINMENT, INC. AND SUBSIDIARIES
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
JANUARY 31, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DESCRIPTION OF BUSINESS (CONTINUED)

CASH AND CASH EQUIVALENTS

The Company considers all short-term highly liquid investments with a maturity of three months or less when purchased to be cash or cash equivalents.

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 AND VIDEO LIBRARY AND PROJECTS UNDER DEVELOPMENT

Film and video library and projects under development are stated at the

lower of amortized cost or market. Upon completion, costs are amortized on an individual production basis in the proportion that current gross revenues bear to management's estimate of total gross revenues with such estimates being reviewed at least quarterly. In prior years, several projects under development were determined to have no estimated realizable value and were accordingly written-off. Project costs written-off during the three months ended January 31, 2000 and 2001 were $10,884 and $-0-, respectively. For the three months ended January 31, 2000 and 2001, amortization expense related to the film and video library was $15,406 and $-0-, respectively.

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 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 financial statements include various estimated fair value information at January 31, 2001, as required by Statement of Financial Accounting Standards 107, "Disclosures about Fair Value of Financial Instruments". Such information, which pertains to the Company's financial instruments, is based on the requirements set forth in that Statement and does not purport to represent the aggregate net fair value to the Company.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents: The carrying amount approximates fair value because of the short-term maturity of those instruments.

Receivables and Payables: The carrying amounts approximate fair value because of the short maturity of those instruments.

All of the Company's financial instruments are held for purposes other than trading.

REVENUE RECOGNITION

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

RESEARCH AND DEVELOPMENT

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

NEW VISUAL ENTERTAINMENT, INC. AND SUBSIDIARIES
(A DEVELOPMENT-STAGE COMPANY COMMENCING NOVEMBER 1, 1999)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
JANUARY 31, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ADVERTISING

Advertising costs are charged to operations when incurred. Advertising expense for the three months ended January 31, 2000 and 2001 was $15,528 and $-0-, respectively.

LOSS PER SHARE

Basic earnings per share ("Basic EPS") is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share ("Diluted EPS") gives effect to all dilutive potential common shares outstanding during a period. In computing diluted EPS, the treasury stock method is used in determining the number of shares assumed to be purchased from the conversion of common stock equivalents.

REVERSE STOCK SPLITS

On October 18, 1995, the Company approved a one-for-two reverse split of its issued and outstanding common stock. On June 22, 2000, the Company effected a one-for-four reverse split of its issued and outstanding common stock. The accompanying consolidated financial statements, notes and other references to share and per share data have been retroactively restated to reflect the reverse stock splits for all periods presented.

STOCK-BASED COMPENSATION

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

IMPAIRMENT OF LONG-LIVED ASSETS

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SEGMENT REPORTING

Effective January 1, 1998, the Company adopted the provisions of SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information". SFAS No. 131 establishes standards for the way public enterprises report information about operating segments in annual financial statements and requires those enterprises to report selected information about operating segments in interim financial reports issued to stockholders. Adoption of SFAS No. 131 did not have a material effect on the Company's financial position or results of operations.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133), which establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. In June 1999, the FASB issued SFAS No. 137, Accounting for Derivative Instruments -- Deferral of the Effective Date of SFAS Statement No.133 and in June 2000, the FASB issued SFAS 138, Accounting for Certain Derivative Instruments -- an amendment of SFAS 133, Accounting for Derivative Instruments and Hedging Activities. As a result of SFAS No. 137, SFAS No. 133 and SFAS No. 138 will be effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. The Company's adoption of the above Financial Accounting Standards had no material impact on the Company's financial statements for the three months ended January 31, 2001.

In June 2000, the American Institute of Certified Public Accountants issued Statement of Position 00-2, Accounting by Producers or Distributors of Films (SOP 00-2), which established new accounting standards for producers and distributors of film and supersedes Statement of Financial Accounting Standards ("SFAS") No. 53, "Financial Reporting by Producers and Distributors of Motion Picture Films". SOP 00-2 changes the accounting standards for costs to produce and distribute film and television properties. The Company expects to adopt the new standard effective November 1, 2001, and is evaluating the effect that such adoption may have on its consolidated results of operations and financial position.

In June 2000, the Financial Accounting Standards Board issued SFAS No. 139 which rescinds SFAS No. 53 and requires public companies to follow the guidance provided by SOP 00-2.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS (CONTINUED)

In March 2000, the Financial Accounting Standards Board issued FASB Interpretation No. 44 (FIN 44), Accounting for Certain Transactions Involving Stock Compensation -- an interpretation of APB Opinion No.25. FIN 44 clarifies the application of Opinion 25 for (a) the definition of employee for purposes of applying Opinion 25, (b) the criteria for determining whether a plan qualifies as a noncompensatory plan, (c) the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. The Company adopted FIN 44 effective July 1, 2000. The adoption of the provisions of FIN 44 did not have a material effect on the financial position or results of operations of the Company.

