NORTH AMERICAN DATACOM INC
Form 10-Q
February 14, 2001

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended December 31, 2000

or

[ ] Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

Commission file No. 33-17679

NORTH AMERICAN DATACOM, INC.
(Exact name of registrant as specified in its charter)

Delaware	84-1067694
(State of incorporation)	(I.R.S. Employer Identification Number)

751 County Road 989, Building 1000, Iuka, MS 38852
(Address of principal executive offices) (Zip Code)

(662) 424-5050

(Registrant's Telephone Number)

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 proceeding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES [X] NO [ ]

As of January 31, 2001, the Company had approximately 98,656,448 outstanding shares of common stock

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NORTH AMERICAN DATACOM, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
UNAUDITED

	UNAUDITED DECEMBER 31, 2000
ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 78,140
Accounts Receivable, Net of Allowance of $2,400 for December 31 and June 30, 2000	46,153
Notes Receivable, Net of Long-term Maturities	--
Inventories	3,538
Employee Advances	2,555
Total Current Assets	130,386
Investments (Note 3)	--
Property and Equipment:	
Conduit and Optic Fiber	14,432,996
Computers and Equipment	727,033
Communications Equipment and Wireless Towers	635,821
Software	162,587
Other Equipment	83,737
Vehicle	33,541

Leasehold Property and Improvements	15,960
Office Furniture	3,231
Total Property and Equipment	16,094,906
Less Accumulated Depreciation and Amortization	(64,565)
Net Property and Equipment	16,030,341
Advance to Affiliate (Note 5)	200,000
Other Assets (Note 6)	444,818
Total Assets	$ 16,805,545

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:	
Trade Note Payable, Net of Unamortized Discount (Note 4)	$ 14,941,699
Accounts Payable	572,412
Accrued Expenses	312,175
Convertible Notes Payable	33,541
Total Current Liabilities	15,859,827
Payable to Director	23,917
Total Liabilities	15,883,744
Commitments and Contingencies	
Stockholders' Equity (Note 7)	
Convertible Preferred Stock, No Par Value; 400,000 Shares Authorized	--
Series B Convertible Preferred Stock, $.0001 Par Value; 6% Cumulative; 5,000 Shares Authorized; 1,126 and 300 Shares Issued and Outstanding as of December 31, 2000 and June 30, 2000, Respectively	1,125,904
Common Stock, $.0001 Par Value; 150,000,000 Shares Authorized; 98,656,448 and 97,992,758 Shares Issued and Outstanding as of December 31, 2000 and June 30, 2000, Respectively	9,865
Additional Paid in Capital	3,880,963
Other Accumulated Comprehensive Income	(189,200)
Retained Earnings (Accumulated Deficit)	(3,905,730)
Total Stockholders' Equity	921,801
Total Liabilities and Stockholders' Equity	$ 16,805,545

See accompanying notes to consolidated financial statements (unaudited).

NORTH AMERICAN DATACOM, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
UNAUDITED

	FOR THE THREE MONTHS ENDED DECEMBER 31,		FOR THE SIX DECEMB
	2000	1999	2000

Net Service Revenues	$ 85,366	$ 74,221	$ 156,373
Cost of Services	48,212	7,329	96,226
Gross Profit	37,154	66,892	60,147
Selling, General and Administrative Expenses	798,090	322,144	1,513,954
Operating Loss	(760,936)	(255,252)	(1,453,807)
Other Income (Expense), Net	(172,848)	2,437	(349,063)
Loss Before Income Tax Expense (Benefit)	(933,784)	(252,815)	(1,802,870)
Income Tax Expense (Benefit)	--	--	--
Net Loss	$ (933,784)	$ (252,815)	$ (1,802,870)
Basic and Diluted Loss per Common Share (Note 1)	$ (0.01)	$ (0.01)	$ (0.02)
Weighted Average Number of Common Shares Outstanding - Basic and Diluted (Note 1)	98,638,724	31,372,129	98,491,320

See accompanying notes to consolidated financial statements (unaudited).

