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REGISTRANT'S NAME

USA Video Interactive Corp.

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USA VIDEO INTERACTIVE CORP.

AR/S

12-31-02

PROXY STATEMENT

SECURITIES AND EXCHANGE COMMISSION

Washington DC 20549

SCHEDULE 14A

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES
EXCHANGE ACT OF 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission
Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Under Rule 14a-12.

USA VIDEO INTERACTIVE CORP.

Name of Registrant as Specified in its Charter

(Name of Person(s) Filing Proxy Statement, if other than Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials:

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the

previous filing by registration statement number, or the form or schedule and the date of its filing.

- (1) Amount Previously Paid:
- (2) Form, Schedule or Registration Statement No.:
- (3) Filing Party:
- (4) Date Filed:

USA VIDEO INTERACTIVE CORP.
83 Halls Road
Old Lyme, Connecticut 06371

Dear Shareholder:

We invite you to attend our annual meeting of shareholders to be held on Thursday, June 12th, 2003, in Calgary, Alberta, Canada. At the meeting you will hear a report on our operations and have a chance to meet your directors and executives.

This mailing includes the formal notice of the meeting, the Report on Form 10-K to the Securities and Exchange Commission and the Proxy Statement. The Proxy Statement tells you more about the agenda and procedures for the annual meeting. It also describes how the Board of Directors operates and gives personal information about our director candidates.

Even if you only own a few shares, we want your shares to be represented at the meeting. I urge you to complete, sign, date, and return your proxy promptly in the enclosed envelope.

To attend the meeting in person, please follow the instructions in the Proxy Statement.

Sincerely yours,

/s/ Edwin Molina

Edwin Molina
President

May 8th, 2003

USA VIDEO INTERACTIVE CORP.
83 Halls Road
Old Lyme, Connecticut 06371

NOTICE OF 2003 ANNUAL MEETING OF SHAREHOLDERS

Time: 11:00 a.m., Mountain Time
Date: Thursday, June 12th, 2003
Place: Beaumont Church LLP, Barristers and Solicitors
2200 Telus Tower, 411 - 1st Street SE
Calgary, Alberta, Canada T2G 5E7

Purpose:

1. To elect directors
2. To ratify the appointment by the Board of Directors of Goldstein Golub Kessler LLP as the Company's independent auditors for the current fiscal year.
3. To transact such other business as may properly come before the annual meeting or any adjournment of the meeting.

Only shareholders of record at the close of the business on May 8th, 2003 may vote at the annual meeting.

Your vote is important. Please complete, sign, date, and return your proxy promptly in the enclosed envelope.

By Order of the Board of Directors

May 8th, 2003

By: /s/ Anton J. Drescher
Anton J. Drescher,
Secretary

Please complete, date and sign the enclosed Proxy and return it promptly in the envelope provided, whether or not you plan to attend the 2003 annual meeting of shareholders of USA Video Interactive Corp. If you attend the meeting, you may vote your shares in person if you wish, even if you previously returned your Proxy.

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USA Video Interactive Corp.

Proxy Statement

GENERAL INFORMATION

This Proxy Statement is being sent to you in connection with the solicitation of proxies for the 2003 annual meeting of shareholders (the "Annual Meeting") by the Board of Directors of USA Video Interactive Corp. (the "Company", "USA Video", "we" or "us") to be held at the offices of Beaumont Church LLP, Barristers and Solicitors, 2200 Telus Tower, 411 - 1st Street SE, Calgary, Alberta, Canada, T2G 5E7, at 11:00 a.m., Mountain Time, on Thursday, June 12th, 2003, and at any adjournments thereof. This proxy statement and the accompanying Notice of 2003 Annual Meeting of Shareholders and form of proxy were first mailed to stockholders on or about May 13th, 2003. Shareholders are encouraged to review the information provided in this proxy statement in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2002, a copy of which also accompanies this proxy statement.

Who may vote

Only shareholders of the Company as recorded in our stock register at the close of business on May 8th, 2003 (the "Record Date") may vote at the Annual Meeting. At the close of business on the Record Date, we had 107,995,089 common shares outstanding and entitled to vote, held by approximately 1,456 stockholders of record (excluding warrants to purchase 23,575,000 common shares and 25,000 common shares reserved for our stock option plan). Each common share is entitled to one vote on each matter properly brought before the Annual Meeting.

How to vote

You may vote in person at the meeting or by proxy. We recommend that you vote by proxy even if you plan to attend the Annual Meeting. You can always change your vote at the Annual Meeting.

Voting Electronically via the Internet

If your shares are registered in the name of a bank or brokerage you may be eligible to vote your shares electronically over the Internet or by telephone. A large number of banks and brokerage firms are participating in the ADP Investor Communication Services ("ADP") online program, which provides eligible shareholders who receive a paper copy of the proxy statement with the opportunity to vote via the Internet or by telephone. If your bank or brokerage firm is participating in ADP's program, your voting form from the bank or brokerage firm will provide instructions. If your voting form does not reference Internet or telephone information, please complete and return the paper proxy card in the enclosed envelope.

How Proxies work

Giving us your proxy means you authorize us to vote your shares at the Annual Meeting in the manner you direct. You may vote for or not vote for the nominees for director named in this

Proxy Statement. You may also vote for or against the proposal to ratify the appointment of Goldstein Golub Kessler LLP as the Company's independent auditors or abstain from voting.

If you sign and return the enclosed proxy but do not specify how to vote, we will vote your shares in favor of the nominees for director named in this Proxy Statement and in favor of the other proposal described in this Proxy Statement. In the discretion of the proxy holders, the proxies will also be voted for or against such other matters as may properly come before the Annual Meeting. At the date this Proxy Statement went to press we did not know of any other matters to be raised at the Annual Meeting.

The persons named in the enclosed proxy are directors and officers of the Company and you may strike out the names of the persons whom you do not wish to act on your behalf. A shareholder has the right to appoint any person to attend and act for him or her at the Annual Meeting. **A Shareholder desiring to appoint a person to represent him at the Annual Meeting may do so either by inserting such person's name in the blank space provided and striking out the printed names in the form of proxy or by completing another proxy.** In either case, the proxy must be delivered to the offices of the Company's Transfer Agent, CIBC Mellon Trust Company, Suite 600, 333 7th Avenue S.W., Calgary, Alberta, Canada, T2P 2Z3 at least 48 hours prior to the scheduled commencement of the Annual Meeting.

You may receive more than one proxy depending on how you hold your shares. Shares registered in your name are covered by one proxy. If you hold shares through someone else, such as a bank or broker (that is, in street name) please refer to your proxy card or the information forwarded by your bank, broker or other holder of record for voting instructions. If you want to vote in person at the Annual Meeting, and you hold your shares in street name, you must obtain a proxy from your bank or broker and bring the proxy to the Annual Meeting.

This Proxy Statement and the accompanying proxy card are first being mailed to shareholders on or about May 13th, 2003.

These securityholder materials are being sent to both registered and non-registered owners of the securities. If you are a non-registered owner, and the Company or its agent has sent these materials directly to you, your name and address and information about your holdings of securities, have been obtained in accordance with applicable securities regulatory requirements from the intermediary holding on your behalf.

By choosing to send these materials to you directly, the Company (and not the intermediary holding on your behalf) has assumed responsibility for (i) delivering these materials to you, and (ii) executing your proper voting instructions. Please return your voting instructions as specified in the request for voting instructions.

Revoking a Proxy

You may revoke your proxy before it is voted by submitting a new proxy with a later date, by voting in person at the Annual Meeting, or by notifying our Secretary in writing at #507, 837 West Hastings Street, Vancouver, British Columbia, Canada, V6C 3N6.

Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at our Annual Meeting, you must bring to our meeting a letter from the broker, bank or other nominee confirming your beneficial ownership of the shares and that such broker, bank or other nominee is not voting your shares.

Quorum

To conduct the business of the meeting, we must have a quorum. This means at least a majority of the outstanding shares entitled to vote must be represented at the Annual Meeting, either by proxy or in person.

Votes needed

The three nominees for director receiving a plurality of the votes cast in person or by proxy at the Annual Meeting shall be elected. Approval to ratify the appointment of Goldstein Golub Kessler LLP requires the affirmative vote of a majority of the votes cast in person or by proxy at the Annual Meeting. If the Annual Meeting is adjourned, your shares may be voted by the proxy holder on the new meeting date unless you have revoked your proxy.

Only votes cast "for" or "against" a proposal are counted. Abstentions and broker non-votes (or votes withheld" in the election of directors) will not be counted, except for purposes of determining a quorum. Broker non-votes occur when a broker returns a proxy but does not have authority to vote on a particular proposal.

Attending in person

Only shareholders, their proxy holders, and USA Video's guests may attend the Annual Meeting.

If you hold your shares through someone else, such as a bank or a broker, send proof of your ownership to the Secretary at the address listed above, or you may bring proof of ownership with you in order to be admitted to the Annual Meeting. Acceptable proof could include an account statement showing that you owned USA Video shares on May 8th, 2003.

We will pay the expenses of soliciting proxies. Proxies may be solicited on our behalf by directors, officers or employees in person or by telephone, email or fax. We will also reimburse banks, brokers and other persons holding shares in their names or in the names of their nominees for their reasonable out-of-pocket expenses in forwarding proxies and proxy material to the beneficial owners of such shares.

ITEM 1: ELECTION OF DIRECTORS

The board of directors has nominated and recommends FOR election of three of its current directors for election at the Annual Meeting. Mr. Robert Smith resigned as a director as of May 7th, 2003 and Maurice Loverso was appointed in his place. The enclosed Proxy will be voted FOR the persons nominated unless otherwise indicated. If any of the nominees should be unable to serve or should decline to do so, the discretionary authority provided in the Proxy will be exercised by the proxy holders to vote for a substitute or substitutes to be designated by the

Board of Directors. The Board of Directors has no reason to believe that any substitute nominee or nominees will be required.

Each nominee elected as a director will hold office until the next annual meeting of shareholders and until his successor is elected and qualified, or until his earlier death, resignation or retirement. Set forth below for each nominee is his age and his position, if any, in the Company.

The information set forth below as to each nominee for director has been furnished to the Company by the respective nominee.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Period of Service</u>
Edwin Molina	47	Director, Chief Executive Officer and President	Since 1998
Anton J. Drescher	46	Director, Chief Financial Officer and Secretary	Since 1994
Maurice Loverso	42	Director	Since 2003

Edwin Molina - President, Chief Executive Officer and Director

Mr. Molina served as a Senior Administrator with USA Video from June 1992 to June 30, 1998, when he was appointed President, Chief Executive Officer and a director. Mr. Molina was also a Senior Administrator with Adnet USA LLC, a private California company involved in Internet advertising, from May 1996 to June 1998.

Anton J. Drescher - Chief Financial Officer, Secretary and Director

Mr. Drescher has been Chief Financial Officer of USA Video since December 1994. He has also been a director and Secretary/Treasurer of Cal-Star, Inc. (formerly "Future Link Systems Inc.") a public company listed for trading on the TSX Venture Exchange (the "TSX"), which company was previously involved in the development of compression technology and is now deemed an inactive company by the TSX; a director and Secretary/Treasurer of iQuest Networks Inc. (formerly "Interlink Systems Inc." and "Glassmaster Industries, Inc."), a public company listed on the TSX, involved in digital audio distribution since 1996; President of Westpoint Management Consultants Limited, a private company engaged in tax and accounting consulting for business reorganizations since 1979; President of Harbour Pacific Capital Corp., a private British Columbia company involved in regulatory filings for businesses in Canada, since 1998; and, since 1991, a director and President of International Tower Hill Mines Limited, a public British Columbia company listed on the TSX and involved in mineral exploration, since February 2003, a director and Secretary of StorageFlow Systems Corp., a public company listed on the TSX, which company is involved in electronic data storage. Mr. Drescher has been a Certified Management Accountant since 1981.

Maurice Loverso - Director

Mr. Loverso has been a director of USA Video since May 8th, 2003. He has been President of 3336298 Canada Inc. since 1996, providing financial consultation services to small capital public and private companies and has been a director of Group Intercapital Inc. since 1996, assisting a

small cap venture capital firm with financial advice. Previously, from 1992 to 1995, he served as President of Almic Industries, a manufacturer of bathroom vanities and accessories and provided financial consultant services to USA Video from 1992 to 1994. From 1998 to 1999, he was a director of QR Canada Capital Inc., a public company listed for trading on the TSX.

The Board of Directors has no reason to believe that any nominee will not serve if elected. If any nominee is unable to serve as a director, the shares represented by all valid proxies may be voted for the election for such other person(s) as the Board may recommend, unless the Board chooses to reduce the number of directors serving on the Board. Proxies will be voted FOR each nominee unless the shareholder specifies otherwise.

The Board of Directors unanimously recommends a vote FOR the election of each of the nominees named in this Proxy Statement. Proxies solicited by the Board of Directors will be so voted unless shareholders specify otherwise on the accompanying Proxy.

Meetings of the Board Of Directors

During 2002, the Board of Directors held a number of informal meetings, and took action by unanimous written consent on seven occasions.

Audit Committee

The Board of Directors has an audit committee (the "*Audit Committee*"), which was comprised of Anton J. Drescher and Robert D. Smith Jr. until his recent resignation. Mr. Maurice Loverso was appointed to the Audit Committee in Mr. Smith's place. Because Mr. Drescher is an officer, director and shareholder, he is not considered to be "*independent*" under the listing standards of the New York Stock Exchange, the American Stock Exchange, or the National Association of Securities Dealers.

The Audit Committee meets with the Company's independent accountants at least quarterly to discuss the results of the annual audit or interim periodic reviews and to review the financial statements; appoints the independent accountants to be retained; oversees the independence of the independent accountants; evaluates the independent accountants' performance; approves fees paid to independent accountants and receives and considers the independent accountants' comments as to controls, adequacy of staff and management performance and procedures in connection with audit and financial controls. The Audit Committee met four times and signed four consent resolutions during fiscal 2002.

The Audit Committee is primarily concerned with the effectiveness of the audits of the Company by its internal audit staff and by the independent auditors. Its duties include: (1) recommending the selection of independent auditors; (2) reviewing the scope of the audit to be conducted by them, as well as the results of their audit; (3) reviewing the organization and scope of the Company's internal system of audit and financial controls; (4) appraising the Company's financial reporting activities (including its Proxy Statement and Annual Report) and the accounting standards and principles followed; and (5) examining other reviews relating to compliance by employees with important Company policies and applicable laws. The Audit Committee has not adopted a written charter.

Other Committees

The Board of Directors currently has no other committees.

Relationship with Our Independent Accountants

The firm of Goldstein Golub Kessler LLP has served as our independent auditors since February 2001 and was our independent auditor for the fiscal years ended December 31, 2000, 2001 and 2002. The Board of Directors has recommended Goldstein Golub Kessler LLP to serve as our independent accountants for the fiscal year ending December 31, 2003.

Services performed by Goldstein Golub Kessler for fiscal 2002 consisted of the examination of our quarterly and annual financial statements and services related to filings with the Securities and Exchange Commission ("SEC").

AUDIT COMMITTEE REPORT

The material in this report is not "soliciting material," is not deemed "filed" with the SEC, and is not to be incorporated by reference in any of our filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date of this proxy statement and irrespective of any general incorporation language therein.

The Audit Committee of the Board assists the Board in carrying out its oversight responsibilities for the Company's financial reporting process, audit process and internal controls.

The Audit Committee has reviewed and discussed the Company's audited financial statements with management, which has primary responsibility for the financial statements. Goldstein Golub Kessler LLP, the Company's independent auditors for 2002, are responsible for expressing an opinion on the conformity of the Company's audited financial statements with generally accepted accounting principles.

In fulfilling its oversight responsibilities, the Audit Committee has reviewed and discussed in detail the audited fiscal year 2002 financial statements with the Company's management and with Goldstein Golub Kessler LLP, the Company's independent auditors. In addition, the Audit Committee has discussed with Goldstein Golub Kessler LLP the matters required to be discussed by Statement on Auditing Standards Number 61, Communication with Audit Committees, as modified or supplemented. The Audit Committee has received the written disclosures and the letter from Goldstein Golub Kessler LLP required by Independence Standards Board Standard Number 1, Independence Discussions with Audit Committees, as modified or supplemented, and has discussed with the independent auditors their independence from the Company and its management. The Audit Committee has also considered whether Goldstein Golub Kessler LLP's provision of non-audit services to the Company is compatible with the independence of such firm.

Members of the Audit Committee rely on the information provided to them and on the representations made to the Committee by management and USA Video's independent accountants without conducting independent verification of the accuracy of such information and representations. Accordingly, the Audit Committee's oversight does not ensure that management

has maintained appropriate accounting and financial reporting principles or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee's considerations and discussions referred to above do not ensure that any audit of USA Video's financial statements conducted by USA Video's internal and independent accountants has been carried out in accordance with generally accepted auditing standards, or that the financial statements are presented in accordance with generally accepted accounting principles.

Based on these reviews and discussions, the Audit Committee recommended to the Board, and the Board has approved, that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002, for filing with the Commission.

Based on the Audit Committee's and management's assessment of the performance of Goldstein Golub Kessler LLP during the audit of the Company's financial statements for the fiscal year ending December 31, 2002, the Audit Committee recommended to the Board that Goldstein Golub Kessler LLP be engaged as the Company's independent auditors for fiscal year 2003.

Respectfully submitted,

Anton J. Drescher
Robert D. Smith, Jr.

SECURITY OWNERSHIP OF DIRECTORS, OFFICERS, AND CERTAIN BENEFICIAL OWNERS

The following table sets forth as of May 8th, 2003, the number of outstanding common shares of USA Video beneficially owned by (i) each person known to USA Video to beneficially own more than 5% of its outstanding common shares, (ii) each director, (iii) each nominee for director, (iv) each executive officer listed in the Summary Compensation Table, and (v) all executive officers and directors as a group.