COMPREHENSIVE INCOME

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

NOTE 2 - ACQUISITIONS

IMPACT PICTURES, INC.

In January 2000, the Company completed the acquisition of 100% of the common stock of Impact Pictures, Inc. ("Impact"), a small development-stage San Diego-based multi-media production firm, for 12,500 shares of the Company's common stock, valued at $50,000. The Company has accounted for this acquisition under the purchase method of accounting. As of the acquisition date, Impact had no tangible assets and its intangible assets were in the development stage. Accordingly,

the $50,000 was charged to operations, under the caption "Acquired in-process research and development expenses", during the three months ended January 31, 2000.

Historical and proforma information have not been provided because the operations or the acquired business were not material.

NOTE 2 - ACQUISITIONS (CONTINUED)

NEW WHEEL TECHNOLOGY, INC.

In February 2000, the Company completed the acquisition of New Wheel Technology, Inc. ("New Wheel"), a development-stage California-based, technology company, for 500,000 restricted shares of New Visual common stock. New Wheel was merged with the Company's Astounding Acquisition Corp. subsidiary, which changed its name to New Wheel Technology, Inc. An additional 2,500,000 restricted shares of common stock have been issued and placed with an escrow agent to be released to the New Wheel stockholders upon the achievement by New Wheel of a technological development milestone. Also, additional compensation would be paid to the New Wheel stockholders if New Wheel's high speed digital transmission technology generates revenues for the Company in excess of $1 billion, or if there is a sale of assets or stock, or a merger of New Visual or any of its affiliates, in which the New Wheel technology comprises at least 15% of the consideration. As of April 30, 2000, the Company recorded the issuance of the full 3,000,000 shares, which were valued at $6,000,000. The Company has accounted for this acquisition under the purchase method of accounting. As of the acquisition date, New Wheel had no tangible assets and its intangible assets were in the development stage. Accordingly, the $6,000,000 was charged to operations under the caption "Acquired in-process research and development expenses", during the six months ended April 30, 2000.

Historical and proforma information have not been provided because the operations of the acquired business were not material.

NOTE 3 - PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following:

	October 31, 2000	January 31, 2001
Furniture and fixtures	$ 51,584	$ 51,584
Camera equipment	544,664	544,664
Office equipment	99,658	99,658
	695,906	695,906

Less: Accumulated depreciation	302,119	336,999
Total	$ 393,787	$ 358,907

For the three months ended January 31, 2000 and 2001, depreciation expense was $15,469 and $34,880, respectively.

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NEW VISUAL ENTERTAINMENT, INC. AND SUBSIDIARIES
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NOTE 4 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	October 31, 2000	January 31, 2001
Professional fees	$ 300,000	$ 138,251
Payroll and related taxes	47,511	-
Interest	17,906	25,350
Miscellaneous	81,504	96,550
	$ 446,921	$ 259,325

NOTE 5 - LONG-TERM DEBT

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

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

NOTE 6 - 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.

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NOTE 6 - STOCKHOLDERS' EQUITY (CONTINUED)

PREFERRED STOCK AND RIGHTS DIVIDEND (CONTINUED)

The Company adopted a shareholder rights plan, in which one right was distributed on August 21,2000 as a dividend on each outstanding share of common stock to shareholders of record on that date. Each right will entitle the shareholders 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 shareholders, 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, par value $0.01 per share, designated as "Series A Junior Participating Preferred Stock". The number of shares constituting the Series A Junior Participating Preferred Stock shall be 200,000, initially reserved for issuance upon exercise of the rights discussed in Note 8. 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 Stock, 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.

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NOTE 6 - STOCKHOLDERS' EQUITY (CONTINUED)

COMMON STOCK

On April 30, 2000, the Board of Directors authorized, and on May 31, 2000, a majority vote of the shareholders approved, a one-for-four reverse stock-split of the Company's outstanding common stock. The reverse stock-split was effected on June 22, 2000.

COMMON STOCK ISSUANCES DURING THE YEAR ENDED OCTOBER 31, 2000

During the year ended October 31, 2000, the Company issued 805,994 shares of restricted common stock to investors for cash proceeds of $2,734,388, 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 three months ended January 31, 2000, the Company sold 177,463 shares of common stock for $211,909.
- During the quarter ended April 2000, the Company sold 278,699 shares of common stock for $1,318,079.
- During the quarter ended July 31, 2000, the Company sold 314,832 shares of common stock for $1,064,400.
- During the quarter ended October 31, 2000, the Company sold 35,000 shares of common stock for $140,000.