NORTH AMERICAN DATACOM, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
UNAUDITED

	FOR THE THREE MONTHS ENDED DECEMBER 31,		FOR THE S DE
	2000	1999	2000
Net loss	$(933,784)	$(252,815)	$(1,802,8
Net change in unrealized loss on investments (Note 3)	(60,000)	(41,650)	(90,0
Comprehensive loss	$(993,784)	$(294,465)	$(1,892,8

See accompanying notes to consolidated financial statements (unaudited).

NORTH AMERICAN DATACOM, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)

	Series B Preferred Stock		Common Stock			
	Shares	Amount	Shares	Par Value	Additional PIC	Accumula Defici
Balances, June 30, 2000	300	$ 300,000	97,992,758	$9,798	$2,667,567	$(2,102,
Issuance of Series B preferred stock	500	500,000	--	--	--	
Sale of common stock	--	--	317,500	32	634,968	
Sale of common stock	--	--	150,000	15	442,110	
Exercise of stock options to acquire common stock	--	--	11,542	1	9,999	
Exercise of stock options to acquire common stock	--	--	115,423	12	9,988	
Issuance of shares for services	--	--	1,000	--	2,000	
Net unrealized loss from investments	--	--	--	--	--	
Net loss for the period ended September 30, 2000	--	--	--	--	--	(869,
Balances, September 30, 2000	800	$ 800,000	98,588,223	$9,858	$3,766,632	$(2,971,
Issuance of shares for services	--	--	20,225	2	44,188	
Issuance of shares for financial services rendered	--	--	30,000	3	59,997	
Issuance of shares for financial services rendered	--	--	3,000	1	8,842	
Exercise of stock options to acquire common stock	--	--	15,000	1	1,304	
Issuance of Series B preferred stock	326	325,904	--	--	--	
Net change in unrealized loss from investments	--	--	--	--	--	
Net loss for the period ended December 31, 2000	--	--	--	--	--	(933,
Balances, December 31, 2000	1,126	$1,125,904	98,656,448	$9,865	$3,880,963	$(3,905,

See accompanying notes to consolidated financial statements (unaudited).

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NORTH AMERICAN DATACOM, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
UNAUDITED

FOR THE SIX MONTHS

	DECEMBER 31, 2000	199
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(1,802,870)	$(42
Adjustments to reconcile net loss to cash used in operations:		
Depreciation and amortization (Note 4)	405,480	1
Changes in operating assets and liabilities, net of acquisitions:		
Increase in accounts receivable	(8,305)	(
Decrease in notes receivable	2,920	(7
Increase in inventory	(3,100)	
Increase in other assets and employee advances	92,680	(21
Increase in accounts payable and accrued expenses	700,033	65
Net cash used in operations	(613,162)	(5
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(512,522)	(84
Advance to affiliate (Note 5)	(200,000)	
Net cash used in investing activities	(712,522)	(84
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of common stock (Note 7)	1,098,432	51
Payments on trade note payable	(575,000)	
Proceeds from sale of preferred stock (Note 7)	825,904	
Proceeds from issuance of convertible notes payable	33,541	8
Net cash provided by financing activities	1,382,876	59
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS for the period	57,192	(31
CASH AND CASH EQUIVALENTS, beginning of period	20,948	72
CASH AND CASH EQUIVALENTS, end of period	$ 78,140	$ 41
Supplemental schedule of non-cash operating activities:		
Issuance of common stock for payment of accounts payable	$ 115,032	$

See accompanying notes to consolidated financial statements (unaudited).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
UNAUDITED

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of

Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of the Company's financial position as of December 31, 2000 and the results of its operations and cash flows for the three-and-six-month periods ended December 31, 2000 and 1999. These financial statements should be read in conjunction with the Company's audited consolidated financial statements as of June 30, 2000 including notes thereto, included in the Company's 1999 Annual Report on Form 10-K for fiscal year ended June 30, 2000.

NATURE OF BUSINESS

The Company intends to provide communications and information technology services with an emphasis on wideband fiber optic and wireless telecommunications services that support enterprise data storage solutions, primary for customers in southern United States.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany accounts and transactions are eliminated.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain estimates used by management are particularly susceptible to significant changes in the economic environment. These include estimates of the realization of long-lived assets and deferred tax assets. Each of these estimates, as well as the related amounts reported in the financial statements, are sensitive to near term changes in the factors used to determine them. A significant change in any one of those factors could result in the determination of amounts different from those reported in the consolidated financial statements and the effect of such differences could be material.