Name	Shares Owned	Percentage of Class
Edwin Molina	7,124,424 (1)	6.6%
Anton J. Drescher	7,781,885 (2)	7.2%
Maurice Loverso (3)	-0-	N/A
Robert D. Smith (4)	1,085,000 (5)	1.0%
All Executive Officers & Directors as a Group [four persons]	16,166,309 (1) (2) (6)	14.7%

- (1) Includes 1,825,000 common shares underlying warrants that are currently exercisable by Mr. Molina. Mr. Molina's address is 83 Halls Road, Old Lyme, Connecticut.
- (2) Includes 1,825,000 common shares underlying warrants that are currently exercisable by Mr. Drescher. Mr. Drescher's address is #507, 837 West Hastings Street, Vancouver, British Columbia.

- (3) Mr. Loverso's address is #507, 837 West Hastings Street, Vancouver, British Columbia.
- (4) Mr. Smith resigned as a director of the Company as of May 7th, 2003.
- (5) Includes 360,000 common shares underlying warrants that are currently exercisable by Mr. Smith.
- (6) Includes 75,000 common shares underlying warrants that are currently exercisable by a former director.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the *Securities Exchange Act of 1934* (the "1934 Act") requires the Company's directors and executive officers, and persons who own more than ten percent of a registered class of the Company's equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and representations that no other reports were required, during the fiscal year ended December 31, 2002, all Section 16(a) filing requirements applicable to its officers, directors and greater than ten percent beneficial owners were complied with.

DIRECTOR AND EXECUTIVE COMPENSATION AND OTHER TRANSACTIONS WITH MANAGEMENT

The following table sets forth compensation awarded to, earned by or paid to the Company's Chief Executive Officer ("CEO"), and to other persons serving as executive officers of the Company as of December 31, 2002, whose salary and bonus for such year exceeded \$100,000 (collectively, the "Named Executive Officers"), for the last three completed fiscal years.

Name and Principal Position	Year	Summary Compensation Table Annual Compensation			Long-Term Compensation			
		Salary	Bonus	Other Annual Compensation	Awards		Payouts	
					Restricted Stock Award(s)	Securities Underlying Options/SARs	LTIP Payouts	All Other Compensation
\$	\$	\$	\$	\$	\$	\$	\$	
Molina, Edwin (CEO)	2002	\$ 84,415	-0-	\$ -0-	-0-	900,000(10)	-0-	-0-
	2001	\$ 124,910	-0-	\$ 125,000(2)	-0-	-0-	-0-	-0-
	2000	\$ 128,361	-0-	\$ 500,000(3)	-0-	-0-	-0-	-0-
Drescher Anton, (CFO)	2002	\$ 81,311(1)	-0-	\$ -0-	-0-	750,000(11)	-0-	-0-
	2001	\$ 120,000(1)	-0-	\$ 200,000(4)	-0-	-0-	-0-	-0-
	2000	\$ 120,000(1)	-0-	\$ 500,000(5)	-0-	200,000(11)	-0-	-0-
Smith, Robert (COO) (6)	2002	\$ 27,139	-0-	\$ -0-	-0-	500,000(12)	-0-	-0-
	2001	\$ 89,412	-0-	\$ 22,900(7-9)	-0-	-0-	-0-	-0-

(1) Represents consulting fees paid to Mr. Drescher through Harbour Pacific Capital Corp., a

consulting firm wholly-owned by him, for his services as an executive officer of the Company.

- (2) In March 2001, Mr. Molina purchased 250,000 units (each comprised of one common share and one warrant to acquire one common share at \$0.66 per share) at \$0.54 per unit. This compensation resulted from the difference between the \$0.54 purchase price and the \$0.66 warrant exercise price and the fair market price of \$0.84 of the common shares on the date of issuance of the units.
- (3) In July 2000, Mr. Molina purchased 200,000 units (each comprised of one common share and one warrant to acquire one common share at \$1.50 per share) at \$1.50 per unit. This compensation resulted from the difference between the \$1.50 purchase price and the \$1.50 warrant exercise price and the fair market price of \$2.75 of the common shares on the date of issuance of the units.
- (4) In March 2001, Mr. Drescher purchased 400,000 units (each comprised of one common share and one warrant to acquire one common share at \$0.66 per share) at \$0.54 per unit. This compensation resulted from the difference between the \$0.54 purchase price and the \$0.66 warrant exercise price and the fair market price of \$0.84 of the common shares on the date of issuance of the units.
- (5) In July 2000, Mr. Drescher purchased 200,000 units (each comprised of one common share and one warrant to acquire one common share at \$1.50 per share) at \$1.50 per unit. This compensation resulted from the difference between the \$1.50 purchase price and the \$1.50 warrant exercise price and the fair market price of \$2.75 of the common shares on the date of issuance of the units.
- (6) Mr. Smith resigned as a director of the Company as of May 7th, 2003.
- (7) In March 2001, Mr. Smith purchased 40,000 units (each comprised of one common share and one warrant to acquire one common share at \$0.66 per share) at \$0.54 per unit. This compensation resulted from the difference between the \$0.54 purchase price and the \$0.66 warrant exercise price and the fair market price of \$0.84 of the common shares on the date of issuance of the units.
- (8) In September 2001, Mr. Smith purchased 45,000 units (each comprised of one common share and one warrant to acquire one common share at \$0.35 per share) at \$0.27 per unit. This compensation resulted from the difference between the \$0.27 purchase price and the fair market price of \$0.29 of the common shares on the date of issuance of the units.
- (9) In December 2001, Mr. Smith purchased 100,000 units (each comprised of one common share and one warrant to acquire one common share at \$0.26 per share) at \$0.20 per unit. This compensation resulted from the difference between the \$0.20 purchase price and the fair market price of \$0.22 of the common shares on the date of issuance of the units.
- (10) In December 2002, Mr. Molina cancelled 900,000 stock options granted to him in February 2002.

- (11) In December 2002, Mr. Drescher cancelled 750,000 stock options granted to him in February 2002 and cancelled 200,000 stock options granted to him in December 2000.
- (12) In December 2002, Mr. Smith cancelled 500,000 stock options granted to him in February 2002.

The following table sets forth certain information concerning grants of stock options to the Named Executive Officers during the year ended December 31, 2002.

Name	OPTION/SAR GRANTS IN LAST FISCAL YEAR					Potential Realizable Value at Assumed Annual Rate of Stock Price Appreciation for Option Term		
	Individual Grants					0% (\$)	5% (\$)	10% (\$)
	Number of Securities Underlying Options/SARs Granted	% of Total Options/SARs Granted to Employees in Fiscal Year (1)	Exercise Price (\$/Share)	Market Price on Date of Grant (\$/Share)	Expiration Date			
Molina, Edwin	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Drescher, Anton	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Smith, Robert	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-

- (1) A total of 5,605,000 stock options were granted to employees and consultants in 2002, of which 5,580,000 stock options were cancelled during the year. As of May 8th, 2003, a total of 25,000 stock options are outstanding.

The following table sets forth certain information concerning exercises of stock options by the Named Executive Officers during the year ended December 31, 2002 and stock options held at year end.

Aggregated Option / SAR Exercises in Last Fiscal Year and FY-End Option / SAR Values

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options / SARs at FY-End (#)	Value of Unexercised In-the-Money Options / SARs At FY-End (\$)-
			Exercisable/Unexercisable	Exercisable/Unexercisable (1)
Molina, Edwin	-0-	-0-	0 / 0	N/A / \$0
Drescher, Anton	-0-	-0-	0 / 0	N/A / \$0
Smith, Robert	-0-	-0-	0 / 0	N/A / \$0

- (1) On December 31, 2002, the average of the high and low bid prices of the common shares on the OTC BB was \$0.07.

Compensation of Directors

Directors receive no compensation for their service as such.

Employments Contracts

USA Video does not have an employment contract with Mr. Molina and the other Named Executive Officer. The Company has no obligation to provide any compensation to Mr. Molina or any other Named Executive Officer in the event of his resignation, retirement or termination, or a change in control of the Company, or a change in any Named Executive Officers' responsibilities following a change in control.

USA Video may in the future create retirement, pension, profit sharing and medical reimbursement plans covering its Executive Officers and Directors.

Compensation Committee Interlocks and Insider Participation

The Company does not have a compensation committee. Decisions concerning the compensation of the Company's executive officers are made by the Board of Directors. All members of the Board during fiscal 2002 (Edwin Molina, Anton J. Drescher and Robert D. Smith Jr.) participated in the Board's deliberations concerning executive officer compensation during the fiscal year ended December 31, 2002.

Board of Directors Report on Executive Compensation

The Board of Directors determines the compensation of the Company's executive officers.

BOARD OF DIRECTORS: Report on Executive Compensation

The Company does not have a formal compensation committee. The Company intends to establish a compensation committee at such time as it is able to attract a sufficient number of outside directors to the Board. The Company is unable to state when it will be able to establish a formal compensation committee. Pending establishment of the committee, the entire Board of Directors will continue to be responsible for the Company's executive compensation policy. The three current members of the Board are the Company's senior executive officers.

Compensation Philosophy

The Company must compete for, attract, develop, motivate and retain high quality executive management personnel. In order to do so, the Company offers a package including a competitive salary, benefits and, on a discretionary basis, additional compensation in the form of stock options.

Cash Compensation

The Company's executive salary levels are intended to be consistent with competitive salary levels and job responsibilities and experience level of each executive, as well as the Company's overall salary structure and financial condition. Salary changes reflect competitive and

economic trends, the overall financial performance of the Company and the performance of the individual executive. Salaries are reviewed annually by the Board.

Stock Options

Stock options are designed to attract and retain executives who can make significant contributions to the Company's success, reward executives for such contributions, give executives a long-term incentive to increase shareholder value, and align the interests of the Company's executive officers with those of its shareholders.

The Board has made, and expects to continue to make, grants of stock options to executive officers. Recipients of option grants, and the size of the grants, are determined based on several factors, including the responsibilities of the individual officers, their past and anticipated contributions to the Company's success, the Company's overall performance, and prior option grants. All options granted to executive officers have an exercise price at least equal to the market price of the Company's common shares at the time of the grant. In 2002, the Company granted stock options to its Directors or Executive Officers and employees to purchase an aggregate of 5,605,000 common shares, of which 5,580,000 stock options were subsequently cancelled, leaving a balance of 25,000 stock options outstanding.

Compensation of the Chief Executive Officer

In setting the compensation payable for 2002 to Edwin Molina, the Company's Chief Executive Officer, the Board generally considered the same factors described above. Additionally, the Board intends that Mr. Molina's compensation be competitive with compensation paid to chief executive officers of similar sized companies in the Company's industry and to reward Mr. Molina for directing the Company's efforts in initiating and expanding its streaming media business.

IRS Limits on Deductibility of Compensation

The Company is subject to Section 162(m) of the *Internal Revenue Code of 1986*, as amended, which limits the deductibility of certain compensation payments to the Company's executive officers in excess of \$1.0 million. The Board expects that cash compensation in 2002 paid to the Chief Executive Officer or any other executive officer to be well below \$1.0 million. Section 162(m) also provides for certain exemptions to the limitations on deductibility, including compensation that is "*performance-based*" within the meaning of Section 162(m). Because the Company does not currently have a compensation committee comprised solely of outside directors, the Company currently cannot avail itself of the "*performance-based*" compensation exemption under Section 162(m).

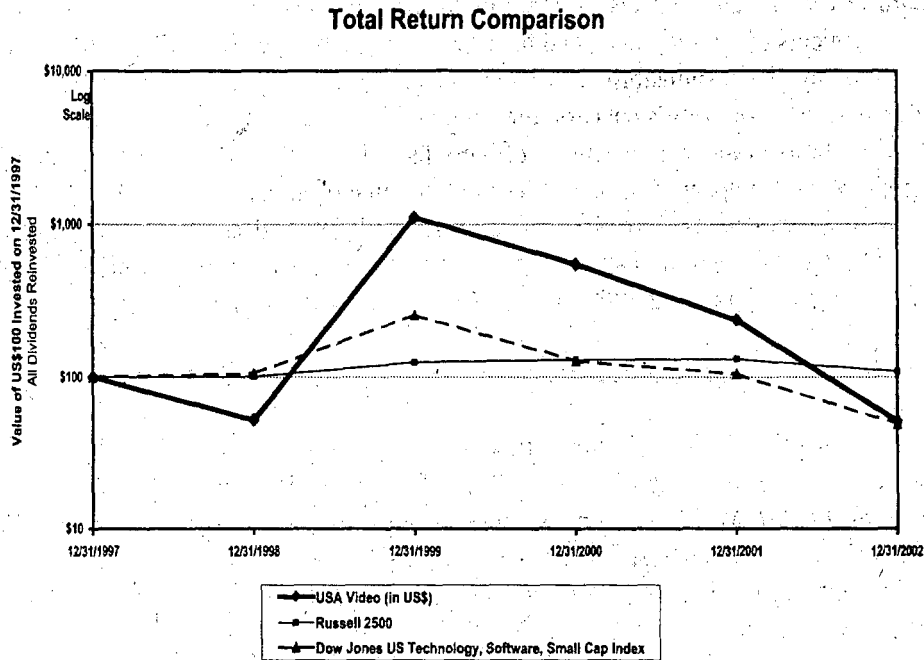
The Board of Directors during fiscal 2002 consisted of:

Edwin Molina
Anton J. Drescher
Robert D. Smith Jr.

Mr. Smith resigned as a director of the Company as of May 7th, 2003.

Performance Graph

The following graph compares USA Video's cumulative total shareholder returns with the cumulative total return for the last five years of (i) Russell 2500, and (ii) the Dow Jones - U.S. Technology, Software, Small Cap Index. The graph shows the value of \$100 invested at the closing price on December 31, 1997, in USA Video common shares, the Dow Jones - U.S. Technology, Software, Small Cap Index and the Russell 2500, and assumes that all dividends are reinvested.



	12/31/97	12/31/98	12/31/99	12/31/00	12/31/01	12/31/02
USA Video (in US\$)	\$100.00	\$52.34	\$1,109.15	\$549.64	\$237.18	\$50.94
Russell 2500	\$100.00	\$100.39	\$124.62	\$129.94	\$131.53	\$108.12
Dow Jones US Technology, Software, Small Cap Index	\$100.00	\$105.16	\$256.25	\$127.52	\$104.34	\$48.85

Certain Relationships and Related Transactions

In 2002, the Company paid consulting fees of \$81,311 to Harbour Pacific Capital Corp., a company controlled by Anton J. Drescher, in consideration of Mr. Drescher's services as an executive officer of the Company.

In June 2002, USA Video completed a private placement of 10,000,000 units (each unit consisting of one common share and one warrant to purchase an additional common share at \$0.085 US per share) at a price of \$0.07 US per unit, of which 7,085,000 units were sold to

outside investors and 2,915,000 units were sold to officers, directors and employees of the Company. Because the rules of the TSX require that the offering price for privately placed securities of listed companies be set when the offering is first announced rather than upon closing, the sale price of the units and the exercise price of the warrants were below the market price of \$0.075 US per common share on the date of issuance. Units were sold to the following officers and directors of the Company, in the amounts indicated: Edwin Molina (1,200,000 units), Anton J. Drescher (1,200,000 units) and Robert Smith (215,000 units).

In December 2002, USA Video completed a private placement of 2,000,000 units (each unit consisting of one common share and one warrant to purchase an additional common share at \$0.064 US per share) at a price of \$0.064 US per unit, of which 1,450,000 units were sold to outside investors and 550,000 units were sold to officers, directors and employees of the Company. Because the rules of the TSX require that the offering price for privately placed securities of listed companies be set when the offering is first announced rather than upon closing, the sale price of the units and the exercise price of the warrants were above the market price of \$0.053 US per common share on the date of issuance. Units were sold to the following officers and directors of the Company, in the amounts indicated: Edwin Molina (275,000 units) and Anton J. Drescher (275,000 units).

Subsequent to the year ended December 31, 2002, USA Video completed two additional private placements.

In February 2003, USA Video completed a private placement of 2,750,000 units (each unit consisting of one common share and one warrant to purchase an additional common share at \$0.0657 US per share) at a price of \$0.0657 US per unit, of which 2,200,000 units were sold to outside investors and 550,000 units were sold to officers, directors and employees of the Company. Because the rules of the TSX require that the offering price for privately placed securities of listed companies be set when the offering is first announced rather than upon closing, the sale price of the units and the exercise price of the warrants were below the market price of \$0.075 US per common share on the date of issuance. Units were sold to the following officers and directors of the Company, in the amounts indicated: Edwin Molina (250,000 units) and Anton J. Drescher (250,000 units).

On April 8, 2003, USA Video completed a private placement of 1,000,000 units (each unit consisting of one common share and one warrant to purchase an additional common share at \$0.075 US per share) at a price of \$0.068 US per unit, of which 700,000 units were sold to outside investors and 300,000 units were sold to officers, directors and employees of the Company. Because the rules of the TSX require that the offering price for privately placed securities of listed companies be set when the offering is first announced rather than upon closing, the sale price of the units and the exercise price of the warrants were below the market price of \$0.075 US per common share on the date of issuance. Units were sold to the following officers and directors of the Company, in the amounts indicated: Edwin Molina (100,000 units), Anton J. Drescher (100,000 units) and Mario Gioco (100,000 units).

All common shares purchased in the above private placements are subject to a minimum twelve month hold period, during which period, they may not be sold by the shareholder.

**ITEM 2:
RATIFICATION OF APPOINTMENT
OF INDEPENDENT AUDITORS**

The firm of Goldstein Golub Kessler LLP has been appointed by the Board of Directors to serve as the Company's independent auditors for the 2003 fiscal year.

On February 2, 2001, the Audit Committee of the Board of Directors approved the engagement of Goldstein Golub Kessler LLP as the Company's independent auditors for the year ended December 31, 2000, to replace Amisano Hanson Chartered Accountants. Amisano Hanson resigned as auditors of the Company effective February 2, 2001.