During the three months ended January 31, 2000, the Company issued 29,765 shares of common stock between $1.00 and $1.40 for consulting services totalling $34,050.

During the three months ended January 31, 2000, the Company issued 12,500 shares of common stock valued at $4.00 per share for the acquisition of Impact Pictures, Inc.(Note 2)

On February 17, 2000, the Company issued 3,000,000 shares of common stock valued at $2.00 per share for the acquisition of New Wheel Technology, Inc.(Note 2)

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NOTE 6 - STOCKHOLDERS' EQUITY (CONTINUED)

COMMON STOCK ISSUANCES DURING THE YEAR ENDED OCTOBER 31, 2000 (CONTINUED)

In connection with the acquisition of New Wheel, the Company entered into an agreement with lenders to provide loans of up to $1.5 million. As consideration for these loans and other services under the agreement, in April of 2000 the Company issued 1,500,000 shares of its common stock to the lenders valued at $3,000,000. The Company accounted for the $3,000,000 as unearned financing costs as a reduction of stockholders' equity as of April 30, 2000. During the quarter ended July 31, 2000, the Company began to draw money down from the credit facilities and accordingly, the Company at such time, began to amortize the unearned financing costs over the three-year period ended June of 2003. Amortization of the unearned financing costs for the three months ended January 31, 2001 was $250,000.

During the quarter ended April 2000, the Company issued 1,161,065 shares of common stock between $1.20 and $12.00 for consulting and professional services totalling $1,814,729.

During the quarter ended July 31, 2000, the Company issued 109,000 shares of common stock between $3.00 and $7.88 for consulting and professional services totalling $619,650.

On June 12, 2000, 68,750 warrants were exercised at $2.40 per share totalling $165,000.

During the quarter ended October 31, 2000, the Company issued 84,084 shares of common stock between $.25 and $12.50 for consulting services, totalling 28,122.

On October 31, 2000, the Company issued 77,248 shares of common stock between $5.00 and $5.50 per share pursuant to the Company's November 17, 2000 private placement agreement.

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NOTE 6 - STOCKHOLDERS' EQUITY (CONTINUED)

COMMON STOCK ISSUANCES DURING THE THREE MONTHS ENDED JANUARY 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

draw down.

The Company can sell stock to the investors in 5-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, but exclusive of any funding for the production project.

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. This agreement terminates on November 17, 2002.

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. The Series A and Series B warrants expire on November 17, 2003.

As of January 31, 2001, the Company has received proceeds under this agreement of $567,000 from the investors in consideration for the purchase of 109,693 shares of the Company's common stock.

- On November 17, 2000, the company issued 9,456 shares of common stock for $5.50 per share, pursuant to the Company's November 17, 2000 Private Placement agreement.

- On November 27, 2000, the Company issued 22,989 shares of common stock for $4.35 per share, pursuant to the Company's November 17, 2000 Private Placement agreement.

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

NOTE 6 - STOCKHOLDERS' EQUITY (CONTINUED)

COMMON STOCK ISSUANCES DURING THE THREE MONTHS ENDED JANUARY 31, 2001 (CONTINUED)

- Private Placement: (Continued)

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

During January 2001, the Company issued 174,714 shares of common stock with 87,357 attached warrants with an exercise price of $4.02 per

share, expiring in 3 years for $489,199.

During January 2001, the Company issued 30,600 shares of common stock with 15,300 attached warrants with an exercise price of $5.10 per share, expiring in 3 years for $85,680.

During February 2001, the Company issued 250,000 shares of common stock valued at $1,000,000 in consideration of the litigation settlement with Astounding.com, Inc. and Jack Robinson (Note 9). This settlement has been recorded during the three months ended January 31, 2001.

STOCK OPTION PLANS

- 2000 Omnibus Securities Plan:

During April 2000, the Board of Directors adopted, and subsequently on May 31, 2000, the shareholders of the Company approved, the 2000 Omnibus Securities Plan. The 2000 Omnibus Securities Plan authorizes the granting of stock options and restricted stock awards. The 2000 Omnibus Securities Plan may be administered by the Board of Directors or a committee appointed by the Board. A total of 2,500,000 shares of common stock are reserved for issuance under the 2000 Omnibus Securities Plan. Options granted under the option plan may be either (i) options intended to constitute incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended, or any corresponding provisions of succeeding law (the "Code"), or (ii) non-qualified stock options.