INVESTMENTS

Investments are classified as available-for-sale and are reported at estimated fair value, with unrealized gains and losses, net of taxes, reported as a separate component of stockholders' equity.

Realized gains and losses, and declines in value judged to be other than temporary, are included in other income. The cost of securities sold is based on the specific identification method and interest earned is included in other income.

REVENUE RECOGNITION

Revenue is recognized when services are rendered.

TAXES ON INCOME

Income taxes are calculated using the liability method specified by Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes ("SFAS

109"). Under SFAS 109, the Company provides for estimated income taxes payable or refundable on current year income tax returns as well as the estimated future tax effects attributable to temporary differences and carry forwards. Measurement of deferred

income taxes is based upon enacted tax laws and tax rates, with the measurement of deferred income tax assets reduced by estimated amounts of tax benefits not likely to be realized.

EARNINGS PER SHARE

Basic and diluted loss per share of common stock have been computed based upon the weighted average number of shares outstanding during the quarter ending December 31, 2000 and, after giving effect to the merger stock split, the quarter ending December 31, 1999. Common stock equivalents consisting of stock options, convertible notes, convertible preferred stock and warrants were not considered in either period, as their effect would be anti-dilutive.

The following details the Company's actual common stock equivalents (in post-merger shares):

	December 31, 2000	December 31, 1999
Stock options	14,469,216	11,659,966
Convertible notes	47,208	1,903,130
Warrants	--	80,000
Convertible preferred stock	1,052,000	23,318,779
	15,568,424	36,961,875

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost. Major renewals and improvements are capitalized, while maintenance and repairs are expensed when incurred. Depreciation is computed over the estimated useful lives of depreciable assets using the straight-line method. Useful lives for property and equipment are as follows:

	YEARS
Conduit and optic fiber	25
Communications equipment and wireless towers	3-10
Computers	5
Other Equipment	3-10
Leasehold improvements	Term of lease

The carrying values of long-lived assets are periodically reviewed by the

Company and impairments would be recognized if the expected future operating non-discounted cash flows derived from an asset were less than its carrying value.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of the Company's financial instruments, consisting of cash and cash equivalents, notes and accounts receivable, accounts payable and payable to director approximate their respective fair values.

BUSINESS LINES

Fiber Optic and Broadband Wireless Network: The Company is building a fiber optic and broadband wireless communications network, which will allow for the high-speed transmission of large amounts of data. It is expected that businesses, government agencies and institutions will use the Company network as a preferred alternative to existing telephone and satellite data transmission systems. The Company installed a wireless network connecting Iuka to Atlanta and Memphis. This wireless network currently operates at a DS-3 bandwidth level.

Internet Access: As of December 31, 2000, the Company provides Internet service in Mississippi, Tennessee and Alabama. Internet services provided by the Company include basic dial-up access to the Internet through standard computer modems, high speed Internet access, and the design and hosting of websites for customers.

Remote Data Storage: During fiscal 2000, the Company took delivery of equipment that will allow third parties to store and access data stored in digital form on computer systems maintained and operated by the Company in its facility in Iuka, Mississippi. As of December 31, 2000, the Company has started its operation with an initial agreement. This agreement will provide revenues for the EDS line beginning next quarter.

Telecommunication Projects and Consulting: The Company plans to assist corporations, government agencies and institutions in the design and installation of their own internal telecommunications networks. The Company plans to use state-of-the-art technology, which will enable its clients to transfer and receive large amounts of data at high speed between both internal and external sources.

At present, the Company operates two segments, internet access, including paging, and remote data and storage to consumers and small businesses.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"). SFAS 133 requires companies to recognize all derivatives contracts as either assets or liabilities in the balance sheet and to measure them at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge, the objective of which is to match the timing of gain or loss recognition on the hedging derivative with the recognition of (i) the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk or (ii) the earnings effect of the hedged forecasted transaction. For a derivative not designated as a hedging instrument, the gain or loss is recognized in income in the period of change.