During the Company's two fiscal years ended December 31, 2002, and the period subsequent to such date and prior to engaging Goldstein Golub Kessler LLP, the Company has not consulted Goldstein Golub Kessler LLP with respect to the application of accounting principles to a specific transaction, either completed or proposed, the type of audit opinion that might be rendered on the Company's financial statements; or any disagreements with Amisano Hanson (of which there were none), or reportable events, as defined or described in Items 304(a)(2)(i) or (ii) of Regulation S-K.

Audit Fees

The aggregate fees billed to the Company for professional services rendered for the audit of the Company's annual financial statements for the fiscal year ended December 31, 2002, and for the reviews of the financial statements included in the Company's Quarterly Reports on Form 10-Q for that fiscal year, were \$28,000.

Financial Information Systems Design and Implementation Fees

Goldstein Golub Kessler LLP did not provide any professional services to the Company with respect to financial information systems design and implementation for the year ended December 31, 2002.

All Other Fees

Goldstein Golub Kessler LLP was not paid any other fees for services rendered to the Company during the year ended December 31, 2002.

Goldstein Golub Kessler LLP has advised the Company as follows: Goldstein Golub Kessler LLP has a continuing relationship with American Express Tax and Business Services, Inc. ("TBS") from which it leases auditing staff who are full time, permanent employees of TBS and through which its partners provide non-audit services. As a result of this arrangement, Goldstein Golub Kessler LLP has no full time employees and therefore, none of the audit services performed were provided by permanent full-time employees of Goldstein Golub Kessler LLP. Goldstein Golub Kessler LLP manages and supervises the audit and audit staff, and is exclusively responsible for the opinion rendered in connection with its examination.

Required Vote

The affirmative vote of a majority of the votes cast on this Item at the Annual Meeting is required for the ratification of the appointment of Goldstein Golub & Kessler LLP as the Company's auditors for the fiscal year ending December 31, 2003.

The Board of Directors unanimously recommends a vote FOR the ratification of Goldstein Golub Kessler LLP as the Company's independent auditors for the current fiscal year.

**REQUIREMENTS, INCLUDING DEADLINES, FOR
SUBMISSION OF PROXY PROPOSAL, NOMINATION OF DIRECTORS
AND OTHER BUSINESS OF SHAREHOLDERS**

Under the rules of the SEC, if a shareholder wants the Company to include a proposal in its Proxy Statement and form of proxy for presentation at the Company's 2004 Annual Meeting of Shareholders, the proposal must be received by the Company, Attention: Mr. Anton J. Drescher, Secretary, at the Company's principal executive offices no later than January 14, 2004 and all the other conditions of Rule 14a-8 under the *Securities Exchange Act of 1934* must be satisfied, for such proposals to be included in the Company's proxy statement and form of proxy relating to that meeting.

In addition, the proxy solicited by the Board of Directors for the 2004 Annual Meeting of Shareholders will confer discretionary authority to vote on any shareholder proposal presented at that meeting, unless the Company is provided with notice of such proposal no later than January 14, 2004.

The Board is not aware of any matters that are expected to come before the Annual Meeting other than those referred to in this Proxy Statement. If any other matter should come before the Annual Meeting, the persons named in the accompanying proxy intend to vote the proxies in accordance with their best judgment.

The chairman of the meeting may refuse to allow the transaction of any business not presented beforehand, or to acknowledge the nomination of any person not made in compliance with the foregoing procedures.

It is important that the proxies be returned promptly and that your shares be represented. Shareholders are urged to mark, date, execute and promptly return the accompanying proxy card in the enclosed envelope.

FORM 10-K

The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, including the financial statements and a list of exhibits, is enclosed with this Proxy Statement.

The Company will mail to any shareholder, without charge and upon written request, a copy of any exhibit to the Annual Report. Requests should be sent to USA Video Interactive Corp., 83 Halls Road, Old Lyme, Connecticut 06371, Attention: Investor Relations.

By Order of the Board of Directors

/s/ Anton J. Drescher

Anton J. Drescher,
Secretary

May 8th, 2003

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USA VIDEO INTERACTIVE CORP.

FORM 10-K

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-K

**FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
(Mark One)**

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

For the fiscal year ended December 31, 2002

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 0-29651

USA VIDEO INTERACTIVE CORP.

(Exact name of registrant as specified in its charter)

WYOMING
(State or Other Jurisdiction of
Incorporation of Organization)

06-1576391

(I.R.S. Employer Identification No.)

83 Halls Road, Old Lyme, Connecticut
(Address of principal executive offices)

06371

(ZIP Code)

Registrant's telephone number, included area code: (860) 434-5535

Securities registered pursuant to Section 12(b)
of the Act:

None

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

Common Shares, no par value

(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 shorter period that the registrant as required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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

Aggregate market value of the voting stock of the registrant held by non-affiliates of the registrant at March 26, 2003 (computed by reference to average of the bid and asked price on the NASD OTC Bulletin Board of the common shares on such date): \$9,052,083. Number of common shares outstanding at March 26, 2003: 106,495,089.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

PART I

Item 1. Business.

Certain statements contained in this Annual Report on Form 10-K ("Report"), including, without limitation, statements containing the words "believes," "anticipates," "estimates," "expects," and words of similar import, constitute "forward-looking statements." Readers should not place undue reliance on these forward-looking statements. USA Video's actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including risks described in this Report, including the "Risk Factors" section contained in this Item 1, and the other documents USA Video files with the Securities and Exchange Commission ("SEC").

Introduction

USA Video Interactive Corp. ("USA Video" or the "Company") designs and markets to business customers streaming video and video-on-demand systems, services and source-to-destination digital media delivery solutions that allow live or recorded digitized and compressed video to be transmitted through Internet, intranet, satellite or wireless connectivity. The Company's systems, services and delivery solutions include video content production, content encoding, media asset management, media and application hosting, multi-mode content distribution, transaction data capture and reporting, e-commerce, specialized engineering services, and Internet streaming hardware.

The Company's products and services are based on its proprietary rich media delivery infrastructure and software and its Store and Forward Video-on-Demand ("VOD") patent. These technologies, together with video compression technology, facilitate the delivery of video to an end user in a timely and interactive fashion.

USA Video has developed a number of specific products and services based on these technologies. These include StreamHQ™, a collection of source-to-destination media delivery services marketed to businesses; EncodeHQ™, a service that digitizes and compresses analog-source video; hardware server and encoder system applications under the brand name Hurricane Mediacaster™; ZMail™, a service that delivers web and rich media content to targeted audiences, and mediáClix™, a service that delivers content similar to Zmail™ but originating from an existing web presence.

The Company was incorporated on April 18, 1986, as First Commercial Financial Group Inc. in the Province of Alberta, Canada. In 1989, its name was changed to "Micron Metals Canada Corp.," which purchased 100% of the outstanding shares of USA Video Inc., a Texas corporation, in order to focus on the digital media business. In 1995, the Company changed its name to "USA Video Interactive Corp." and continued its corporate existence in the State of Wyoming. The Company has five wholly-owned subsidiaries: USA Video (California) Corp., USA Video Corporation, USA Video Productions Inc., USA

Video Technology Corporation and USVO Inc. USA Video's executive and corporate offices are located in Old Lyme, Connecticut, and its Canadian offices are located in Vancouver, British Columbia.

Business Environment

The cost of bandwidth and supporting equipment, such as cable modems and other broadband connectivity to homes and businesses, is expected to continue to decrease over the next several years, bringing expanded use of high bandwidth applications for video transmission to the general market. Meanwhile, compression technologies continue to improve, allowing delivery of higher quality content using existing connectivity.

USA Video believes that market conditions are favorable for continued acceptance of mainstream VOD services. In published highlights of its 14th annual Communications Industry Forecast, industry merchant bank Veronis Suhler notes that per-person daily use of all forms of media continues to increase and is expected to pass 10 hours per day by 2004. In addition, Veronis Suhler forecasts that Internet advertising will more than quadruple to \$24.4 billion by 2004, surpassing cable, network television and consumer magazines, as total advertising spending grows 8.6% yearly through 2004. Total U.S. spending on media is expected to reach \$663.3 billion by 2003. The 7.5% combined annual growth rate will make communications the second fastest-growing industry (behind telecommunications) among the top 12 U.S. industries.

USA Video believes its source-to-destination streaming media delivery services hold significant potential for the on-line advertising and other industries. According to Arbitron/Edison Media Research's Internet VI Study released on February 7, 2001, streaming media usage had increased in the previous year. As of January 2001, 13% of Americans (more than 30 million people) use Internet audio or video each month, compared to 10 % in January 2000. More than one-quarter (27%) of Americans (more than 61 million people) have used Internet audio or video while 6%, over 13 million people, use streaming media each week, according to the Internet VI study. USA Video's streaming media delivery services are designed to be highly functional, cost-effective and easily implemented for advertisers targeting specific demographic groups.

Strategic Plan

USA Video believes that the expected substantial increases in bandwidth capacity, accompanying decreases in bandwidth cost, increases in consumer computer and video appliance storage capacity, and the proliferation of fast video file transfer techniques will result in an industry focus on downloading as an alternative to streaming as a content delivery mechanism. To position the Company to take advantage of this anticipated shift, USA Video has focused its immediate plans on aggressively protecting its technology ownership rights, including pursuing licensing arrangements and other forms of enforcement.

USA Video discontinued the sale of select services from its prototype StreamHQ™ after customers' satisfaction and proof of concept. The Company no longer sells its individual functions of StreamHQ™. USA Video intends to continue to develop and expand its StreamHQ™ services business, while pursuing opportunities to sell replicated StreamHQ™ systems to corporations and organizations that prefer systems solutions to services solutions. To this end, USA Video's future plans include:

- Continuing StreamHQ™ functionality development, particularly the automation of processes and client account management, which allows more efficient delivery of services and expansion of the services client base;
- Scaling the StreamHQ™ infrastructure in modular fashion as necessary to support an increasing number and size of Zmail™ and mediaClix™ campaigns;
- Eventually establishing multiple marketing and distribution channels, particularly in the form of alliances with third parties, including some of the Company's product and service suppliers; and
- Ultimately expanding and enabling the organic sales and marketing team, to support increased direct

marketing to various markets, including advertising, corporate communications, customer service, entertainment, and education.

Proprietary Technologies

USA Video's proprietary technologies include its (1) VOD patent, and (2) Digital fingerprinting piracy deterrence technology; and (3) StreamHQ™ infrastructure, software, and service delivery processes.

- USA Video's VOD Patent (#5,130,792) (the "Patent") explicitly covers the rich media delivery model that is becoming more widely accepted as a means of delivering content for education, training, and entertainment; that is, faster-than-real-time download to computer and set-top box hard drives for subsequent content viewing without quality limitations resulting from insufficient or variable bandwidth. The impact of this Patent becomes more significant as content owners and those that facilitate content delivery adopt this model.
- The objective of USA Video's patent-pending Digital Fingerprinting, a Digital Rights Management ("DRM") technology, is to deter digital video piracy once a user has been authorized to view a video. This is one of the major concerns preventing content owners from committing more of their content to the digital medium. Digital fingerprinting augments traditional DRM techniques, which primarily focus on encrypted video delivery and authorization to view. The digital fingerprint is rendered at the player as part of an authorized video stream and contains sufficient data to track a specific streaming event should the content be pirated and distributed.
- The ability of StreamHQ™ to deliver services to clients with market-specific value propositions stems from its scalable, streaming-enabled web infrastructure, the software functionality that resides on this infrastructure (such as innovative asset management and user transaction data capture and reporting), and the processes developed for delivering media campaigns to clients. By delivering features unique to individual markets, such as advertising, corporate communications and customer service, StreamHQ™ services are differentiated from the generic services delivered by competitors.

Products and Services

USA Video's principal products and services are its proprietary rich media delivery infrastructure and software and the Patent. These technologies, together with video compression technology, facilitate the delivery of video to end users in a timely and interactive fashion.

USA Video has developed a number of specific products and services based on these technologies. These include:

- StreamHQ™, a collection of source-to-destination media delivery services marketed to businesses;
- EncodeHQ™, a service that digitizes and compresses analog-source video; hardware server and encoder system applications under the brand name Hurricane Mediacaster™;
- Zmail™, a service that delivers web and rich media content to targeted audiences;
- mediaClix™, a service that delivers content similar to Zmail™, but originating from an existing web presence;
- Digital Fingerprinting, a Digital Rights Management ("DRM") technology used to deter piracy of digital content.

USA Video proposes to grant licenses to use its patented VOD technology on terms comparable to the "reasonable royalty" provided for by U.S. patent laws. Upon successfully licensing its patent, USA Video could earn per-use royalties, meaning that each time a licensed event occurs (e.g. each time a consumer receives a VOD transmission) a specified royalty will be paid to the Company. Upon suitable negotiated

terms, USA Video may also consider bulk-fee licensing agreements, either apart from or in addition to per-use royalties.

When USA Video's patent-pending DRM technology matures into an enforceable patent, USA Video intends to pursue a similar strategy as that it will use for its VOD technology with regard to the rights related to the DRM technology.

USA Video's future plans include the marketing and selling of its StreamHQ™ systems, whereby a customer would purchase an entire system, comprised of hardware assembled by USA Video and software developed and installed by USA Video. After sale and delivery of the system to a customer, USA Video's services to the customer would then include updates of software and service and maintenance of hardware, as necessary, for additional compensation. The services of Zmail™ and mediaClix™ are available to a customer only through the purchase of a StreamHQ™ system.

As a cost cutting measure, USA Video terminated the operation of its StreamHQ™ infrastructure, which provided individual functionality of StreamHQ™ for small customers, as this service was no longer cost effective or deemed necessary at this time.

Status of Products and Services

With regard to its international VOD patent rights, USA Video has been closely monitoring advances in this wide-ranging industry over recent years and has commenced taking the necessary steps to translate this progress into a sustainable stream of royalty revenue. What USA Video originally demonstrated to be technologically feasible in the early 1990s has now become commercially feasible as well, with the continually increasing availability of consumer broadband access and steadily improving data compression technologies.

In view of these developments, USA Video is taking aggressive steps to advance its patent-protected intellectual property rights, which include its patent-pending DRM technology. These steps include active licensing initiatives and, potentially, litigation when necessary as a final resort if companies infringing on USA Video's patent rights refuse to negotiate in good faith. USA Video has retained leading national legal counsel to advance these patent enforcement initiatives.

Although it is currently focused on protecting its technology ownership rights, including licensing arrangements and other forms of enforcement, USA Video will continue to offer its other products and services, which are all existing, functional, and available.

USA Video has identified an emerging market for global media streaming services, which the Company developed under the brand "StreamHQ™". StreamHQ™ allows corporate, education, entertainment, and other types of business or institutional customers to use the Internet or an intranet to deliver rich media content to target audiences by purchasing a StreamHQ™ system. By offering customers a complete source-to-destination service that consolidates web, streaming, and data management functionalities, StreamHQ™ eliminates the need for customers to deal with multiple service providers.

A key service differentiator is user transaction data management, which consists of capture, analysis, and reporting of statistical data that enables the content owner to obtain important feedback on the effectiveness of campaigns. This data includes network performance and utilization statistics, including bandwidth utilization, number of streaming sessions, streaming rates, video quality and packets lost; total number of times the video was viewed; distribution of users who viewed various portions of the video; information on times of media access, length of time media was viewed, and actions taken during viewing (pause, stop, rewind, etc.). Additional StreamHQ™ features include the ability to analyze usage by location; the percentage of users who forwarded the video to other people; the percentage of users who received and viewed the forwarded video email; and categorization of users by operating system, browser type, and connection speed. Additional functionality can be customized to meet specific customer requirements.

Aside from quality streaming, USA Video's overriding goal in its StreamHQ™ development and deployment has been to give customers media asset management features, tools, and information that provide accountability for their streaming expenditures. To that end, the Company has developed and is offering for sale products that provide such a return on the customer's investment. Zmail™ is a rich media email tool that allows businesses, institutions, and organizations to communicate multi-media messages to targeted audiences via the Internet and to receive prompt, valuable feedback on the effectiveness of their communication campaigns. Zmail™ is an opt-in communication method, whereby the recipient is directed to a web-landing page containing an embedded media player and links to amplifying information about the media subject. All user actions within the page are captured, aggregated, and provided to the customer as intuitive statistical and trend reports. Similar to Zmail™, mediaClix™ offers a similar landing page and media content; however, access is from a client's existing web presence rather than an opt-in email. Hurricane Mediacaster™ is a hardware server and encoder system developed by USA Video. An additional encoding service available for customers is EncodeHQ™, a service that digitizes and compresses analog-source video.

Customers and Markets

The principal market for the Company's services is the business-to-business sector, rather than the individual consumer sector. USA Video's patent rights potentially have broad application to the VOD marketplace. USA Video anticipates that it will conduct licensing negotiations with:

- companies involved in providing and promoting VOD content, such as film content; video advertisements, online gaming video and subscription video;
- companies providing network and other physical infrastructure to enable various VOD applications;
- companies providing VOD-enabling software, including advanced data compression schemes; and
- companies providing VOD-enabling hardware, including consumer hardware such as digital video recording devices.

The market for DRM will to some extent overlap the market for VOD, but the two are not identical. For example, DRM technology may be required by copyright-owning content providers who have concerns about the potential for digital piracy of their material; whereas hardware manufacturers may be less concerned about such issues. Nevertheless, protocols may develop which will require participants in the video industry to embrace some form of DRM. USA Video will follow those developments closely, and, if necessary, take steps to promote and protect its DRM technology.

Additionally, companies within the business-to-business sector, rather than the individual consumer, generally possess the greater financial wherewithal and purpose for purchasing StreamHQ™ systems. The Company's focus is on companies that can benefit from an engaging rich media and web presentation directed at a target audience. The Company's customers for these services have included film companies, event promoters, ministries, travel companies, sports entertainment centers and political candidates.

USA Video's customers for StreamHQ™ systems may also be businesses or organizations that are dissatisfied with response rates from traditional email campaigns, or who have in the past been unable to track the response rate to such traditional email campaigns. Additionally, any business that wishes to increase brand or product awareness in a more cost effective manner than television advertising would be an appropriate candidate for the StreamHQ™ services.