The exercise price for each stock option is determined by the Board. Incentive stock options must have an exercise price of at least 100% (or at least 110% in the case of incentive stock options granted to certain employees owning more than 10% of the outstanding voting stock) of the fair market value of the common stock on the date the stock option is granted. Under the 2000 Omnibus Securities Plan, fair market value of the common stock for a particular date will generally be the closing sale price for the stock if the common stock is listed on an established stock exchange. If the common stock is not listed on an established stock exchange on a particular date, the fair market value of the common stock will be the average of the closing bid and asked prices per share for the stock as quoted by The NASDAQ SmallCap market or on the OTC Bulletin Board of the National Association of Securities Dealers or in the NQB Pink Sheets published by the National Quotation Bureau Incorporated.

NOTE 6 - STOCKHOLDERS' EQUITY (CONTINUED)

STOCK OPTION PLANS (CONTINUED)

- 2000 Omnibus Securities Plan: (Continued)

No stock option may be exercised after the expiration of ten years from

the date of grant (or five years in the case of incentive stock options granted to certain employees owning more than 10% of the outstanding voting stock). Pursuant to the 2000 Omnibus Securities Plan, the aggregate fair market value of the common stock for which one or more incentive stock options granted to any participant may, for the first time, become exercisable as incentive stock options under the federal tax laws during any one calendar year shall not exceed $100,000.

As of January 31, 2001, no options have been granted under this plan.

- Options Outside of the Plan:

STOCK OPTIONS

On November 30, 2000, the Company granted to an advisory director options to acquire 125,000 shares of its common stock. The exercise price for the options is $4.00 per share. All options became vested immediately and expire on November 30, 2010.

On November 13, 2000, the Company granted to a consultant options to acquire 100,000 shares of its common stock. The exercise price for the options is $4.00 per share. All options became vested immediately and expire on November 13, 2010. In addition, the consultant is additionally compensated for each day of service up to $1,300 per day. The consulting agreement may be terminated at any time by either party upon thirty days' written notice to the other party.

NOTE 6 - STOCKHOLDERS' EQUITY (CONTINUED)

- Options Outside of the Plan: (Continued)

STOCK OPTIONS (CONTINUED)

Since the exercise price of the options was not less than the fair market value of the Company's common stock on each date of grant, no compensation expense has been recorded. If the Company had elected to record the issuance of stock options using the fair value method, the Company's net loss and loss per share would be as follows:

	Three Months Ended January 31, 2001
Net Loss:	
As reported	$(2,155,498)
Proforma	$(3,338,873)
Loss Per Share:	

As reported	$ (0.09)
Proforma	$ (0.14)

The fair value of stock options granted during the three months ended January 31, 2001 was estimated on the date of grant using the Black-Scholes option-pricing model. The weighted average fair value and related assumptions were as follows:

	Grant Date			
	February 11, 2000	July 1, 2000	October 27, 2000	November 13, 2001
Expected volatility	33.0%	33.0%	33.0%	33.0%
Risk-free interest rate	5.5%	5.5%	5.5%	5.5%
Expected lives	3 years	3 years	3 years	3 years
Dividend yield	-0-	-0-	-0-	-0-

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NOTE 6 - STOCKHOLDERS' EQUITY (CONTINUED)

- Options Outside of the Plan: (Continued)

STOCK OPTIONS (CONTINUED)

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

	Shares Under Option	Weighted Average Exercise Price
Balance at October 31, 2000:	1,563,750	$2.61
Granted	225,000	4.00
Exercised	-	-
Cancelled	-	-
Balance at January 31, 2001	1,788,750	$2.78
Exercisable At January 31:		
2001	887,188	$3.45
2002	1,204,375	$3.14
2003	1,531,563	$2.96
2004	1,788,750	$2.78

The exercise price for options outstanding as of January 31, 2001 ranged from $4.00 to $5.50.

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NOTE 6 - STOCKHOLDERS' EQUITY (CONTINUED)

NET LOSS PER SHARE

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

Warrants to purchase common stock	4,302,657
Options to purchase common stock	1,788,750
Total as of January 31, 2001	6,091,407
Substantial issuances after January 31, 2001 through March 6, 2001:	
Options granted to purchase common stock	137,400
Warrants issued in connection with stock issuances	29,161
Sale of common stock for cash	58,321

NOTE 7 - COMMITMENTS AND CONTINGENCIES

ASTOUNDING.COM, INC.

In September 1999, the Company entered into a merger agreement with Astounding.com, Inc. The merger agreement provided for the Company to issue 10,000,000 (pre-June 22, 2000 reverse split) shares of its common stock for all of the outstanding shares of Astounding. The closing of the merger was subject to various conditions including the receipt of a debt or equity financing of at least $1,000,000 and requisite shareholders approval.