In June 2000, the FASB issued Statement of Financial Accounting Standards No. 138, "Accounting for Derivative Instruments and Certain Hedging Activities (an amendment of FASB Statement No. 133)." The adoption of SFAS 138 did not have a material impact on the results of operations, financial position and liquidity of the Company. SFAS 133, as amended by 138, was effective for all fiscal quarters of all fiscal years beginning after June 15, 2000.

The Financial Accounting Standards Board issued Interpretation ("Interpretation") No. 44, "Accounting for Certain Transactions involving Stock Compensation, an Interpretation of APB Opinion No. 25" which is effective July 1, 2000. Interpretation No. 44 clarifies (a) the definition of employee for purposes of applying Opinion 25, (b) the criteria for determining whether a stock compensation plan qualifies as a non-compensatory plan, (c) the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. Adoption of the provisions of the Interpretation has not had a significant impact on our financial statements.

In December 1999, the SEC issued Staff Accounting Bulletin ("SAB") No. 101, -- Revenue Recognition, which outlines the basic criteria that must be met to recognize revenue and provides guidance for presentation of revenue and for disclosure related to revenue recognition policies in financial statements filed with the Securities and Exchange Commission. We believe that adopting the provisions of SAB No. 101 will not have a material impact on our financial position or results of operations.

In September 2000, the Financial Accounting Standards Board issued SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities ("SFAS 140"). SFAS 140 revises the standards for accounting for securitizations and other transfers of financial assets and collateral and is effective for fiscal years beginning after December 15, 2000. We believe that adopting SFAS 140 will not have a material impact on our financial position or results of operations.

3. INVESTMENTS:

The Company's investments are classified as available-for-sale. The amortized cost, gross unrealized gains (losses) and estimated fair value, less the option price of $.12 per share, for these investments were as follows at December 31, 2000 and June 30, 2000. The Company has exercised its option rights, but has not yet been issued stock by NYRR, as legal issues are being worked out by Company counsel.

December 31, 2000	Cost Basis	Gross Unrealized Gains (Losses)	Estimated Fair Value
New York Regional Rail Corporation Stock Options	$250,000	$(250,000)	$ 0
June 30, 2000			
New York Regional Rail Corporation Stock Options	$250,000	$(160,000)	$90,000

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4. PROPERTY, PLANT AND EQUIPMENT:

In March 2000, the Company acquired 504 miles of fiber optic conduit for $15.1 million from Qwest. The purchase price was to be paid over a 12-month period ending March 31, 2001. Accordingly, imputed interest of $723,109 was recorded as a discount which is being amortized as an interest charge over the term of the payable. For the three-and-six-month quarterly periods ending December 31, 2000 the interest charge associated with this payable was $182,263 and $364,526, respectively. The Company currently is past due in its payments on this obligation and is actively negotiating with the vendor for modifications of the repayment terms. Management believes it will be successful in its negotiations with Qwest and that ultimately an agreement will be in place.

On August 15, 2000, the Company entered into an agreement with a subsidiary of Norfolk Southern Company to lay fiber optic conduit between Atlanta, Georgia and Chattanooga, Tennessee and from Chattanooga to Memphis, Tennessee. The agreement calls for payments of approximately $29 million over the course of the agreement, approximately $2.9 million of which was due on October 15, 2000 with the balance due in specified installments as the conduit is installed. The contractor is two months late on its installation. The Company has therefore not made any payments due under this agreement. The Company and the contractor are currently in negotiations relating to new terms for the payments and completion of the installation.

5. ADVANCE TO AFFILIATE

In July 2000, the Company and Global Fiber Optic and Wireless Communications, Ltd. ("Global") each advanced $200,000 for developing a joint venture to provide a 4,000 mile fiber optic communications and internet network for Turkey. The Company and Global plan to each have a fifty percent interest in the joint venture formed. The Company will be required to provide electronic and communications technologies, while Global will provide rights-of-way and other real estate as needed in Turkey. Currently the advances are being used by the proposed joint venture to purchase rights-of-way and other assets to be utilized in the future operations of the joint venture.