Sources and Availability of Raw Materials

USA Video assembles its hardware systems from components manufactured by others. The Company specifies, procures, assembles, tests and deploys the various system components according to a precisely developed set of procedures. The Company consults on an as-needed basis, with companies that supply the

major materials needed to build its systems. Systems are programmed and configured to meet a wide variety of individual customer requirements.

USA Video procures the materials and hardware to assemble systems and their components from various companies, as needed, and in sufficient quantities to preclude any danger of significant sourcing problems in the immediate future. There are no seasonal limitations on the Company's operations.

Competitive Conditions

The streaming media market is new, rapidly evolving and extremely competitive and the Company expects that competition will intensify in the future. USA Video competes with other companies that provide all or certain aspects of the Company's services, including other streaming media providers, content encoders, video production companies, Internet data management companies, and others, and expects that additional competition in the future will be provided by those types of providers. The Company's current market share is insignificant.

Other companies may also claim to own intellectual property rights relating to the VOD technology space. For example, USA Video is aware of another company which claims to own what could potentially be considered competing VOD patent rights. In this case, however, the U.S. Patent and Trademark Office issued the competitor's first such patent after USA Video's key VOD Patent was issued. Management believes that USA Video's VOD technology is superior in that USA Video's VOD technology has chronological priority over certain patents rights that have been procured by such company; that is, USA Video owns patent rights that are "prior art" to the other company's under U.S. patent law.

Real Networks, Microsoft, and other companies large and small are active in the field of DRM technologies. The video streaming market is currently dominated by a small number of larger companies, including Real Networks, Microsoft, Yahoo and several others, some of which offer source-to-destination streaming media solutions. Most of USA Video's current and potential competitors have longer operating histories, larger customer bases, greater name recognition and significantly greater financial, marketing and other resources than the Company. In addition, larger, well-established and well-financed entities may acquire, invest in or form joint ventures with online competitors as the use of the Internet and other online services increases. In addition, new technologies and the expansion of existing technologies are expected to result in additional competition.

USA Video is, and will continue to be dependent on vendors and other providers to supply the hardware, software and co-location resources that comprise the Company's products and services. Further, USA Video currently competes with, and expects to compete with in the future, providers of some of its technology or system components. Competition is expected in all areas of business, including pricing, service, product performance, and the Company's ability to keep up with rapidly improving technology, changing market conditions, evolving industry standards and changing customer demands.

Research and Development

Prior to 1999, USA Video conducted seven years of research and development of its proprietary VOD technology. In 1999, USA Video's focus shifted to marketing and sales of its products and services, with research and development directed primarily at supporting sales and development of Wavelet compression technology. In 2000, the Company devoted substantial resources to development of its StreamHQ™ services and began development of its proprietary still and motion Wavelet technology, which has been completed as mathematical processes. In 2001, the Company redirected the Wavelet development effort toward the invention of a content protection technology that is grounded in similar science as Wavelet compression. The result is the Company's patent pending DRM technology for piracy deterrence. During 2002, as a result of cost cutting measures necessitated by the state of the market, the Company cut back on its marketing, sales and technical staff. Should the need arise, the Company intends to retain a number of those employees as consultants, if they are available.

In fiscal 2001 and 2000, the Company's research and development expenditures were approximately

\$999,000 and \$620,000, respectively. During fiscal 2002, the Company's research and development expenditures were \$277,000.

Intellectual Property

USA Video's success is dependent, in part, upon its proprietary technology. The Company generally relies upon patents, trademarks, and trade secret laws to establish and maintain its proprietary rights in its technology products and services.

USA Video applied for a U.S. patent for its VOD technology on February 1, 1990. Corresponding overseas applications were filed in several countries in 1992. USA Video was granted the US Patent #5,130,792 in July 1992. In June 2000, the U.S. Patent Office reinstated the patent, which had expired because of an administrative oversight that led to late payment of fees due in 1995.

In 1999, USA Video was granted patents on its VOD technology in five European countries: England, France, Germany, Italy and Spain. In 2001 and 2002, USA Video was granted a patent in Canada and a patent is pending in Japan, respectively, on its VOD technology. The technological characteristics of the European Patents are based on the U.S. Patent, covering systems for transmitting video programs to remote locations over a switched telephone network, and are similar in scope to the U.S. Patent claims.

On June 19, 2001, United States Patent Application No. 09/884,787, Method and Apparatus for Digitally Fingerprinting Videos, was officially filed with the U.S. Patent and Trademark Office.

Employees

As of March 26, 2003, the Company employed four people, including its two senior executive officers, one technology and one administrative employee. The Company considers the relationships with its employees to be good.

Competition for technical personnel in the industry that USA Video competes is intense. The Company's future success will depend, in part, on its continued ability to contract or hire, assimilate, and retain qualified personnel. To date, USA Video believes it has been successful in recruiting qualified contractors or employees, but there is no assurance that the Company will continue to do so in the future.

Critical Accounting Policies

USA Video's discussion and analysis of its financial condition and results of operations are based upon its financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company 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, USA Video evaluates these estimates, including those related to customer programs and incentives, bad debts, inventories, investments, intangible assets, income taxes, warranty obligations, impairment or disposal of long-lived assets, contingencies and litigation. USA Video bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

USA Video considers the following accounting policies to be both those most important to the portrayal of its financial condition and that require the most subjective judgment:

- Revenue recognition;
- Accounting for marketable securities;
- Impairment or disposal of long-lived assets;
- Inventory valuation and related reserves; and
- Deferred taxes.

Revenue recognition. Software revenue and other services are recognized in accordance with the terms of the specific agreement, which is generally upon delivery. Maintenance, support and service revenue are recognized ratably over the term of the related agreement.

Accounting for marketable securities. The Company classifies its investments in marketable securities as "available for sale." The Company carries these investments at fair value, based on quoted market prices, and unrealized gains and losses are included in accumulated other comprehensive income (loss), which is reflected upon the sale of its marketable securities in the statements of operations.

Impairment or disposal of long-lived assets. Long-lived assets are reviewed in accordance with Statement of Financial Accounting Standard ("SFAS") 144. Impairment or disposal of long-lived assets losses are recognized in the period the impairment or disposal occurs. Long-lived assets are reduced to their estimated fair value.

Inventory valuation and related reserves. Inventories are valued at the lower of cost or market on a first-in, first-out basis. USA Video uses a standard cost system for purposes of determining cost; the standards are adjusted as necessary to ensure they approximate actual costs. The Company writes down or reserves for estimated obsolete or excess inventory based upon assumptions about future demand and market conditions. USA Video compares current inventory levels on a product basis to its current sales forecast in order to assess its inventory reserve balance. The sales forecasts are based on economic conditions and trends (both current and projected), anticipated customer demand and acceptance of the products, current products, expected future products and various other assumptions. If actual market conditions are less favorable than those projected by management, additional write-downs may be required.

Deferred taxes. We record a valuation allowance to reduce deferred tax assets when it is more likely than not that some portion of the amount may not be realized. During 2002, we determined that it was no longer more likely than not that we would be able to realize all or part of our net deferred tax asset in the future, and an adjustment to provide a valuation allowance against the deferred tax asset that was charged to income.

Risk Factors

Set forth below and elsewhere in this Report are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this Report.

THE COMPANY'S LIMITED OPERATING HISTORY MAKES IT DIFFICULT TO EVALUATE ITS BUSINESS AND PROSPECTS.

USA Video has a very limited operating history. The Company has made only very limited sales of its products and services and was in the development stage through December 31, 1999. USA Video's business and prospects must be considered in light of the risks encountered by companies in their early stages of development, particularly companies in new and rapidly evolving markets such as streaming media. Some of these risks relate to the Company's ability to:

- maintain or develop relationships with suppliers and marketing partners;
- establish a customer base;
- continue to develop and upgrade its technology, products and services;
- provide superior customer service;
- respond to competitive developments; and
- retain and motivate qualified personnel.

THE COMPANY HAS INCURRED SUBSTANTIAL LOSSES; IT EXPECTS TO INCUR LOSSES IN THE FUTURE, AND MAY NEVER ACHIEVE PROFITABILITY.

To date, USA Video has not been profitable, has not generated significant revenue from operations, and has incurred substantial losses. For the year ended December 31, 2002, USA Video had a net loss of \$2,113,138. As of December 31, 2002, the Company had an accumulated deficit of \$31,176,441 and a working capital deficit of \$1,074,998. The Company intends to continue to expend significant financial and management resources on the development of its proposed products and services, and other aspects of its business. As a result, the Company expects operating losses and negative cash flows to increase for the foreseeable future. Consequently, USA Video will need to generate significant revenues to achieve and maintain profitability. The Company may be unable to do so. If USA Video's revenues grow more slowly than anticipated or if operating expenses increase more than expected, or are not reduced sufficiently, it may never achieve profitability. Because of factors discussed in this paragraph, USA Video's auditors, in their report on the Company's financial statements, have expressed substantial doubt concerning the Company's ability to continue as a going concern.

IF USA VIDEO IS UNABLE TO OBTAIN SUBSTANTIAL ADDITIONAL FINANCING IT MAY NOT BE ABLE TO REMAIN IN BUSINESS.

USA Video requires substantial working capital to fund its business. The Company has had significant operating losses and negative cash flow from operations since inception of its current business and expects to continue to do so for the foreseeable future. The Company's capital requirements will depend on several factors, including the rate of market acceptance of its products and services, the ability to establish and expand a client base and the growth and effectiveness of its sales and marketing efforts. USA Video estimates it will require approximately \$1 Million to \$1.5 Million in financing to meet its working capital needs over the remainder of 2003 and substantial additional financing thereafter. Further, if capital requirements vary materially from those currently planned, the Company may require additional financing. The Company has no arrangements or commitments for any financing. Financing may not be available when needed on terms favorable to the Company, or at all. If adequate funds are not available or are not available on acceptable terms, the Company may be unable to further develop or enhance its products and services, take advantage of future opportunities or respond to competitive pressures, or ultimately, to continue in business.

THE COMPANY'S OPERATING RESULTS IN FUTURE PERIODS ARE EXPECTED TO BE SUBJECT TO SIGNIFICANT FLUCTUATIONS, WHICH WOULD LIKELY AFFECT THE TRADING PRICE OF ITS COMMON SHARES.

USA Video's quarterly and annual operating results are likely to fluctuate significantly in the future due to a variety of factors, many of which are outside of its control. Some of these factors include:

- its ability to attract and retain customers;
- the introduction of new video transmission services or products by others;
- price competition;
- the continued development of and changes in the streaming media market;
- its ability to remain competitive in its product and service offerings;
- its ability to attract new personnel; and
- U.S. and foreign regulations relating to the Internet.

As a result of the factors listed above, and others, period-to-period comparisons of USA Video's operating results may not be meaningful in predicting its future performance. It is possible that the Company's

operating results will not meet market expectations in some future quarter or quarters, which would likely result in a significant decline in its stock price.

THE STREAMING MEDIA BUSINESS IS HIGHLY COMPETITIVE, AND USA VIDEO'S FAILURE TO COMPETE SUCCESSFULLY WOULD LIMIT ITS ABILITY TO RETAIN AND INCREASE ITS MARKET SHARE.

The streaming media market is new, rapidly evolving and extremely competitive. The Company expects competition to intensify in the future. The Company competes with companies that provide all or certain aspects of the Company's services, including other streaming media providers, content encoders, video production companies, Internet data management companies, and others, and expects that additional competition in the future will be provided by those types of providers and others. The Company's current market share is insignificant.

The video streaming market is currently dominated by a small number of larger companies, including Real Networks, Microsoft, Yahoo and several others, some of which offer source-to-destination streaming media solutions. Most of USA Video's current and potential competitors have longer operating histories, larger customer bases, greater name recognition and significantly greater financial, marketing and other resources than the Company. In addition, larger, well-established and well-financed entities may acquire, invest in or form joint ventures with online competitors as the use of the Internet and other online services increases. In addition, new technologies and the expansion of existing technologies are expected to result in additional competition.

USA Video may not be able to compete successfully against current and future competitors, and any inability to do so could decrease its revenues, contribute to the Company not achieving profitability and adversely affect its ability to establish, maintain and increase its market share.

THE MARKET FOR USA VIDEO'S PRODUCTS AND SERVICES IS RELATIVELY NEW AND IS EVOLVING, AND THE COMPANY'S SUCCESS WILL DEPEND ON ITS ABILITY TO ADAPT TO CHANGING MARKET CONDITIONS.

USA Video's future financial performance will depend in large part on the growth in demand for its streaming media services and products. This market is new and emerging, is rapidly evolving, is characterized by an increasing number of market entrants and will be subject to frequent and continuing changes in customer preferences and technology. As is typical in new and evolving markets, demand and market acceptance for the Company's products and services is subject to a high level of uncertainty. Because the market for the Company's products is evolving, it is difficult to assess or predict with any assurance the size or growth rate, if any, of this market. There can be no assurance that a significant market for the Company's products will develop, or that it will develop at an acceptable rate or that new competitors will not enter the market. In addition, even if a significant market develops for such products, there can be no assurance that the Company's products will be successful in such market. If a significant market fails to develop, develops more slowly than expected or attracts new competitors, or if USA Video's products do not achieve market acceptance, the Company's business prospects, financial condition and results of operations will be materially adversely affected.

USA VIDEO IS SUBJECT TO RAPID TECHNOLOGICAL CHANGE, WHICH COULD RENDER THE COMPANY'S PRODUCTS AND SERVICES OBSOLETE.

USA Video's future success will depend in part on its ability to offer products and services that incorporate leading technology and address the increasingly sophisticated and varied needs of its current and prospective customers. The Company's market is characterized by rapidly changing and unproven technology, evolving industry standards, changes in customer needs, emerging competition and frequent new service introductions. Future advances in technology may not be beneficial to or compatible with USA Video's business. In addition, the Company may not be able to incorporate technological advances into its products and services in a cost-effective and timely basis. Keeping pace with the technological advances may require substantial expenditures and lead time, particularly with respect to acquiring updated hardware

and infrastructure components of its systems. The Company may require additional financing to fund such acquisitions. Any such financing may not be available on commercially reasonable terms, if at all, when needed.

USA VIDEO IS DEPENDENT UPON VENDORS AND OTHER THIRD PARTY SERVICE PROVIDERS, AND WILL BE COMPETING WITH SOME OF THESE COMPANIES.

USA Video is, and will continue to be dependent on vendors and other providers to supply the hardware, software and co-location resources that comprise the Company's products and services. The Company has no long-term or exclusive contracts or arrangements with any of these vendors or providers. The Company cannot be certain that its current and proposed vendors and service providers will continue to do business with the Company, or that it will be able to establish relationships with new vendors and service providers, if necessary. If the Company is unable to establish and maintain satisfactory relationships and arrangements with these third parties, the Company's business could be harmed. In addition, USA Video will be dependent upon its third party vendors and other suppliers to adequately test their products before release, and to provide support for the products after delivery. The failure of any of these third party providers to do so could have a material adverse effect on USA Video's business.

Further, USA Video currently competes with, and expects to compete with in the future, providers of some of its technology or system components. USA Video's inability to, at the same time, effectively cooperate and compete with these companies could harm its business.

IF USA VIDEO DOES NOT CONTINUOUSLY IMPROVE ITS TECHNOLOGY IN A TIMELY MANNER, ITS PRODUCTS COULD BE RENDERED OBSOLETE.

The markets for USA Video products and services are characterized by:

- rapidly changing technology;
- evolving industry standards;
- frequent new product and service introductions; and
- changing customer demands.

These changes and developments may render the Company's products and technologies obsolete in the future. As a result, the Company's success depends on its ability to adapt to these changes, particularly to develop or adapt products and services or to acquire new products and services that can compete successfully. There can be no assurance that USA Video will be successful in these efforts.

USA VIDEO'S SERVICES ARE COMPLEX AND THE COMPANY MAY NOT BE ABLE TO PREVENT DEFECTS THAT COULD DECREASE THEIR MARKET ACCEPTANCE, RESULT IN PRODUCT LIABILITY OR HARM ITS REPUTATION.

USA Video's streaming media products services are complex, and the steps the Company takes to ensure that they are free of errors or defects, particularly when first introduced or when new versions or enhancements are released, may not be successful. USA Video cannot guarantee that current versions or enhanced versions or its products will be free of significant software defects or bugs. Despite the Company's testing, and testing by its third-party vendors and providers, current or future products may contain serious defects. Serious defects or errors could result in lost revenue or a delay in market acceptance of the Company's products and could seriously harm its business and operating results. Errors in its products may be caused by defects in third-party hardware or software incorporated into its products. If so, the Company may be unable to fix these defects without the cooperation of these third-party providers. Because these defects may not be as significant to these providers as they are to USA Video, the Company may not receive the rapid co-operation that it may require. Errors, defects or other performance problems with the Company's products could also harm its customers' businesses or result in potential product

liability claims. Even if unsuccessful, a product liability claim brought against USA Video would likely be time-consuming, costly and harmful to its reputation. Nor can there be any assurance that the Company's product liability insurance coverage will be sufficient to satisfy any successful claim.

ANY LOSS OF THE COMPANY'S PERSONNEL OR INABILITY TO ADD NEW PERSONNEL COULD HARM THE COMPANY'S BUSINESS.

USA Video's future success depends significantly on the continued services and performance of its senior management. The Company's performance also depends on its ability to retain and motivate its other key personnel. The loss of the services of any member of USA Video's senior management team or other key employees could cause significant disruption in the Company's business. USA Video has no long-term employment agreements with senior management and does not currently maintain any "key person" life insurance. The Company's future success also depends on its ability to identify, attract, hire, train, retain and motivate other highly skilled technical, managerial, operations, sales and marketing and customer service personnel. Competition for such personnel is intense, and USA Video may not successfully attract, assimilate or retain sufficiently qualified personnel. The failure to retain and attract the necessary personnel could impede the Company's future success.