During the three months ended January 31, 2000, the Company terminated its previously announced merger with Astounding.com, Inc. because certain conditions had not been satisfied.

NOTE 7 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

ASTOUNDING.COM, INC. (CONTINUED)

The Company, on March 22, 2000, filed a lawsuit in the State District Court in Dallas, Texas against Astounding.com, Inc. and Jack Robinson. The Company's complaint alleges that, among other things, Astounding.com, Inc. and Robinson breached certain contractual obligations to New Visual and engaged in negligent and/or fraudulent misrepresentation to induce New Visual to enter into the merger agreement. New Visual is seeking a court order confirming that the merger agreement is null and void, and an award of unspecified damages, court costs and attorneys fees. Robinson and Astounding.com have filed a counterclaim against New Visual alleging breach of contract and unjust enrichment and seeking unspecified damages, court costs and attorney fees. The Company denies liability and intends to vigorously prosecute its claim and defend itself against the counterclaim. This litigation was settled in February 2001. See Note 9, "Subsequent Events."

INTELECON SERVICES, INC.

On March 31, 2000, the Company signed a definitive merger agreement for it to acquire Intelecon Services, Inc. ("Intelecon"), a provider of entertainment and business communication technology and value-added services, in a stock transaction.

On September 26, 2000, the Company formally terminated its merger agreement with Intelecon.

The Company advanced to Intelecon monies to purchase certain equipment on behalf of the Company. Intelecon did not purchase the equipment and, therefore, breached its contract and was unjustly enriched. The Company has brought forward a claim against Intelecon for $105,000, which is included in other assets at January 31, 2001.

CONSULTING AGREEMENT

In June 2000, the Company entered into a marketing and public relations agreement to publicize the Company to brokers, prospective investors, institutional investors, analysis and others, for a term of six months. In consideration of the above services, the Company has paid the consultant $50,000. In addition, the consultant was issued 50,000 shares of the Company's common stock. The consultant was also issued a warrant entitling it to purchase, in the aggregate, up to 200,000 shares of the Company's common stock. The warrant is divided into four

tranches of fifty thousand (50,000) shares each, with each tranche to have the following exercise prices: Tranche 1 - $7.00 per share; Tranche 2 - $8.50 per share; Tranche 3 - $10.00 per share; and Tranche 4 - $11.50 per share. The consultant and the Company shall enter into a registration rights agreement with respect to the registration of the above common stock and Warrant Shares. The consultant has not exercised any of these warrants as of January 31, 2001.

NOTE 7 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

CONSULTING AGREEMENT (CONTINUED)

The warrants were assigned a value of $762,000, which was all charged to operations during the year ended October 31, 2000.

EMPLOYMENT AGREEMENTS

On February 11, 2000, the Company entered into an employment agreement with its current Chief Executive Officer. The agreement, effective April 1, 2000, is a three-year employment contract with the Company that provides for base compensation in the first contract year of $250,000; in the second contract year, the base compensation of $300,000; and in the third year and during any renewal term, the base compensation of $350,000. The employee is also entitled to an annual bonus based upon his performance which will be at the sole discretion of the Board of Directors. The annual bonus to the CEO shall be payable in cash or in an amount of shares of the Company's common stock that equals the amount of the bonus based upon the market price of the employer's common stock on the date that the bonus is paid.

In connection with its New Wheel acquisition, in February 2000, the Company entered into two employment agreements for executive services. The agreements provide for the Company to pay base salaries of $208,000 each per annum and a bonus of $12,500 each upon the execution of the agreement. The agreements were to expire in September 2000, but have been extended through February 2001.

On June 20, 2000, the Company entered into a three-year employment agreement with its Executive Vice President commencing July 1, 2000, whereby the Executive Vice President shall receive a base salary of $15,000 per year and options to purchase 210,000 shares of common stock at $4.40 per share. Of these stock options, 35,000 vested on July 1, 2000 and the balance vests straight-line on the last day of each quarter beginning September 30, 2000 and ending December 31, 2002, or 17,500 per quarter. The options expire on July 1, 2005.

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NOTE 7 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

JOINT VENTURE PRODUCTION AGREEMENT

In April 2000, the Company entered into a joint venture production agreement to produce a feature length film for theatrical distribution. The Company will provide the funding for the production in the amount of $2,250,000 and, in exchange, will receive 50% share in all net profits from worldwide distribution and merchandising, after receiving funds equal to its initial investment of up to $2,250,000. The film is to be completed and ready for a Summer 2002 release. The Company has agreed to deposit into a separate account, on a monthly basis, funds to assure a minimum balance of $200,000 at the beginning of each month, until the total of $2,250,000 has been deposited into the account. As of January 31, 2001, the Company has funded approximately $885,000 of production and other costs, which was included in projects under development in the accompanying consolidated balance sheet.