6. OTHER ASSETS

Other assets consist of the following items as of:

	DECEMBER 31, 2000	JUNE 30, 2000
FCC License, net of amortization of $26,723 and $14,389, respectively	$343,277	$355,611
Deposits	17,000	0
Prepaid expenses	22,751	32,431
Deferred income tax asset	61,790	61,790
Total	$444,818	$449,832

7. STOCKHOLDERS' EQUITY:

In May 2000, the Board authorized 500,000 shares of Series B Preferred Stock. In June 2000, the Company authorized the sale of up to 5,000 shares of Series B convertible preferred stock for $1,000 per share to a principal shareholder. Each share is convertible into 500 shares of Rule 144 restricted common stock of the Company. Each share carries a $60 dividend payable in July annually with these dividends accumulating if not paid and has a right upon liquidation to be redeemed before any common shareholders. If dividends are not current the holders will have 500 voting rights for each share held. There are no redemption rights for retiring this issue. In September 2000, the Company sold 500 shares of Series B Preferred Stock to a principal shareholder for $500,000. During December 2000, the Company sold 326 shares of Series B Preferred Stock to a principal shareholder for $325,904. The conversion of the newly issued preferred shares was changed to reflect current market prices. Each of the new shares will be convertible into 2,000 shares of Rule 144 restricted common stock of the Company.

In July 2000, $10,000 of stock options were exercised for 11,542 shares of common stock.

In July 2000, the Company awarded 1,000 shares of its common stock to three individuals for non-cash prize from a logo contest held for local-area students.

In August 2000, $10,000 of stock options were exercised for 115,423 shares of common stock.

In August 2000, the Company sold 317,500 shares of common stock for a total purchase price of $635,000 to a private investor. In October 2000, the company issued 30,000 shares of common stock for costs and services totaling $59,997 to the investor pursuant to the agreement.

In September 2000, the Company closed the private placement of 150,000 shares of common stock for a total purchase price of approximately $442,125. The Company agreed to pay certain fees associated with the placement through the issuance of an additional 3,000 shares of common stock and the payment of $13,700 in cash. The agreement provided that the Company shall file a registration statement with the SEC for the resale of the 150,000 shares by October 5, 2000. For each fifteen day period following this deadline in which the registration statement is not filed with the SEC, the Company was required to make a payment to the private investor equal to an amount payable in cash or common stock based upon the closing OTC bid price of the shares of the Company's common stock as of the end of each fifteen day period. The Company has since filed a registration statement for the resale of such shares, and paid additional shares of common stock to such private investors pursuant to the agreement. The registration was effective on January 31, 2001. In October, November, and December 2000, the Company issued 20,225 total shares of common stock valued at $44,188 as payment in full pursuant to the terms of an agreement previously entered into by the Company and such investors.

In December 2000, $1,305 of stock options were exercised for 15,000 shares of common stock.

8. SUBSEQUENT EVENTS:

The Company's S-1 filing with the SEC became effective January 31, 2001.

9. LIQUIDITY:

The accompanying financial statements have been prepared on a going concern basis, which contemplates continuity of operations and realization of assets and satisfaction of liabilities in the normal course of business. At December 31, 2000, the Company has negative working capital with obligations totaling $15,859,827 due within one year of which approximately $12.09 million is past due (Note 4). In addition, losses totaling $3,905,730 have been generated since inception. These matters raise substantial doubt about the company's ability to continue on as a going concern. The continuation of the Company as a going concern is dependent upon the Company raising additional capital, and attaining and maintaining profitable operations. The Company has identified potential sources of capital and potential joint venture and/or strategic partners and believes that they will be able to secure the necessary capital to put their business plan into operation.

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

The following is management's discussion and analysis of certain significant factors that have affected the Company's financial condition and results of operations during the periods included in the accompanying unaudited balance sheets and statements of operations.