BECAUSE A SMALL NUMBER OF CUSTOMERS ACCOUNT FOR A SUBSTANTIAL PORTION OF USA VIDEO'S REVENUE, IF IT LOSES A MAJOR CUSTOMER, ITS REVENUE COULD SUFFER.

Three customers accounted for approximately 36%, 32% and 12% of USA Video's revenue for the year ended December 31, 2002. The Company expects a small number of customers will continue to account for a substantial portion of its revenue for the foreseeable future. USA Video's inability to increase the number of its customers or the loss of any one major customer could limit the Company's ability to maintain or increase its market share, or could cause revenue to drop quickly and unexpectedly.

USA VIDEO'S BUSINESS MAY SUFFER IF IT CANNOT PROTECT ITS INTELLECTUAL PROPERTY.

USA Video seeks to protect its proprietary rights through a combination of patents, trade secret and trademark laws, confidentiality procedures and contractual provisions with employees and third parties. Despite its efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of the Company's products or obtain and use information that it considers as proprietary. Litigation may be necessary to enforce USA Video's intellectual property rights, to protect its trade secrets and to determine the validity and scope of the proprietary rights of others. Any litigation could result in substantial costs and diversion of management and other resources with no assurance of success and could seriously harm USA Video's business and operating results.

NO ASSURANCE THAT USA VIDEO'S PATENTS WON'T BE CHALLENGED, INVALIDATED OR CIRCUMVENTED

There can be no assurance that USA Video's current or future patents, if any, will not be challenged, invalidated, or circumvented, or that any rights granted thereunder will provide competitive advantages to the Company. In addition, there can be no assurance that patents will be issued from pending applications, or that claims allowed on any future patents will be sufficiently broad to protect USA Video's technology. In addition, the laws of some foreign countries may not permit the protection of USA Video's proprietary rights to the same extent as do the laws of the United States. USA Video intends to enforce its proprietary rights through the use of licensing agreements and, when necessary, litigation. Although USA Video believes the protection afforded by its patents, patent applications, and trademarks has value, the rapidly changing technology in the video transmission industry makes the Company's future success dependent primarily on the innovative skills, technological expertise, and management abilities of its employees rather than on patent and trademark protection.

USA VIDEO'S PRODUCTS MAY INFRINGE THE INTELLECTUAL PROPERTY RIGHTS OF

OTHERS, CAUSE IT TO INCUR SIGNIFICANT COSTS OR PREVENT IT FROM LICENSING ITS PRODUCTS.

Other companies, including USA Video's competitors, may have or obtain patents or other proprietary rights that would prevent, limit or interfere with the Company's ability to make, use or license its products. The Company cannot be certain that its products do not and will not infringe patents or other proprietary rights of others. USA Video may be subject to legal proceedings, including claims of alleged infringement by it of the intellectual property rights of third parties. If a successful claim of infringement is brought against USA Video and it fails to or is unable to license the infringed technology on commercially reasonable terms, the Company's business and operating results could be significantly harmed. Companies in the technology market are increasingly bringing suits alleging infringement of their proprietary rights, particularly patent rights. Although USA Video is not currently subject to any litigation or claims, any future claims, whether or not valid, could result in substantial costs and diversion of resources with no assurance of success. Intellectual property litigation or claims could force USA Video to do one or more of the following:

- cease selling, incorporating or using products or services that incorporate the challenged intellectual property;
- obtain a license from the holder of the infringed intellectual property right, which license may not be available on commercially reasonable terms, or at all; or
- redesign its products or services.

If USA Video is forced to take any of these actions, its business could be substantially harmed.

USA VIDEO'S SUCCESS DEPENDS ON THE CONTINUED GROWTH IN DEMAND FOR E-BUSINESS APPLICATIONS.

USA Video's primary business strategy involves the development of products and services that enable users to transmit video over the Internet. As a result, its future sales and any future profits will be substantially dependent upon the widespread acceptance and use of the Internet as an effective medium of business by consumers and businesses. To be successful, consumers and businesses that historically have used traditional means of commerce to transact business must continue to accept and utilize the Internet as a medium for conducting business and exchanging information. Consumers and businesses may reject the Internet as a viable commercial medium for a number of reasons, including potentially inadequate network infrastructure, slow development of enabling technologies, insufficient commercial support and privacy concerns. In addition, delays in the development or adoption of new standards and protocols required to handle increased levels of Internet activity or increased government regulation could cause the Internet to lose its viability as a commercial medium. If the demand for e-business applications does not grow or grows more slowly than expected, demand for USA Video's products and services would be reduced and its revenue would suffer.

GOVERNMENT REGULATION AND LEGAL UNCERTAINTIES COULD ADD ADDITIONAL COSTS AND RISKS TO DOING BUSINESS ON THE INTERNET AND COULD HARM THE COMPANY'S BUSINESS.

USA Video is not currently subject to direct regulation by any governmental agency, other than regulations applicable to businesses generally, export control laws and laws or regulations directly applicable to electronic commerce. However, due to the increasing popularity and use of the Internet, it is possible that a number of laws and regulations may be adopted with respect to the Internet covering issues such as: user privacy, pricing, content, copyrights, distribution, and characteristics and quality of products and services.

Furthermore, the growth and development of the market for electronic commerce may prompt calls for more stringent consumer protection laws that may impose additional burdens on those companies conducting business online. The adoption of additional laws or regulations may decrease the growth of the

Internet or other online services, which could, in turn, decrease the demand for the Company's products and services and increase its cost of doing business.

The applicability to the Internet of existing laws governing issues such as property ownership, copyrights, encryption and other intellectual property issues, taxation, libel, export or import matters, obscenity and personal privacy is uncertain. The vast majority of such laws were adopted prior to the advent of the Internet and related technologies. As a result, they do not contemplate or address the unique issues of the Internet and related technologies. Changes to such laws intended to address these issues, including some recently proposed changes, could create uncertainty in the Internet marketplace. Such uncertainty could reduce demand for the Company's products and services or increase the cost of doing business due to increased costs of litigation or increased service delivery costs.

THE COMPANY'S SHARE PRICE HAS BEEN AND COULD BE HIGHLY VOLATILE, WHICH COULD RESULT IN SUBSTANTIAL LOSSES TO INVESTORS.

The trading price of the Company's common shares has been and is likely to continue to be highly volatile and could be subject to wide fluctuations in response to a number of factors including: variations in quarterly operating results; new products or services offered by the Company or its competitors; conditions or trends in the Internet and online commerce industries; changes in the economic performance and/or market valuations of other Internet and online service companies; and other events or factors, many of which are beyond the Company's control. In addition, the stock market in general, and the market for Internet-related and technology companies in particular, has experienced extreme price and volume fluctuations, including large price drops in 2002, 2001 and 2000, that have often been unrelated or disproportionate to the operating performance of such companies. These broad market and industry factors may materially adversely affect the market price of the Company's common shares, regardless of the Company's actual operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class-action litigation has often been instituted against such companies. Such litigation, if instituted, could result in substantial costs and a diversion of management's attention and resources.

ANTI-TAKEOVER PROVISIONS IN USA VIDEO'S CHARTER DOCUMENTS COULD PREVENT OR DELAY A CHANGE IN CONTROL OF THE COMPANY.

USA Video's Articles of Continuance and bylaws contain anti-takeover provisions that could discourage, delay or even prevent an acquisition of the Company at a premium price or at all. Any of these provisions might prevent the market price of the USA Video common shares from increasing in response to takeover attempts, and could prevent the Company's shareholders from realizing a premium over the then-prevailing market price for the common shares.

USA VIDEO INTENDS TO ISSUE ADDITIONAL EQUITY SECURITIES, WHICH MAY DILUTE THE INTERESTS OF CURRENT SHAREHOLDERS OR CARRY RIGHTS OR PREFERENCES SENIOR TO THE COMMON SHARES.

USA Video intends to issue additional equity securities in order to raise working capital. Accordingly, existing shareholders may experience additional dilution of their percentage ownership interest in the Company. In addition, the new equity securities may have rights, preferences or privileges senior to those of existing holders of the Company's common shares.

LIMITED LIABILITY OF EXECUTIVE OFFICERS AND DIRECTORS MAY DISCOURAGE SHAREHOLDERS FROM BRINGING A LAWSUIT AGAINST THEM.

USA Video's bylaws contain provisions that limit the liability of directors for monetary damages and provide for indemnification of officers and directors. These provisions may discourage shareholders from bringing a lawsuit against officers and directors for breaches of fiduciary duty and may also reduce the likelihood of derivative litigation against officers and directors even though such action, if successful, might otherwise have benefited the shareholders. In addition, a shareholder's investment in USA Video

may be adversely affected to the extent that costs of settlement and damage awards against officers or directors are paid by USA Video pursuant to the indemnification provisions of the bylaws.

REQUIREMENTS OF THE SEC WITH REGARD TO LOW-PRICED "PENNY STOCKS" MAY ADVERSELY AFFECT THE ABILITY OF SHAREHOLDERS TO SELL THEIR SHARES IN THE SECONDARY MARKET.

"Penny stocks" are low-priced, and usually highly speculative, stock selling at less than \$5.00 per share. USA Video's securities are subject to Rule 15c-9 under the Securities Exchange Act of 1934, which imposes additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and "accredited investors" (generally, an individual with a net worth in excess of \$1,000,000 or an annual income exceeding \$200,000, or \$300,000 together with his or her spouse). For transactions covered by this rule, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser's written consent to the transaction prior to sale. The rule also requires the delivery, prior to the transaction, of a risk disclosure document mandated by the SEC relating to the penny stock market. The broker-dealer must also disclose the commissions payable for the transaction, current quotations for the stock, and, if applicable, the fact that it is the sole market maker in the stock. Consequently, the rule may adversely affect the ability of broker-dealers to sell USA Video's securities and may adversely affect the ability of shareholders to sell their shares in the secondary market.

USA VIDEO DOES NOT ANTICIPATE PAYING DIVIDENDS TO SHAREHOLDERS IN THE FORESEEABLE FUTURE.

USA Video has not paid dividends on its common shares and intends, for the foreseeable future, to invest any earnings in the further development of its business. Accordingly, shareholders should not expect to receive any dividends on their shares.

Item 2. Properties.

USA Video headquarters and executive offices are located in Old Lyme, Connecticut. USA Video leases 1,250 square feet for an annual base rent of \$13,992. The lease expires November 30, 2003.

USA Video also leases 800 square feet of office space located in Vancouver, British Columbia, on a month-to-month basis, at a monthly rent of \$1,780.

Item 3. Legal Proceedings.

USA Video is not a party to any material pending legal proceedings.

Item 4. Submission of Matters to a Vote of Security Holders.

No matter was submitted to a vote of the Company's security holders during the fourth quarter of the fiscal year covered by this report.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

There is a limited public market for the common shares of the Company. The common shares trade on the TSX Venture Exchange, Inc. formerly Canada Venture Exchange (under the symbol "US"), and on the NASD OTC Bulletin Board (under the symbol "USVO").

The following table shows the high and low sales prices (in Canadian dollars) of the common shares as reported by the TSX Venture Exchange, Inc. formerly the Canadian Venture Exchange (the "TSX"), for the periods indicated. *

TSX Venture Exchange
(Symbol "US")

Quarter -----	High ----- (\$CAN)	Low ----- (\$CAN)
First Quarter 2001	2.60	0.70
Second Quarter 2001	1.19	0.62
Third Quarter 2001	0.85	0.35
Fourth Quarter 2001	0.67	0.33
First Quarter 2002	0.87	0.36
Second Quarter 2002	0.45	0.10
Third Quarter 2002	0.18	0.10
Fourth Quarter 2002	0.12	0.06

The following table shows the high and low prices of the common shares on the NASD OTC Bulletin Board. The following quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions:

OTC Bulletin Board
(Symbol "USVO")

Period -----	High ----- (\$US)	Low ----- (\$US)
First Quarter 2001	1.74	0.47
Second Quarter 2001	0.77	0.38
Third Quarter 2001	0.60	0.22
Fourth Quarter 2001	0.4125	0.21
First Quarter 2002	0.55	0.22
Second Quarter 2002	0.28	0.066
Third Quarter 2002	0.13	0.06
Fourth Quarter 2002	0.08	0.041

As of March 26, 2003, there were 106,495,089 common shares outstanding, held by 1,434 shareholders of record.

To date, the Company has not paid any dividends on its common shares and does not expect to declare or pay any dividends on such common shares in the foreseeable future. Payment of any dividends will depend upon future earnings, if any, the financial condition of the Company, and other factors as deemed relevant by the Company's Board of Directors.

All sales of securities made by USA Video during the year ended December 31, 2002 that were not registered under the Securities Act have been disclosed in USA Video's report on Form 10-Q for the period ended June 30, 2002 and in this Form 10-K for the year ended December 31, 2002. The sales did not involve the use of an underwriter and no commissions were paid in connection with the sale of any of these securities.

Item 6. Selected Financial Data.

The following table presents selected historical financial data. The consolidated statement of operations data for the years ended December 31, 2000, 2001 and 2002, and the balance sheet data as of December 31, 2001 and 2002 are derived from USA Video's consolidated financial statements included elsewhere in this report, which have been audited by Goldstein Golub Kessler LLP independent auditors. The selected financial data should be read in conjunction with USA Video's consolidated financial statements, including the related notes, and the information in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item	December 31,				
	2002	2001	2000	1999	1998
Revenue	\$ 156,976	\$ 124,006	\$ 638,592	\$ 20,500	--
Net loss	(\$2,113,138)	(\$3,760,821)	(\$ 4,661,652)	(\$ 1,684,468)	(\$ 981,598)
Loss per share	(\$.02)	(\$.04)	(\$.06)	(\$.03)	(\$ 0.02)
Total assets	\$ 317,144	\$ 1,382,178	\$ 1,744,071	\$ 995,351	\$ 435,232
Long-term obligations	--	--	--	--	--
Cash dividends per share	--	--	--	--	--

Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operation.

Overview of the Company

USA Video was a development-stage company from January 1, 1992 to December 31, 1999, during which time it engaged primarily in the development of its end-to-end hardware systems and proprietary Video-on-Demand and Wavelet compression technologies, and had very limited sales. In 2000, the Company made the first substantial sales of its end-to-end systems, and invested heavily in further development of its StreamHQ™ streaming media system. Due to current market conditions, management has implemented consolidation procedures to reduce the expense of operations.

As more fully discussed below, in this Management's Discussion section of this Report, the Company has not been profitable, and has not had significant revenues. USA Video cannot predict its revenue levels for the next 12 months, or thereafter, nor when, or if, its operations will become profitable. The Company's expenses will continue to decrease as it consolidates selling, general and administrative expenses. USA Video will require additional financing, both for the remainder of fiscal 2003 and thereafter, to continue to operate and expand its business. There is no assurance that such financing will be available on commercially reasonable terms, if at all.

Results of Operations

Revenues

Revenues for the year ended December 31, 2002 ("fiscal 2002") were \$156,976, compared with \$124,006 for the year ended December 31, 2001 ("fiscal 2001"). The Company had revenues of \$638,592 for the year ended December 31, 2000 ("fiscal 2000"). Approximately 27% of revenues for fiscal 2001 were derived from sales of the Company's hardware and software systems and approximately 57% were from provision of Engineering services. The Company had three major customers who, in the aggregate, accounted for 80% of total revenues in 2002, and one major customer who accounted for 61% of total revenues in fiscal

2001, and three major customers who, in the aggregate, accounted for 82% of total revenues in fiscal 2000.

Expenses

Total expenses for fiscal 2002 were \$2,156,764, compared with \$3,892,845 for fiscal 2001 and \$5,291,663 for fiscal 2000. For fiscal 2002, cost of sales was \$88,377, as compared with \$66,770 for fiscal 2001 and \$393,496 for fiscal 2000.

Research and development costs for fiscal 2002 were \$277,149, as compared to \$999,058 for fiscal 2001 and \$620,212 for 2000. The decrease in fiscal 2002 and 2001 was due primarily to consolidation efforts of management.

Selling, general and administrative expenses were \$859,736 for fiscal 2002, as compared with \$1,833,440 for fiscal 2001, and \$2,599,591 for fiscal 2000.

Selling, general and administrative expenses consisted of marketing expenses, consulting fees, office, professional fees, and other expenses to execute the Company's business plan and for day-to-day operations. The decreases resulted from the consolidation efforts of management. The primary components of the decreases from fiscal 2001 to fiscal 2002 were:

- a \$480,496 decrease in fiscal 2002 in marketing expenses as the Company terminated the day-to-day operation of its StreamHQ™ services which resulted in the termination of marketing staff and programs for the sale of functions of StreamHQ™ at the start of the second quarter;
- a decrease of \$154,018 (fiscal 2002) for administrative wages and salaries and other office expenses due to consolidation efforts of management; and
- a \$153,102 decrease in professional fees in fiscal 2001, as the Company utilized its staff to perform tasks previously outsourced.

Selling, general and administrative expenses consisted of marketing expenses, consulting fees, office, professional fees, and other expenses to execute the Company's business plan and for day-to-day operations. The substantial year-to-year increases resulted from the Company's increased efforts to bring products to market. The primary components of the increases fiscal 2001 to fiscal 2000 were:

- a \$284,911 decrease in fiscal 2001 in marketing expenses, as the Company revamped marketing objectives and strategies to isolate on the release of StreamHQ™ late in the third quarter. The marketing staff continues to identify and assess appropriate market segments, develop business arrangements with prospective partners, create awareness of new products and services, and communicate to the industry and potential customers;
- a decrease of \$236,458 from fiscal 2001 for administrative wages and salaries and other office expenses; and
- an \$81,203 decrease in advertising in fiscal 2001, as the Company, replaced media advertising with an increased sales force.