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.

On February 16, 2000, the Company entered into an operating lease for office space in Livermore, California. The lease commenced on March 1, 2000 and expires on February 28, 2002. The lease provides for a minimum annual rental of approximately $25,700 for the first year and $26,800 the following year.

Rent expense for the three months ended January 31, 2000 and 2001 was $2,000 and $20,346, respectively.

ROYALTY PAYMENTS

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

CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Company to concentrations of credit risk are primarily cash and cash equivalents. At January 31, 2001, the Company had a bank balance in excess of federally insured limits by approximately $113,616.

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NOTE 8 - BUSINESS RISKS AND SEGMENT INFORMATION

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

The success of the Company's telecommunication segment is dependent upon the successful completion of development and testing of its New Wheel technology. No assurances 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. Even though subsequently the Company has received independent third party verification that this technology does work, there is no assurance can be given that such technology will receive market acceptance.

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

The Company funded its operations during the three months ended January 31, 2001 through sales of its common stock, resulting in net proceeds to the Company of $1,431,880. Sales of common stock during the three months ended January 31, 2001 were sold in private transactions in reliance on various exemptions from the registration requirements of the Securities Act. The Company is exploring other financing alternatives, including private placements and public offerings.

Under an agreement which was concluded in November of 2000, the Company has obtained an equity line of credit of up to $5 million to fund its telecommunication segment. The equity line has various limits on amounts of drawdowns and, under certain circumstances, the purchaser may not be obligated to purchase stock offered for sale by the Company (see Note 6).

NOTE 8 - BUSINESS RISKS AND SEGMENT INFORMATION (CONTINUED)

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

For the Three Months Ended January 31, 2001:

	Telecommunication Business	Entertainment Business	Corporate Headquarters
Net Sales	$ -	$ -	$ -
Operating Loss	$ (362,702)	$ -	$ (792,796)
Depreciation and Amortization	$ 253,307	$ 4,340	$ 27,233
Total Identifiable Assets	$ 80,484	$ 1,234,842	$ 456,121

For the three months ended January 31, 2000, the Company's only reportable segment consisted of the entertainment business.

NOTE 9 - SUBSEQUENT EVENTS

RELEASE OF ESCROWED MERGER CONSIDERATION

As per the February 2000 merger agreement with New Wheel, 2,500,000 restricted shares of common stock were placed with an escrow agent to be released to the New Wheel stockholders upon the achievement of a technological development milestone specified in the merger agreement. In February 2001, the Company released these shares to the New Wheel shareholders as a result of the achievement of this milestone.

ASTOUNDING.COM AND JACK ROBINSON SETTLEMENT

On February 16, 2001, the company reached a settlement agreement with Astounding.com and Jack Robinson in connection with certain disputes arising from a non-consummated merger between the Company and Astounding.com, Inc. This litigation was settled by the Company agreeing to issue to Jack Robinson and his attorneys 250,000 restricted shares of its common stock. The Company in return will receive all the issued and outstanding common stock of Astounding.com, Inc. The Company also agreed to file a registration statement for all of these 250,000 shares of its common stock by March 31, 2001 and to cause the registration statement to become effective and the shares to become freely tradeable no later than June 29, 2001.

In February 2001, the Company issued 250,000 shares of common stock valued at $1,000,000 in consideration of this litigation settlement. This settlement has been recorded during the three months ended January 31, 2001.

As of February 16, 2001, Astounding.com, Inc. has no liabilities and is engaged in no business activities.

NOTE 9 - SUBSEQUENT EVENTS

STOCK OPTIONS

On March 5, 2001, the Company granted to certain employees, directors and advisory directors options under its 2000 Omnibus Securities Plan to acquire 137,400 shares of its common stock. The exercise price for the options, which vest over time, is $3.92 per share.

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

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

RESULTS OF OPERATIONS

FOR THE THREE MONTHS ENDED JANUARY 31, 2001 VS. THE THREE MONTHS ENDED JANUARY 31, 2000

REVENUES. There were no revenues for the three months ended January 31, 2001 and January 31, 2000.

OPERATING EXPENSES. Operating expenses include amortization of project costs, writedown of project costs, depreciation of property and equipment, compensatory element of stock issuances, acquired in-process research and development expenses, research and development expenses, and selling, general and administrative costs. Total operating expenses increased to $898,000 for the three months ended January 31, 2001, from $284,000 for the three months ended January 31, 2000. The increase was from research and development costs of $363,000 related to our New Wheel subsidiary, which was acquired in February 2000, and an increase of $343,000 in selling, general and administrative expense due to increase in our corporate infrastructure which includes two separate office spaces.