Additional expenses included depreciation and amortization of \$439,516 for fiscal 2002, compared to \$407,880 for fiscal 2001 and \$224,581 for fiscal 2000, as the Company added machinery and equipment necessary for the development of new products and services. Non-cash compensation charges for fiscal 2002 were \$38,154, 2001 were \$ 585,697 and fiscal 2000 were \$1,453,783, due mostly to issuance of common shares and common share warrants to the Company's officers, directors and employees and at a price or exercise price below the market price of the common shares at the time of issuance and stock options to contractors. Because the rules of the TSX require that the offering price for privately placed securities of listed companies be set when the offering is first announced, rather than upon closing, the sale price of the common shares and the exercise price of the warrants were below the market price of the

common shares on the date of issuance.

Other decreases in expenses included rent, utilities and telephone, travel and promotion, insurance and public relations due to consolidation efforts of management.

Impairment Loss on Long-Lived Assets are the result of the Company's inability to raise revenues in accordance with the corporate business plan, the Company continued operating at a loss for the year ended December 31, 2002. As a result, the Company commenced an impairment review of its long-lived assets in accordance with Statement of Financial Accounting Standard ("SFAS")144 "Accounting of the Impairment or Disposal of Long-Lived Assets". As a result of this impairment review, the Company recorded an impairment loss of approximately \$453,832 during the six month period ended December 31, 2002, to reduce the carrying value of these assets to its estimated fair value.

The Company sold the stock of related registered companies for a loss of \$93,319 in 2002. For the year ended December 31, 2001, the Company reported a change in unrealized loss on investments for \$86,487.

Net Losses

To date, the Company has not achieved profitability and expects to incur substantial losses for the foreseeable future. The Company's net loss for fiscal 2002 was \$2,113,138, compared with a net loss of \$3,760,821 for fiscal 2001, and \$4,661,652 for fiscal 2000.

Liquidity and Capital Resources

At December 31, 2002, the Company's cash position was \$48,708, a decrease of \$55,530 from December 31, 2001. The Company had a working capital deficit of \$1,074,998 and an accumulated deficit of \$31,176,441 at December 31, 2002.

The Company's principal source of cash during fiscal 2002 was proceeds of \$827,681 received from private placements of equity securities and \$35,784 from proceeds from the sale of investments. This was offset by \$918,995 of cash used in operating activities.

The Company has historically satisfied its capital needs primarily by issuing equity securities to its officers, directors, employees and a small group of investors, and from short-term bridge loans from members of management. During fiscal 2002, the Company completed two private placements, resulting in gross proceeds to the Company of \$827,681.

In the first offering completed in June 2002, the Company sold 10,000,000 units, each consisting of one common share and one share purchase warrant to acquire an additional share at \$0.085 per share by June 28, 2004, at a price \$0.07 per unit, for total proceeds of \$700,000. Each unit consisted of one share of common stock and one warrant to acquire an additional share at \$0.085 per share (\$0.13 CN) by June 2004.

In the second offering completed on December 31, 2002, the Company sold 2,000,000 units at a price of \$0.064 per unit for total proceeds of \$128,000. Each unit consisted of one common share and one share purchase warrant to purchase one additional common share at \$0.064 per share, exercisable until December 31, 2004. The offer and sale of the units were exempt from registration under Rule 506 of Regulation D of the Securities Act. The Company limited the manner of the offering and provided disclosure regarding the offering and the Company to the investors. Two officers and directors of the Company, six additional unaffiliated non-accredited investors, and seven additional unaffiliated accredited investors purchased the securities. The Company believes that a portion of these sales were also exempt under Regulation S under the Securities Act, as the sales were made in offshore transactions to non-U.S. persons.

Subsequent to the year end, the Company completed on February 14, 2003 a private placement of 2,750,000 units at a price of \$0.0657 per unit for total proceeds of \$180,675. Each unit consisted of one common share and one share purchase warrant to purchase one additional common share at \$0.0657 per share, exercisable until February 14, 2005. The offer and sale of the units were exempt from registration

under Rule 506 of Regulation D of the Securities Act. The Company limited the manner of the offering and provided disclosure regarding the offering and the Company to the investors. Two officers and directors of the Company, one employee of the Company, two additional unaffiliated non-accredited investors, and eight additional unaffiliated accredited investors purchased the securities. The Company believes that a portion of these sales were also exempt under Regulation S under the Securities Act, as the sales were made in offshore transactions to non-U.S. persons.

The Company's independent accountants, in their report accompanying the Company's audited financial statements at and for the year ended December 31, 2002, have stated that there is substantial doubt about the Company's ability to continue as a going concern. As of December 31, 2002, the Company had \$48,708 in cash. The Company will require an additional \$1.0 million to \$1.5 million to finance operations for the fiscal 2003 and intends to obtain such financing through sales of its equity securities. The threat to the Company's ability to continue as a going concern will be removed only when revenues have reached a level that sustains the Company's business operations.

Assuming the aforementioned \$1.0 million to \$1.5 million in financing is obtained, continuing operations for the longer-term will be supported through anticipated growth in revenues and through additional sales of the Company's securities. Although longer-term financing requirements may vary depending upon the Company's sales performance, management expects that the Company will require additional financing of \$2.0 million to \$3.0 million for fiscal 2004. The Company has no binding commitments or arrangements for additional financing, and there is no assurance that management will be able to obtain any additional financing on terms acceptable to the Company, if at all.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk.

USA Video believes its exposure to overall foreign currency risk is not material. USA Video does not manage or maintain market risk sensitive instruments for trading or other purposes and is not exposed to the effects of interest rate fluctuations as it does not carry any long-term debt.

USA Video reports its operations in US dollars and its currency exposure, although considered by USA Video as immaterial, is primarily between the US and Canadian dollars. Exposure to other currency risks is also not material as international transactions are settled in US dollars. Any future financing undertaken by USA Video will be denominated in US dollars. As USA Video increases its marketing efforts, the related expenses will be primarily in US dollars. In addition, 90% of USA Video's bank deposits are maintained in U.S. dollars.

Item 8. Financial Statements and Supplementary Data.

The financial statements and supplementary financial information required to be filed under this item are presented on pages F-1 through F-__ of this Report and are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None

PART III

Item 10. Directors and Executive Officers of the Registrant.

The following table sets forth the name, age, position, and period of service in his present position of each director and executive officer of USA Video:

Name	Age	Position	Period of Service
Edwin Molina	47	Director, Chief Executive Officer and President	Since 1998
Anton J. Drescher (1)	46	Director, Chief Financial Officer and Secretary	Since 1994
Robert D. Smith Jr. (1)	52	Director and Chief Operating Officer	Since 2000
Kent Norton	43	Chief Information/Chief Technical Officer	Since 2000
Daniel E. Kinnaman (2)	46	Senior Vice President, Sales and Marketing	Since 2001

(1) Member of the Audit Committee

(2) Resigned as an officer effective May 17, 2002

Anton Drescher, Edwin Molina, and Robert D. Smith were elected directors of USA Video in June 2002.

Executive Officers and Directors of the Company:

Edwin Molina - President, Chief Executive Officer and Director

Mr. Molina served as a Senior Administrator with USA Video from June 1992 to June 30, 1998, when he was appointed President, Chief Executive Officer and a director. Mr. Molina was also a Senior Administrator with Adnet USA LLC, a private California company involved in Internet advertising, from May 1996 to June 1998.

Anton J. Drescher - Chief Financial Officer, Secretary and Director

Mr. Drescher has been Chief Financial Officer of USA Video since December 1994. He has also been a director and Secretary/Treasurer of Cal-Star, Inc. (formerly Future Link Systems Inc.) a public company listed for trading on the TSX, which company was previously involved in the development of compression technology and is now deemed an inactive company by the TSX; a director and Secretary/Treasurer of iQuest Networks Inc. (formerly "Interlink Systems Inc." and "Glassmaster Industries, Inc."), a public company listed on the TSX, involved in digital audio distribution since 1996; President of Westpoint Management Consultants Limited, a private company engaged in tax and accounting consulting for business reorganizations since 1979; President of Harbour Pacific Capital Corp., a private British Columbia company involved in regulatory filings for businesses in Canada, since 1998; and, since 1991, a director and President of International Tower Hill Mines Limited, a public British Columbia company listed on the TSX and involved in mineral exploration, since February 2003, a director and Secretary of StorageFlow Systems Corp., a public company listed on the TSX, which company is involved in electronic data storage. Mr. Drescher has been a Certified Management Accountant since 1981.

Robert D. Smith, Jr. - Chief Operating Officer and Director

Mr. Smith joined USA Video in August 2000 as Chief Operating Officer. Mr. Smith was formerly a Vice President at Sonalysts Inc., of Waterford, Connecticut, where, for 22 years, he helped build the company into a \$50 million, nearly 500-person international e-business, multimedia, software and engineering corporation. Mr. Smith graduated with distinction from the U.S. Naval Academy, where he was a Trident Scholar and earned a B.S. degree in oceanography and engineering. He served in a variety of officer positions in the nuclear submarine Navy prior to leaving active duty. Concurrent with his employment at Sonalysts, Inc. he continued to serve in the Naval Reserve, having recently retired with the rank of Captain.

Kent Norton - Chief Information/Chief Technical Officer

Mr. Norton joined USA Video in May 2000 as Chief Information Officer, and in addition, was appointed Chief Technical Officer in September 2000. From January 2000 to June 2000, Mr. Norton was Director of Technology and Information Systems with beenz.com, which was creating a universal, incentive-based currency for on-line merchants. Mr. Norton was employed by Computer Sciences Corporation from 1996 to January 2000, and from 1991 to 1994. His last position at Computer Sciences Corporation was senior manager, where he was responsible for the design of a global technical support infrastructure for the company's "help desks" around the world. From 1994 to 1996, Mr. Norton held a senior technology position with Sonalysts, Inc. Mr. Norton holds a Bachelor of Science degree in Civil & Structural Engineering from the University of Cincinnati.

Daniel E. Kinnaman - Senior Vice President, Sales and Marketing

Mr. Kinnaman joined USA Video in October 2001 as Senior Vice President of Sales and Marketing and resigned as an officer as of May 17, 2002. Mr. Kinnaman was the Executive Vice President and Group Publisher for Professional Media Group LLC. In this position, he was responsible for the publication of two nationally circulated technology and education magazines and directed the advertising sales, editorial content, and overall business direction of these publications. For the past fifteen years, Mr. Kinnaman has been a prominent speaker, writer, and independent advisor specializing in the business and education opportunities presented by emerging computer and networking technologies. He was instrumental in guiding the marketing strategy of Compaq Computer Corporation's education Division during a three-year period during which the division's sales grew considerably. Mr. Kinnaman holds a Bachelor of Science degree in Marketing from The University of Connecticut and a Master of Arts in Education from The University of Connecticut.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16 of the Securities Exchange Act of 1934, as amended ("Section 16"), requires that reports of beneficial ownership of capital stock and changes in such ownership be filed with the Securities and Exchange Commission (the "SEC") by Section 16 "reporting persons," including directors, certain officers, and holders of more than 10% of the outstanding common shares. The Company is required to disclose in this Annual Report on Form 10-K each reporting person whom it knows to have failed to file any required reports under Section 16 on a timely basis during the fiscal year ended December 31, 2001.

To the Company's knowledge, based solely on a review of copies of Forms 3, 4 and 5 furnished to it and written representations that no other reports were required, during the fiscal year ended December 31, 2002, the Company's officers, directors and 10% shareholders complied with all Section 16(a) filing requirements applicable to them except as follows:

None

Item 11. Executive Compensation.

The following table sets forth compensation awarded to, earned by or paid to USA Video's Chief Executive Officer (CEO), and to other persons serving as executive officers of the Company as of December 31, 2002, whose salary and bonus for such year exceeded \$100,000 (collectively, the "Named Executive Officers") for the last three completed fiscal years.

Name and Principal Position	Year	Summary Compensation Table Annual Compensation			Long-Term Compensation			
		Salary	Bonus	Other Annual Compensation	Awards		Payouts	
					Restricted Stock Award(s)	Securities Underlying Options/SARs	LTIP Payouts	All Other Compensation
\$	\$	\$	\$	\$	\$	\$	\$	
Molina, Edwin (CEO)	2002	\$ 84,415	-0-	\$ -0-	-0-	900,000 (9)	-0-	-0-
	2001	\$ 124,910	-0-	\$ 125,000 (2)	-0-	-0-	-0-	-0-
	2000	\$ 128,361	-0-	\$ 500,000 (3)	-0-	-0-	-0-	-0-
Drescher Anton, (CFO)	2002	\$ 81,311 (1)	-0-	\$ -0-	-0-	750,000 (9)	-0-	-0-
	2001	\$ 120,000 (1)	-0-	\$ 200,000 (4)	-0-	-0-	-0-	-0-
	2000	\$ 120,000 (1)	-0-	\$ 500,000 (5)	-0-	200,000 (10)	-0-	-0-
Smith, Robert (COO)	2002	\$ 27,139	-0-	\$ -0-	-0-	500,000 (11)	-0-	-0-
	2001	\$ 89,412	-0-	\$ 22,900 (6-8)	-0-	-0-	-0-	-0-

- (1) Represents consulting fees paid to Mr. Drescher through Harbour Pacific Capital Corp., a consulting firm wholly-owned by him, for his services as an executive officer of the Company.
- (2) In March 2001, Mr. Molina purchased 250,000 units (each comprised of one common share and one warrant to acquire one common share at \$0.66 per share) at \$0.54 per unit. This compensation resulted from the difference between the \$0.54 purchase price and the \$0.66 warrant exercise price and the fair market price of \$0.84 of the common shares on the date of issuance of the units.
- (3) In July 2000, Mr. Molina purchased 200,000 units (each comprised of one common share and one warrant to acquire one common share at \$1.50 per share) at \$1.50 per unit. This compensation resulted from the difference between the \$1.50 purchase price and the \$1.50 warrant exercise price and the fair market price of \$2.75 of the common shares on the date of issuance of the units.
- (4) In March 2001, Mr. Drescher purchased 400,000 units (each comprised of one common share and one warrant to acquire one common share at \$0.66 per share) at \$0.54 per unit. This compensation resulted from the difference between the \$0.54 purchase price and the \$0.66 warrant exercise price and the fair market price of \$0.84 of the common shares on the date of issuance of the units.
- (5) In July 2000, Mr. Drescher purchased 200,000 units (each comprised of one common share and one warrant to acquire one common share at \$1.50 per share) at \$1.50 per unit. This compensation resulted from the difference between the \$1.50 purchase price and the \$1.50 warrant exercise price and the fair market price of \$2.75 of the common shares on the date of issuance of the units.
- (6) In March 2001, Mr. Smith purchased 40,000 units (each comprised of one common share and one warrant to acquire one common share at \$0.66 per share) at \$0.54 per unit. This compensation resulted from the difference between the \$0.54 purchase price and the \$0.66 warrant exercise price and the fair market price of \$0.84 of the common shares on the date of issuance of the units.
- (7) In September 2001, Mr. Smith purchased 45,000 units (each comprised of one common share and one warrant to acquire one common share at \$0.35 per share) at \$0.27 per unit. This compensation resulted from the difference between the \$0.27 purchase price and the fair market price of \$0.29 of the common shares on the date of issuance of the units.
- (8) In December 2001, Mr. Smith purchased 100,000 units (each comprised of one common share and one warrant to acquire one common share at \$0.26 per share) at \$0.20 per unit. This compensation resulted

from the difference between the \$0.20 purchase price and the fair market price of \$0.22 of the common shares on the date of issuance of the units.

- (9) In December 2002, Mr. Molina cancelled 900,000 stock options granted to him in February 2002.
- (10) In December 2002, Mr. Drescher cancelled 750,000 stock options granted to him in February 2002 and cancelled 200,000 stock options granted to him in December 2000.
- (11) In December 2002, Mr. Smith cancelled 500,000 stock options granted to him in February 2002.

The following table sets forth certain information concerning grants of stock options to the Named Executive Officers during the year ended December 31, 2002.

Individual Grants	Potential Realizable Value at Assumed Annual Rate of Stock Price Appreciation for Option Term							
	Number of Securities Underlying Options/SARs Granted	% of Total Options/SARs Granted to Employees in Fiscal Year (1)	Exercise Price (\$/Share)	Market Price on Date of Grant (\$/Share)	Expiration Date	Price Appreciation for Option Term		
						0%	5%	10%
Molina, Edwin	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Drescher, Anton	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Smith, Robert	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-

- (1) A total of 5,605,000 stock options were granted to employees and consultants in 2002.

The following table sets forth certain information concerning exercises of stock options by the Named Executive Officers during the year ended December 31, 2002 and stock options held at year end.

Aggregated Option / SAR Exercises in Last Fiscal Year and FY-End Option / SAR Values

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options / SARs at FY-End (#)		Value of Unexercised In-the-Money Options / SARs At FY-End (\$)	
			Exercisable/Unexercisable	Exercisable/Unexercisable (1)	Exercisable/Unexercisable (1)	Exercisable/Unexercisable (1)
Molina, Edwin	-0-	+0-	0 / 0	N/A	/ \$0	
Drescher, Anton	-0-	-0-	0 / 0	N/A	/ \$0	
Smith, Robert	-0-	-0-	0 / 0	N/A	/ \$0	

- (1) On December 31, 2002, the average of the high and low bid prices of the common shares on the OTC BB was \$0.07.

Compensation of Directors

Directors receive no compensation for their service as such.

Employment Contracts

USA Video does not have an employment contract with Mr. Molina and the other Named Executive Officer. The Company has no obligation to provide any compensation to Mr. Molina or any other Named Executive Officer in the event of his resignation, retirement or termination, or a change in control of the Company, or a change in any Named Executive Officers' responsibilities following a change in control.

USA Video may in the future create retirement, pension, profit sharing and medical reimbursement plans covering its Executive Officers and Directors.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The following table sets forth as of March 26, 2003, the number of outstanding common shares of USA Video beneficially owned by (i) each person known to USA Video to beneficially own more than 5% of its outstanding common shares, (ii) each director, (iii) each Named Executive Officer, and (iv) all officers and directors as a group.

Name	Shares Owned	Percentage of Class
Edwin Molina	6,924,424 (1)	6.50%
Anton J. Drescher	7,581,885 (2)	7.12%
Robert D. Smith	1,160,000 (3)	1.09%
All Executive Officers & Directors as a Group [four persons]	15,841,309 (1) (2) (3) (4)	14.91%

(1) Includes 1,725,000 common shares underlying warrants that are currently exercisable by Mr. Molina. Mr. Molina's address is 83 Halls Road, Old Lyme, Connecticut.

(2) Includes 1,725,000 common shares underlying warrants that are currently exercisable by Mr. Drescher. Mr. Drescher's address is 83 Halls Road, Old Lyme, Connecticut.

(3) Includes 360,000 common shares underlying warrants that are currently exercisable by Mr. Smith. Mr. Smith's address is 83 Halls Road, Old Lyme, Connecticut.

(4) Includes 75,000 common shares underlying warrants that are currently exercisable by a former director.

Item 13. Certain Relationships and Related Transactions.

In 2002, the Company paid consulting fees of \$81,311 to Harbour Pacific Capital Corp., a company controlled by Anton J. Drescher, in consideration of Mr. Drescher's services as an executive officer of the Company.

In June 2002, USA Video completed a private placement of 10,000,000 units (each unit consisting of one common share and one warrant to purchase an additional common share at \$0.085 per share) at a price of

\$0.07 per unit, of which 7,085,000 units were sold to outside investors and 2,915,000 units were sold to officers, directors, and employees of the Company. Because the rules of the TSX require that the offering price for privately placed securities of listed companies be set when the offering is first announced rather than upon closing, the sale price of the units and the exercise price of the warrants were below the market price of \$0.075 of the common shares on the date of issuance. Units were sold to the following officers and directors of the Company, in the amounts indicated: Edwin Molina (1,200,000 units), Anton J. Drescher (1,200,000 units) and Robert Smith (215,000 units).

In December 2002, USA Video completed a private placement of 2,000,000 units (each unit consisting of one common share and one warrant to purchase an additional common share at \$0.064 per share) at a price of \$0.064 per unit, of which 1,450,000 units were sold to outside investors and 550,000 units were sold to officers, directors, and employees of the Company. Because the rules of the TSX require that the offering price for privately placed securities of listed companies be set when the offering is first announced rather than upon closing, the sale price of the units and the exercise price of the warrants were above the market price of \$0.053 of the common shares on the date of issuance. Units were sold to the following officers and directors of the Company, in the amounts indicated: Edwin Molina (275,000 units) and Anton J. Drescher (275,000 units).

In February 2003, USA Video completed a private placement of 2,750,000 units (each unit consisting of one common share and one warrant to purchase an additional common share at \$0.0657 per share) at a price of \$0.0657 per unit, of which 2,200,000 units were sold to outside investors and 550,000 units were sold to officers, directors, and employees of the Company. Because the rules of the TSX require that the offering price for privately placed securities of listed companies be set when the offering is first announced rather than upon closing, the sale price of the units and the exercise price of the warrants were below the market price of \$0.075 of the common shares on the date of issuance. Units were sold to the following officers and directors of the Company, in the amounts indicated: Edwin Molina (250,000 units) and Anton J. Drescher (250,000 units).

PART IV

Item 14. Exhibits, Financial Statements to Shareholders and Reports on Form 8-K.

(a)(1) Financial Statements Independent Auditors' Reports Consolidated Balance Sheets Consolidated Statements of Operations Consolidated Statements of Comprehensive Operations Consolidated Statements of Stockholders' Equity Consolidated Statements of Cash Flows Notes to Consolidated Financial Statements

(a)(2) All schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes thereto included in this Report.

(b) Reports on Form 8-K

During the last quarter of the fiscal year covered by this Report, the registrant filed the filing reports on Form 8-K:

(i) On November 25, 2002 the registrant filed a report on Form 8-K wherein the registrant provided an update on its status and the market for its services, explaining why the registrant's business had taken such a dramatic downturn, due to the nature of the market, and the registrant's reactions to the downturn, such as aggressively cutting back on expenses, which resulted in the regrettable staff reduction; as well as the registrant's future plans, which entail maintaining the VOD Patent and retention of counsel to represent it aggressively, with a focus on licensing the VOD Patent and other intellectual properties such as the patent-pending DRM and motion wavelet compression technologies.

- (ii) On December 3, 2002, the registrant filed a report on Form 8-K wherein the registrant reported that it had relocated its corporate head office to 83 Halls Road, Old Lyme, Connecticut, 06371-1469.
- (iii) On March 11, 2003, the registrant filed a report on Form 8-K wherein the registrant reported that had entered into an agreement with Engle Group LLC to undertake investor and media relations services and to assist the registrant in developing and implementing a strategic communications plan, at remuneration of US\$2,500 per month and to advise that the registrant and Maurice Loverso had mutually agreed to terminate the consulting agreement and that Mr. Loverso would no longer be providing investor relations services to the registrant.

(c) Exhibits

- 3.1 Articles of Continuance (Wyoming) filed February 16, 1995 (incorporated by reference from Exhibit 3.1 to the registrant's Form 10).
- 3.2 Articles of Amendment (Alberta) filed January 3, 1995 (incorporated by reference from Exhibit 3.2 to the registrant's Form 10).
- 3.3 Articles of Amendment (Alberta) filed June 28, 1993 (incorporated by reference from Exhibit 3.3 to the registrant's Form 10).
- 3.4 Articles of Amendment (Alberta) filed April 6, 1992 (incorporated by reference from Exhibit 3.3 to the registrant's Form 10).
- 3.5 Articles of Amendment (Alberta) filed September 1, 1989 (incorporated by reference from Exhibit 3.5 to the registrant's Form 10).
- 3.6 Articles of Incorporation (Alberta) filed April 18, 1986 (incorporated by reference from Exhibit 3.6 to the registrant's Form 10).
- 3.7 Bylaws (incorporated by reference from Exhibit 3.7 to the registrant's Form 10).
- 4.3 Share Option Plan (incorporated by reference from Exhibit 4.3 to the registrant's Form 10).
- 10.4 Alliance Partner Agreement dated November 11, 1999, between Exodus Communications, Inc. and registrant (incorporated by reference from Exhibit 10.4 to the registrant's Form 10).

21. Subsidiaries of the registrant:

Name	State of Incorporation
USA Video (California) Corporation	Nevada
USA Video Corporation	Texas
USA Video Productions Inc.	Wyoming
USA Video Technology Corporation	Wyoming
USVO, Inc.	Connecticut

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.

USA VIDEO INTERACTIVE CORP.

By: /s/ Edwin Molina

Date: March 26, 2003

Edwin Molina
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.

<i>Signature</i>	<i>Title</i>	<i>Date</i>
----- /s/ Edwin Molina ----- Edwin Molina	Chief Executive Officer, Director	March 26, 2003
----- /s/ Anton J. Drescher ----- Anton J. Drescher	Chief Financial Officer, (principal financial officer and principal accounting officer), Director	March 26, 2003
----- /s/ Robert D. Smith ----- Robert D. Smith	Director	March 26, 2003

Exhibit 1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

SECTION 906 CERTIFICATION BY EDWIN MOLINA

Pursuant to the requirements of Section 906 of the Sarbanes-Oxley Act of 2002, Edwin Molina, hereby certifies that:

1. This report fully complies with the requirements of Sections 13(a) or 15(d) of the 1934 Act, and
2. The information contained in this report fairly presents, in all material respects, the registrant's financial condition and results of operations of the registrant.

By: /s/ Edwin Molina

Name: Edwin Molina
Title: President and Chief Executive
Officer
Date: March 26, 2003

SECTION 906 CERTIFICATION BY ANTON J. DRESCHER

Pursuant to the requirements of Section 906 of the Sarbanes-Oxley Act of 2002, Anton J. Drescher, hereby certifies that:

1. This report fully complies with the requirements of Sections 13(a) or 15(d) of the 1934 Act, and
2. The information contained in this report fairly presents, in all material respects, the registrant's financial condition and results of operations of the registrant.

By: /s/ Anton J. Drescher

Name: Anton J. Drescher
Title: Secretary and Chief Financial
Officer
Date: March 26, 2003

CERTIFICATIONS

I, Edwin Molina, certify that:

1. I have reviewed this annual report on Form 10-K of USA Video Interactive Corp;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

By: /s/ Edwin Molina

Name: Edwin Molina
Title: President and Chief Executive
Officer
Date: March 26, 2003

I, Anton J. Drescher, certify that:

1. I have reviewed this annual report on Form 10-K of USA Video Interactive Corp;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

By: /s/ Anton J. Drescher

Name: Anton J. Drescher
Title: Secretary and Chief Financial
Officer
Date: March 26, 2003

USA VIDEO INTERACTIVE CORP. AND SUBSIDIARIES

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
USA Video Interactive Corp.

We have audited the accompanying consolidated balance sheets of USA Video Interactive Corp. and Subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, comprehensive operations, stockholders' equity (deficiency), and cash flows for each of the three years in the period ended December 31, 2002. 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 USA Video Interactive Corp. and Subsidiaries as of December 31, 2002 and 2001 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations, has not generated significant revenue from operations and has a net working capital deficiency and a stockholders' deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plan in regard to these matters is also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

GOLDSTEIN GOLUB KESSLER LLP
New York, New York

February 3, 2003

USA VIDEO INTERACTIVE CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31,	2002	2001
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 48,708	\$ 104,238
Marketable securities - related parties	-	42,616
Accounts receivable	1,400	30,900
Inventory	-	12,000
Prepaid expenses and other current assets	10,573	21,613
Total current assets	60,681	211,367
Property and Equipment - at cost, net of accumulated depreciation of \$ - 0 - and \$573,015, respectively	211,314	1,100,339
Other Assets, net of accumulated amortization of \$11,339 and \$8,016, respectively	45,149	70,472
Deferred Tax Assets, net of valuation allowance of \$7,950,000 and \$7,215,000, respectively	-	-
Total Assets	\$ 317,144	\$ 1,382,178
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 1,088,499	\$ 948,417
Due to related parties	53,180	91,480
Total current liabilities	1,135,799	1,039,897
Commitments and Contingencies		
Stockholders' Equity (Deficiency):		
Preferred stock - no par value; authorized 250,000,000 shares, none issued	-	-
Common stock and additional paid-in capital - no par value; authorized 250,000,000 shares, issued and outstanding 103,745,088 and 91,745,088 shares, respectively	30,357,906	29,492,071
Accumulated other comprehensive loss	-	(86,487)
Accumulated deficit	(31,176,441)	(29,063,303)
Stockholders' equity (deficiency)	(818,535)	342,281
Total Liabilities and Stockholders' Equity (Deficiency)	\$ 317,144	\$ 1,382,178

The accompanying notes and independent auditor's report should be read in conjunction with the consolidated financial statements

USA VIDEO INTERACTIVE CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Year ended December 31,	2002	2001	2000
Revenue	\$ 156,976	\$ 124,006	\$ 638,592
Expenses:			
Cost of sales	88,377	66,770	393,496
Research and development	277,149	999,058	620,212
Selling, general and administrative (includes \$37,758 to related parties in 2000)	859,736	1,833,440	2,599,591
Depreciation and amortization	439,516	407,880	224,581
Impairment loss on long-lived assets	453,832		
Noncash compensation charges	38,154	585,697	1,453,783
Total expenses	2,156,764	3,892,845	5,291,663
Loss from operations	(1,999,788)	(3,768,839)	(4,653,071)
Other income (expense), net:			
Interest income (expense) (net of interest income of \$149, \$5,173 and \$26,231, respectively)	(20,031)	4,903	26,231
Other	(93,319)	3,115	(34,812)
	(113,350)	8,018	(8,581)
Net loss	\$(2,113,138)	\$(3,760,821)	\$(4,661,652)
Net loss per share - basic and diluted	\$ (.02)	\$ (.04)	\$ (.06)
Weighted-average number of common shares outstanding - basic and diluted	96,873,855	84,946,199	76,700,723

The accompanying notes and independent auditor's report should be read in conjunction with the consolidated financial statements

USA VIDEO INTERACTIVE CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE OPERATIONS

Year ended December 31,	2002	2001	2000
Net loss	\$(2,113,138)	\$(3,760,821)	\$(4,661,652)
Other comprehensive income (loss):			
Change in unrealized gain (loss) on investments	86,487	(160,210)	73,723
Comprehensive loss	\$(2,026,651)	\$(3,921,031)	\$(4,587,929)

The accompanying notes and independent auditor's report should be read in conjunction with the consolidated financial statements

USA VIDEO INTERACTIVE CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIENCY)

	Common Stock and Additional Paid-in Capital Shares	Amount	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Stockholders' Equity (Deficiency)
Balance at January 1, 2000	\$72,982,088	\$20,950,152	-	\$(20,640,830)	\$ 309,322
Issuance of common stock and common stock warrants for cash	1,190,000	2,260,000	-	-	2,260,000
Issuance of common stock upon exercise of options	2,383,000	602,074	-	-	602,074
Issuance of common stock upon exercise of warrants	5,145,000	500,062	-	-	500,062
Noncash compensation charges	-	1,453,783	-	-	1,453,783
Change in unrealized gains (loss) on investments	-	-	\$ 73,723	-	73,723
Net loss	-	-	-	(4,661,652)	(4,661,652)
Balance at December 31, 2000	81,700,088	25,766,071	73,723	(25,302,482)	537,312
Issuance of common stock and common stock warrants for cash	9,800,000	3,067,391	-	-	3,067,391
Issuance of common stock upon exercise of warrants	245,000	72,912	-	-	72,912
Noncash compensation charges	-	585,697	-	-	585,697
Change in unrealized gains (loss) on investments	-	-	(160,210)	-	(160,210)
Net loss	-	-	-	(3,760,821)	(3,760,821)
Balance at December 31, 2001	91,745,088	29,492,071	(86,487)	(29,063,303)	342,281
Issuance of common stock and common stock warrants for cash	12,000,000	827,681	-	-	827,681
Noncash compensation charges	-	38,154	-	-	38,154
Change in unrealized gains (loss) on investments	-	-	86,487	-	86,487
Net loss	-	-	-	(2,113,138)	(2,113,138)
Balance at December 31, 2002	103,745,088	\$30,357,906	\$ - 0 -	\$(31,176,441)	\$ (818,535)

The accompanying notes and independent auditor's report should be read in conjunction with the consolidated financial statements

USA VIDEO INTERACTIVE CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31,	2002	2001	2000
Cash flows from operating activities:			
Net loss	\$ (2,113,138)	\$ (3,760,821)	\$ (4,661,652)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	439,516	407,880	224,581
Impairment loss on long-lived assets	452,833	-	33,122
Noncash compensation charge	38,154	585,697	1,453,783
Loss on sale of investments - related parties	93,319	-	-
Loss on disposal of property and equipment	-	18,299	-
Bad debts (recovery)	17,753	(7,000)	(108,403)
Write-down of inventory	-	76,481	-
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	11,747	98,913	(109,515)
(Increase) decrease in inventory	12,000	(12,000)	(145,911)
(Increase) decrease in prepaid expenses and other current assets	33,039	77,755	(51,164)
Increase in other assets	-	(26,000)	(14,187)
(Decrease) increase in accounts payable and accrued expenses	134,082	(161,616)	624,462
(Decrease) increase in accounts payable and accrued expenses - related parties	-	(20,830)	9,238
(Decrease) increase in due to related parties	(38,300)	15,584	(112,970)
Net cash used in operating activities	(918,995)	(2,707,658)	(2,858,616)
Cash flows from investing activities:			
Proceeds from sale of investments - related parties	35,784	-	-
Purchases of property and equipment	-	(559,604)	(689,989)
Net cash provided by (used in) investing activities	35,784	(559,604)	(689,989)
Cash flows from financing activity - proceeds from the issuance of common stock and warrants			
	827,681	3,140,303	3,362,136
Net decrease in cash and cash equivalents	(55,530)	(126,959)	(186,469)
Cash and cash equivalents at beginning of year	104,238	231,197	417,666
Cash and cash equivalents at end of year	\$ 48,708	\$ 104,238	\$ 231,197
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	\$ 20,180	\$ -	\$ 12,965
Supplemental schedule of noncash investing activities:			
Marketable securities received for settlement of amounts previously written off as bad debt	\$ -	\$ -	\$ 108,403
Inventory originally purchased for resale reclassified to property and equipment	\$ -	\$ 69,430	\$ -

The accompanying notes and independent auditor's report should be read in conjunction with the consolidated financial statements

USA VIDEO INTERACTIVE CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS:

USA Video Interactive Corp. (the "Company") is a designer of high-tech Internet streaming video-on-demand systems, services and solutions. At December 31, 2002 and for the three-year period then ended, substantially all of the Company's assets and substantially all its operations are located and conducted in the United States.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As shown in the financial statements, the Company has incurred losses of \$2,113,138, \$3,760,821 and \$4,661,652 for the years ended December 31, 2002, 2001 and 2000, respectively. In addition, the Company has a working capital deficiency of approximately \$1,075,000 and a stockholders' deficiency of approximately \$819,000 at December 31, 2002. These conditions raise doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations as they come due, which management believes it will be able to do. To date, the Company has funded operations primarily through the issuance of common stock and warrants to outside investors and the Company's management. The Company believes that its operations will generate additional funds and that additional funding from outside investors and the Company's management will continue to be available to the Company when needed. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classifications of liabilities that might be necessary in the event the Company cannot continue as a going concern.

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated.

The Company maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses on these accounts.

The preparation of financial statements in conformity 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

The Company had classified its investments in marketable securities as available-for-sale securities. These securities were carried at fair value with any unrealized gain or loss recorded as a component of stockholders' equity. The fair value of marketable securities was determined based on the quoted market prices for those instruments. At December 31, 2001, the marketable securities consisted of common stock.

USA VIDEO INTERACTIVE CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Inventory, which consists of computer equipment, is stated at the lower of cost or market using the specific-identification method.

Property and equipment is stated at cost. Maintenance and repairs are expensed as incurred. When property is retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in operations. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the estimated useful lives of the improvements or the terms of the related lease, whichever is shorter.