The acquired in-process research and development costs for the three months ended January 31, 2000 were associated with the acquisition of Impact Pictures ($50,000) and represent the value of the common stock issued in connection with the acquisition. The acquisition of Impact Multimedia was in exchange for 12,500 shares of common stock valued at $50,000.

OTHER EXPENSES. Other expenses included amortization of unearned financing fees, interest expense and settlement of litigation. Total other expenses increased from $-0- for the three months ended January 31, 2000 to $1,257,444 for the three months ended January 31, 2001. The Company issued 250,000 shares of common stock valued at $1,000,000 for the February 16, 2001 settlement reached with Astounding.com, Inc. and Jack Robinson in connection with certain disputes arising from a non-consummated merger between the Company and Astounding.com, Inc. This settlement has been recorded during the three months ended January 31, 2001.

LIQUIDITY AND CAPITAL RESOURCES

Operations have been financed through private sales of common stock and loans, resulting in net proceeds of approximately $1,432,000 and $212,000 for

the three months ended January 31, 2001 and January 31, 2000, respectively. In addition, during the three months ended January 31, 2000, a portion of expenses were paid by the issuance of stock.

In April 2000, we entered into a joint venture production agreement to produce a feature length film for theatrical distribution. Under the agreement, we will provide the funding for the production in the amount of $2,250,000 and, in exchange, we will receive 50% share in all net profits from worldwide distribution and merchandising, after receiving funds equal to its initial investment of up to $2,250,000. The film is to be completed and ready for a Summer 2002 release. We have agreed to deposit into a separate account, on a monthly basis, funds to assure a minimum balance of $200,000 at the beginning of each month, until the total of $2,250,000 has been deposited into the account. As of January 31, 2001, we had funded approximately $885,000 of the production costs towards this project.

Research and development expenses related to operations of our New Wheel subsidiary totaled $363,000 and $-0- for the three months ended January 31, 2001 and the three months ended January 31, 2000, respectively.

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On November 17, 2000, and as amended on January 22, 2001, we entered into a private placement agreement with various investors, to sell $5,000,000 of our common stock in several tranches at a purchase price equal to 87% of the average market price of our common stock over the five days preceding the closing of each draw down. We can sell stock to the investors in 5-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 of our common stock is below a certain number of shares within the period, or if we sell capital stock in excess of 5,000,000, exclusive of any funding for our pending motion picture project. We may not apply any portion of the draw downs towards payment of any costs related to the production of our pending motion picture project. This agreement terminates on November 17, 2002.

In addition, the investors received warrants to purchase 4,000,000 shares of common stock to be issued in two series (Series A warrants and 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 our 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. The warrants expire on November 17, 2003.

Through January 31, 2001, we received proceeds under this agreement of $567,000 from the investors in consideration of the purchase of 109,693 shares of our common stock.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments -- Deferral of the Effective Date of SFAS Statement No.133" and in June 2000, the FASB issued SFAS 138, "Accounting for Certain Derivative Instruments -- an amendment of SFAS 133, Accounting for Derivative Instruments and Hedging Activities." As a result of SFAS No. 137, SFAS No. 133 and SFAS No. 138 will be

effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. The Company's adoption of the above Financial Accounting Standards had no material impact on the Company's financial statements for the three months ended January 31, 2001.

In June 2000, the American Institute of Certified Public Accountants issued Statement of Position 00-2, "Accounting by Producers or Distributors of Films" ("SOP 00-2"), which established new accounting standards for producers and distributors of film and supersedes Statement of Financial Accounting Standards ("SFAS") No. 53, "Financial Reporting by Producers and Distributors of Motion Picture Films." SOP 00-2 changes the accounting standards for costs to produce and distribute film and television properties. The Company expect to adopt the new standard effective November 1,2001, and is evaluating the effect that such adoption may have on its consolidated and results of operations and financial position.

In June 2000, the Financial Accounting Standards Board issued SFAS No. 139 which rescinds SFAS No. 53 and requires public companies to follow the guidance provided by SOP 00-2.