Other assets consist of patents and patents pending owned by the Company for the Store and Forward Video System. The patents and patents pending are recorded at cost and are being amortized on a straight-line basis over 17 years.

The Company tests the carrying amount of long-lived assets, including intangible assets, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, based on the undiscounted cash flows expected from the use and eventual disposition of the asset.

Revenue from hardware product sales is recognized when the product has been shipped and collectibility is reasonably assured. Revenue recognized from these sales is net of applicable provisions for refunds, discounts and allowances. Engineering services sales are recognized upon the service having been provided.

Revenue from software sales is recognized when the product has been delivered. Revenue from multiple element contracts (hardware, software and engineering) is allocated to the various elements based on fair value. If objective evidence of fair value is not available, revenue from these contracts is deferred until the earlier of when objective evidence of fair value does exist or all elements of the contract have been delivered. Discounts will be applied to each element on a proportionate basis. No portion of the revenue will be recognized if the portion of the revenue allocable to delivered elements is subject to forfeiture, refund or other concession.

Research and development costs are expensed as incurred.

Advertising costs are expensed when incurred. Advertising expense for the years ended December 31, 2001 and 2000 was approximately \$16,000 and \$97,000, respectively.

Income taxes are accounted for under the liability method. Under this method, deferred tax assets and liabilities are recorded based on the temporary differences between the financial statement and the tax bases of assets and liabilities and for operating loss carryforwards measured using the enacted tax rates in effect for the year in which the differences are expected to reverse. The Company periodically evaluates the realizability of its net deferred tax assets and records a valuation allowance if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

The assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars at current exchange rates, and revenue and expenses are translated at average rates of exchange prevailing during the period. The aggregate effect of translation adjustments is immaterial at December 31, 2002 and 2001.

USA VIDEO INTERACTIVE CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Basic loss per common share ("EPS") is computed as net loss divided by the weighted-average number of common shares outstanding during the period. Diluted EPS includes the impact of common stock potentially issuable upon the exercise of options and warrants. Potential common stock has been excluded from the computation of diluted net loss per share as their inclusion would be antidilutive.

The Company has elected to apply APB Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB Opinion No. 25"), and related interpretations in accounting for its stock options and has adopted the disclosure-only provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock-Based Compensation*. If the Company had elected to recognize compensation cost based on the fair value of the options granted at the grant date as prescribed by SFAS No. 123, the Company's net loss and net loss per common share for the years ended December 31, 2002, 2001 and 2000 would have been as follows:

Year ended December 31,	2002	2001	2000
Net loss:			
As reported	\$(2,113,138)	\$(3,760,821)	\$(4,661,652)
Add: Stock-based compensation expense included in reported net loss	38,154	-	-
Deduct: Total stock-based compensation expense determined under fair value based method for all awards	(378,338)	(75,000)	(4,763,418)
Pro forma	\$(2,453,322)	\$(3,835,821)	\$(9,425,070)
Loss per common share - basic and diluted:			
As reported	\$ (0.02)	\$ (0.04)	\$ (0.06)
Pro forma	\$ (0.03)	\$ (0.05)	\$ (0.12)

The fair value of each option grant was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

Year ended December 31,	2002	2001	2000
Expected dividend yield	- 0 -	- 0 -	- 0 -
Risk-free interest rate	3.03%	4.80%	6.37%
Volatility	1.37%	1.43%	1.43%
Expected life (years)	2	2	2

USA VIDEO INTERACTIVE CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Management does not believe that any recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying financial statements.

3. MAJOR CUSTOMERS:

During the year ended December 31, 2002, three customers accounted for approximately 36%, 32% and 12% of total revenue. During the year ended December 31, 2001, one customer accounted for approximately 61% of total revenue. During the year ended December 31, 2000, three customers accounted for approximately 26%, 44% and 12% of total revenue.

4. MARKETABLE SECURITIES:

Marketable securities consist of the following:

December 31,	2001
<hr/>	
Available-for-sale equity securities:	
Cost	\$129,103
Unrealized loss	(86,487)
<hr/>	
	\$ 42,616
<hr/>	

The investments in marketable securities were with companies that have a board member who is a board member of the Company.

Included in other in the accompanying consolidated statement of operations for the year ended December 31, 2002 is a loss of \$93,319 on the disposition of the securities.

5. PREPAID EXPENSES AND OTHER CURRENT ASSETS:

Prepaid expenses and other current assets consist of the following:

December 31,	2002	2001
<hr/>		
Refundable security deposits	\$ 5,398	\$ -0-
Other (none in excess of 5% of current assets)	5,175	21,613
<hr/>		
	\$10,573	\$21,613
<hr/>		

USA VIDEO INTERACTIVE CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. PROPERTY AND EQUIPMENT:

Property and equipment, at cost, consists of the following:

December 31,	2002	2001	Estimated Useful Life
Office equipment	\$ 16,069	\$ 139,200	5 years
Computer equipment	195,245	1,504,771	3 years
Leasehold improvements	-	29,383	5 years
	211,314	1,673,354	
Less accumulated depreciation	-	573,015	
	<u>\$211,314</u>	<u>\$ 1,100,339</u>	

Depreciation and amortization expense amounted to \$435,193, \$383,940 and \$219,740 for the years ended December 31, 2002, 2001 and 2000, respectively.

During the year ended December 31, 2002, the Company recorded impairment losses of approximately \$454,000 (see Note 13).

As the result of the Company's inability to raise revenue in accordance with the corporate business plan, the Company continued operating at a loss for the year ended December 31, 2002. As a result, the Company commenced an impairment review of its long-lived assets in accordance with SFAS No. 144, *Accounting of the Impairment or Disposal of Long-Lived Assets*. As a result of this impairment review, the Company recorded impairment losses of approximately \$453,000 to reduce the carrying value of these assets to its estimated fair value. Approximately \$350,000 was recorded during the third quarter and approximately \$103,000 was recorded during the fourth quarter.

At December 31, 2002, as a result of the Company recording an impairment loss, the cost of the property and equipment has been adjusted to reflect the new carrying amount. This new cost will be depreciated over the remaining useful lives of the assets.

USA VIDEO INTERACTIVE CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. **OTHER ASSETS:** Other assets consist of the following amortized intangible assets:

	Gross Carrying Amount	Accumulated Amortization
Patents	\$56,488	\$(11,339)

Aggregate Amortization Expense:

For year ended December 31, 2002		\$3,323
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Estimated Amortization Expense:

For year ended December 31,

2003		\$3,323
2004		3,323
2005		3,323
2006		3,323
2007		3,323

8. **ACCOUNTS
PAYABLE AND
ACCRUED
EXPENSES:**

Accounts payable and accrued expenses consist of the following:

December 31,	2002	2001
Accounts payable	\$ 260,454	\$189,702
Accrued professional fees	93,062	77,164
Accrued payroll and related tax withholdings	564,413	455,374
Amounts due for purchased computer equipment	164,570	226,177
	\$1,082,499	\$948,417

9. **COMMITMENTS
AND
CONTINGENCIES:**

The Company leases its office space under a noncancelable operating lease expiring in November 2003. The minimum rental commitment of this lease is approximately \$14,000. Rent expense amounted to \$56,535, \$79,481 and \$73,521 for the years ended December 31, 2002, 2001 and 2000, respectively.

The Company is party to a default judgment entered against one of the Company's subsidiaries. During the year ended December 31, 1995, a claim was made to the Company for the total amount payable under the terms of the lease with one of the Company's subsidiaries for office space in Dallas, Texas through 2002. The Company's management is of the opinion that the amount payable under the terms of this judgment is not estimable or determinable at this time and may be substantially mitigated by the landlords renting the property to another party. The range of possible loss is from \$-0- to approximately \$500,000. Any settlement resulting from the resolution of this contingency will be accounted for in the period of settlement when such amounts are estimable or determinable.

USA VIDEO INTERACTIVE CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. STOCKHOLDERS' EQUITY:

On April 10, 2000, the Company issued 190,000 units to officers of the Company at \$4.00 per unit. Each unit consisted of one share of common stock and one warrant to purchase an additional share of common stock at \$4.00 per share.

On July 20, 2000, the Company issued 430,301 units to investors at \$1.50 per unit. Each unit consisted of one share of common stock and one warrant to purchase an additional share of common stock at \$1.50 per share.

On July 20, 2000, the Company issued 569,699 units to employees at \$1.50 per unit. Each unit consisted of one share of common stock and one warrant to purchase an additional share of common stock at \$1.50 per share. The Company charged operations for approximately \$712,000 representing the differential between the fair value and the purchase price of the common stock and for approximately \$712,000 representing the differential between the fair value of the underlying common stock and the exercise price of the warrants.

From January 1, 2000 to December 31, 2000, the Company issued 2,383,000 shares of common stock upon the exercising of options with exercise prices ranging from \$.06 to \$1.00 per common share.

From January 1, 2000 to December 31, 2000, the Company issued 5,145,000 shares of common stock upon the exercising of warrants with exercise prices ranging from \$.06 to \$.49 per common share.

On March 12, 2001, the Company issued 1,585,000 units to investors at \$.54 per unit. Each unit consisted of one share of common stock and one warrant to purchase an additional share of common stock at \$.66 per share.

On March 12, 2001, the Company issued 915,000 units to employees at \$.54 per unit. Each unit consisted of one share of common stock and one warrant to purchase an additional share of common stock at \$.66 per share. The Company charged operations for approximately \$294,000 representing the differential between the fair value and the purchase price of the common stock and for approximately \$168,000 representing the differential between the fair value of the underlying common stock and the exercise price of the warrants.

On September 28, 2001, the Company issued 3,512,500 units to investors at \$.27 per unit. Each unit consisted of one share of common stock and one warrant to purchase an additional share of common stock at \$.35 per share.

On September 28, 2001, the Company issued 487,500 units to employees at \$.27 per unit. Each unit consisted of one share of common stock and one warrant to purchase an additional share of common stock at \$.35 per share. The Company charged operations for approximately \$10,000 representing the differential between the fair value and the purchase price of the common stock.

On December 31, 2001, the Company issued 2,782,500 units to investors at \$.20 per unit. Each unit consisted of one share of common stock and one warrant to purchase an additional share of common stock at \$.26 per share.

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On December 31, 2001, the Company issued 517,500 units to employees at \$.20 per unit. Each unit consisted of one share of common stock and one warrant to purchase an additional share of common stock at \$.26 per share. The Company charged operations for approximately \$10,000 representing the differential between the fair value and the purchase price of the common stock.

From January 1, 2001 to December 31, 2001, the Company issued 245,000 shares of common stock upon the exercising of warrants with exercise prices ranging from \$.12 to \$.49 per common share.

On June 28, 2002, the Company issued 7,085,000 units to investors at \$.07 per unit. Each unit consisted of one share of common stock and one warrant to purchase an additional share of common stock at \$.085 per share.

On June 28, 2002, the Company issued 2,915,000 units to employees at \$.07 per unit. Each unit consisted of one share of common stock and one warrant to purchase an additional share of common stock at \$.085 per share.

On December 31, 2002, the Company issued 1,275,000 units to investors at \$.064 per unit. Each unit consisted of one share of common stock and one warrant to purchase an additional share of common stock at \$.064 per share.

On December 31, 2002, the Company issued 725,000 units to employees at \$.064 per unit. Each unit consisted of one share of common stock and one warrant to purchase an additional share of common stock at \$.064 per share.

11. STOCK OPTIONS AND STOCK WARRANTS:

The Company has a stock option plan under which options to purchase shares of common stock may be granted to certain officers, directors and service providers.

In June 2001, the Company adopted a new Stock Option Plan (the "2001 Plan"). The 2001 Plan authorizes the issuance of up to 8,400,000 of the Company's common shares, subject to adjustment under certain circumstances. The Company is listed on the Canadian Venture Exchange ("CDNX") and is subject to a limitation on the number of options a company may have. The 2001 Plan provides for the issuance of both incentive stock options and nonqualified options as those terms are defined in the Internal Revenue Code of 1986, as amended (the "Code"). The Company's previous option plan will remain in effect until all granted stock options are exercised, expired or canceled.

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A summary of the status of the Company's options and changes during the years is presented below:

	Year ended December 31, 2002		2001		2000	
	Number of Shares	Weighted-average Exercise Price	Number of Shares	Weighted-average Exercise Price	Number of Shares	Weighted-average Exercise Price
Outstanding at beginning of year	3,560,000	\$2.18	6,957,000	\$0.69	6,329,000	\$0.81
Granted	5,605,000	\$0.50	250,000	\$1.00	4,360,000	\$2.27
Exercised	-0-	\$0.00	-0-	\$0.00	(2,383,000)	\$0.25
Canceled/expired	(9,140,000)	\$1.15	(3,647,000)	\$1.11	(1,349,000)	\$2.13
Outstanding at end of year	25,000	\$0.50	3,560,000	\$2.18	6,957,000	\$0.69
Options exercisable at year-end	25,000		3,560,000		6,957,000	
Weighted-average fair value of options granted during the year		\$0.17		\$0.75		\$1.05

In October and December 2002, the Company cancelled substantially all the outstanding options.

The following table summarizes information about fixed stock options outstanding at December 31, 2002:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted-average Remaining Contractual Life	Weighted-average Exercise Price	Number Exercisable	Weighted-average Exercise Price
\$0.50	25,000	1.1 years	\$0.50	25,000	\$0.50

In January 2002, the Company issued 925,000 options to nonemployee consultants, having a fair value of approximately \$153,000, determined using the Black-Scholes option pricing model. The options were subsequently cancelled. The fair value of the options which vested, amounting to approximately \$38,000, was recorded as compensation expense.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Warrants to purchase shares of common stock are as follows:

Year ended December 31,	2002		2001		2000	
	Number of Warrants	Range of Exercise Price	Number of Warrants	Range of Exercise Price	Number of Warrants	Range of Exercise Price
Outstanding at beginning of year	10,990,000	\$0.26 - \$4.00	2,295,000	\$0.13 - \$4.00	6,250,000	\$0.07 - \$1.10
Issued	12,000,000	\$0.064 - \$0.085	9,800,000	\$0.26 - \$0.80	1,190,000	\$1.50 - \$4.00
Exercised	-0-	\$0.00	(245,000)	\$0.30	(5,145,000)	\$0.07 - \$1.28
Expired	(1,190,000)	\$1.50 - \$4.00	(860,000)	\$0.58-\$1.10	-0-	\$0.00
Outstanding at end of year	21,800,000	\$0.064 - \$0.80	10,990,000	\$0.26 - \$4.00	2,295,000	\$0.13 - \$4.00

11. INCOME TAXES:

As of December 31, 2002, the Company had deferred tax assets resulting primarily from net operating loss carryforwards of approximately \$23,000,000, which are available to offset future taxable income, if any, through 2022. As utilization of the net operating loss carryforwards is not assured, a 100% valuation allowance has been provided.

The components of the net deferred tax assets are as follows:

December 31,	2002	2001
Deferred tax assets:		
Net operating loss carryforwards	\$ 7,916,000	\$ 7,211,000
Allowance for doubtful accounts	34,000	34,000
Unrealized gains (losses) on investments	-	(30,000)
Valuation allowance	(7,950,000)	(7,215,000)
Net deferred tax assets	\$ - 0 -	\$ - 0 -

The reconciliation of the effective income tax rate to the federal statutory rate is as follows:

Year ended December 31,	2002	2001
Federal statutory tax rate	34 %	34 %
Valuation allowance on net operating carryforwards	(34)	(34)
Effective income tax rate	- 0 - %	- 0 - %

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- 13. RELATED PARTY TRANSACTIONS:** Due to related parties at December 31, 2002 and 2001 of \$53,180 and \$91,480, respectively, primarily consist of advances made from officers of the Company that accrue interest at 1.25% per month and amounts due to directors for services which are noninterest-bearing and are due on demand. The estimated fair value of the amounts payable approximates the carrying amount based on rates available for similar loans.

Included in selling, general and administrative expenses for the year ended December 31, 2000 was \$37,758 of expenses incurred consisting primarily of product marketing expenses, office expenses and professional services provided to the Company by entities owned or controlled by officers and directors of the Company.

14. VALUATION AND QUALIFYING ACCOUNTS:

	Allowance for Doubtful Accounts
Balance at December 31, 2000	\$7,000
Additions	-
Deductions	7,000
Balance at December 31, 2001	-
Additions	-
Deductions	-
Balance at December 31, 2002	\$ - 0 -

15. QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

The following table summarizes selected quarterly data for the years ended December 31, 2002 and 2001:

	First Quarter	Second Quarter	Third Quarter	Forth Quarter	Full Year
<u>2002:</u>					
Revenue	\$ 26,253	\$ 63,323	\$ 57,125	\$ 10,275	\$ 156,976
Expenses	(703,100)	(534,815)	(703,007)	(255,904)	(2,196,826)
Net loss	(676,780)	(564,757)	(641,336)	(230,265)	(2,113,138)
Net loss per common share:					
Basic and diluted	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.00)	\$ (0.02)

(continued)

USA VIDEO INTERACTIVE CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	First Quarter	Second Quarter	Third Quarter	Forth Quarter	Full Year
<u>2001:</u>					
Revenue	\$ 1,060	\$ 33,175	\$ 67,626	\$ 22,145	\$ 124,006
Expenses	(1,304,608)	(954,137)	(823,380)	(810,720)	(3,892,845)
Net loss	(1,298,068)	(919,808)	(753,999)	(788,946)	(3,760,821)
Net loss per common share:					
Basic and diluted	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.04)

16. SUBSEQUENT EVENTS:

In February 2003, the Company issued 2,200,000 units to investors at \$.0657 per unit. Each unit consisted of one share of common stock and one warrant to purchase an additional share of common stock at \$.0657 per share.

In February 2003, the Company issued 550,000 units to employees at \$.0657 per unit. Each unit consisted of one share of common stock and one warrant to purchase an additional share of common stock at \$.0657 per share.