In March 2000, the FASB issued FASB Interpretation No. 44 ("FIN 44"), "Accounting for Certain Transactions Involving Stock Compensation -- an interpretation of APB Opinion No.25." FIN 44 clarifies the application of Opinion 25 with respect to (a) the definition of employee for purposes of applying Opinion 25, (b) the criteria for determining whether a plan qualifies as a noncompensatory plan, (c) the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. We adopted FIN 44 effective July 1, 2000. The adoption of the provisions of FIN 44 did not have a material effect on our financial position or results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not engage in trading market risk sensitive instruments and do not purchase as investments, as hedges, or for purposes "other than trading," instruments that are likely to expose us to market risk, whether it be from interest rate, foreign currency exchange, commodity price or equity price risk. We have not entered into any forward or futures contracts, purchased options or entered into swaps. Accordingly, we do not believe our exposure to market risk is material.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

On March 22, 2000, the Company filed a lawsuit in the State District Court in Dallas, Texas against Astounding.com, Inc. and Jack Robinson. The Company's complaint alleged that, among other things, Astounding.com and Robinson breached certain contractual obligations made to the Company and engaged in negligent and/or fraudulent misrepresentation to induce the Company to enter into a merger agreement. The Company sought a court order confirming that the merger agreement is null and void, and an award of unspecified damages, court costs and attorneys fees. Astounding.com and Robinson filed a counterclaim against the Company that alleged breach of contract and unjust enrichment, and sought unspecified damages, court costs and attorney fees.

On February 16, 2001, the Company, Astounding.com and Robinson entered into a settlement agreement (the "Agreement"), pursuant to which, among other things, (i) the parties mutually released each other from any and all claims relating to the merger agreement and the above-referenced litigation, and (ii) the Company acquired the outstanding stock of Astounding.com in exchange for 250,000 restricted shares of the Company's common stock issued to Robinson and his attorneys. The Company also agreed to file a registration statement for these shares by March 31, 2001 and to cause the registration statement to become effective by June 29, 2001.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the three months ended January 31, 2001, the Company sold unregistered securities as follows:

1. On November 17, 2000, the Company entered into a Securities Purchase Agreement with eight investors to sell up to $5,000,000 of the Company's common stock in several tranches over the next two years at a purchase price equal to 87% of the average market price of the Company's common stock over the five days preceding each draw down. As of January 31, 2001, the Company has received proceeds of $567,000 under this agreement in consideration for the issuance of 109,693 shares of common stock.

2. In December 2000, the Company sold an aggregate of 219,904 shares of common stock to two individuals for aggregate proceeds of $600,000.

3. In January 2001, the Company sold unregistered securities as follows:

   - an aggregate of 21,000 shares of common stock to six investors for aggregate proceeds of $105,000;

   - an aggregate of 174,714 shares of common stock and warrants to purchase 87,357 shares (exercisable at $4.02 per share) to five of the above investors and four other investors for aggregate proceeds of $489,199; and

   - an aggregate of 30,600 shares of common stock and warrants to purchase 15,300 shares (exercisable at $5.10 per share) to five individuals for aggregate proceeds of $85,680.

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All transactions described above were deemed to be exempt from registration under the Securities Act of 1933 in reliance on Section 4(2) of such Securities Act as transactions by an issuer not involving any public offering. All purchasers represented that they were "accredited investors" within the meaning of Regulation D under the Securities Act of 1933. All of the securities issued in these transactions contained a restrictive legend to the effect that they could not be sold or transferred without registration or an applicable exemption.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

Exhibit Number	Description
10.1	Form of Amendment to Credit Agreement dated November 13, 2000 by New Visual Entertainment, Inc. and each of the following trusts: Epic Events Trust, Ltd.; Exodus Systems Trust, Ltd.; Prospect Development Trust, Ltd.; Pearl Street Investments trust, Ltd.; and Riviera Bay Holdings Trust (incorporated by reference to Exhibit 10.9 of the Company's Annual Report on Form 10-KSB for the fiscal year ended October 31, 2000 (the "2000 10-KSB")).
10.2	Securities Purchase Agreement dated November 17, 2000 by and among New Visual Entertainment, Inc., Lilly Beter Capital Group, Ltd., International Caribbean Trust Limited, Cutting Edge Trust Limited, Wind & Sea Trust Limited, Montgomery Landing Trust Limited, Quail Run Trust Limited, and Tru Color Trust Limited (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Commission on November 27, 2000).
10.3	First Amendment to Securities Purchase Agreement dated January 22, 2001 by and among New Visual Entertainment, Inc., Lilly Beter Capital Group, Ltd., International Caribbean Trust Limited, Cutting Edge Trust Limited, Wind & Sea Trust Limited, Montgomery Landing Trust Limited, Quail Run Trust Limited, and Tru Color Trust Limited (incorporated by reference to Exhibit 10.11 of the 2000 10-KSB).

(b) Reports on Form 8-K:

The Company did not file any reports on Form 8-K during the quarter ended January 31, 2001.

SIGNATURES

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

NEW VISUAL ENTERTAINMENT, INC.

Date: March 19, 2001

By: /s/ James Kesaris
James Kesaris
Chief Financial Officer and
Duly Authorized Officer