ACQUISITIONS

The Company was organized in September 1998 as North American Software Associates, Limited, a Delaware corporation. The Company was organized to provide a variety of telecommunications services. On April 1, 1999, the Company acquired all of the assets of Freedom 2000, a local Internet Service Provider (ISP), in exchange for 577,123 shares of restricted common stock of the Company. On December 3, 1999, the Company acquired all of the common stock of Action Communications, Inc. ("Action"), a provider of digital and alpha numeric paging services, in exchange for 1,731,339 shares of restricted common stock of the Company. The Action transaction has been treated for accounting purposes as a purchase of assets and liabilities, and revenues and expenses of Action prior to December 3, 1999 have not been consolidated. Effective December 21, 1999, North American Software Associates, Limited ("NAS") was acquired by Pierce International, Inc. in a share exchange transaction and in March 2000 the Company changed its name to North American DataCom, Inc. The transaction with Pierce International, Inc. has been accounted for as a reverse acquisition since the former shareholders of NAS owned controlling interest in the Company immediately following the transaction and management of Pierce International, Inc. was replaced by management of NAS.

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OVERVIEW

The Company intends to provide broad-based communications and information technology services with an emphasis on wideband fiber optic and wireless telecommunications services that support Enterprise Data Storage(EDS) solutions. The Company plans to deploy a 3,000 mile fiber optic network in the states of Tennessee, Mississippi, Louisiana, Alabama, Georgia and Florida, that is based on advanced, state-of-the-art technology. The Company plans to use this network to provide a breadth of services to telecommunication companies, ISPs and large organizations, including government agencies and departments. The Company plans to provide superior quality and secure broadband communications to facilitate data storage services. The Company's Enterprise Data Storage business (EDS) will focus mainly on archiving, using two highly secure "Major Centers" at our facilities located in Iuka, Mississippi. In addition, the Company plans to

operate five collocation data storage "Satellite Centers" to provide mirroring and archiving services that are directly connected by its fiber optic network to its Major Center in Iuka.

The Company currently provides Internet access services and digital and alpha numeric paging services. To date, the Company's startup revenues have been derived from these services.

SEGMENT INFORMATION

In September 2000 the Company retained Cap Gemini/Ernst and Young to revise the Company's existing Business Plan and Business Model. The revised business plan and model were completed in December. The revised 5 year plan calls for a $725 million capital investment for the seven EDS Centers and the 3,000 route mile Fiber optic network. Revenues at the end of 5 years are projected to be over $500 million.

Current Capital markets dictated that the Company divide the Business plan and model into six independent network segments. The Company decided that Segment 1, Memphis to Iuka to Atlanta, was tactically and strategically the most important and therefore would be constructed first. The capital budget to develop and operate the Segment 1 network and EDS business is planned at approximately $75,000,000 through its first 18 months of operation, approximately July 2002.

Segment 1 of the Company's Business plan consists of approximately 550 miles of the network from Atlanta to Memphis. Segment 1 serves 12 of the 49 smaller cities with populations less than 100,000, and serves 3 of the 13 medium size cities with populations between 100,000 and 500,000. The Company has identified Tier Two markets consisting of those population centers that are not in the primary 100 largest areas but are uniquely located along railroad rights-of-way where fiber optic transmission facilities can be easily accessed and maintained. The Company's focus is to provide such services to Tier 2 markets in the southeast, initially from Atlanta to Memphis. The present fiber optic infrastructure in this rural region is inadequate compared to other parts of the country. The Company believes that by developing its network in an underserved area, it will be well positioned to benefit in the future from expected traffic growth. Segment 1 also intends to serve 3 of the largest 7 cities in the Company's planned network. The Major Center, and two of the five Satellite Centers are expected to be operational in Segment 1. The first two Satellite centers are planned to be in Chattanooga and Memphis. The Company currently expects to start generating revenues from Segment 1 in July 2001, and expects to have a positive cash flow in mid 2002, and to be profitable by year-end 2002.

RESULTS OF OPERATIONS:

The Company acquired Freedom 2000, its Internet service provider, in April 1999 and the Company acquired Action Communications, Inc., its digital and alpha numeric paging provider, in December 1999. Only one month of the revenues and expenses from Action is reflected in the Company's results of operations for the quarter ended December 31, 1999. As a result, management does not believe that the Company's results of operation for the quarter ended December 31, 1999 are directly comparable to results of operation for the quarter ended December 31, 2000. The Management believes the results are not indicative of possible results in the future.

The Company's historical net service revenues consist primarily of monthly fees from customers subscribing to the Company's Internet service provider services or the Company's digital and alphanumeric paging services. Net service revenues increased to $85,366 in the three month quarterly period ended December 31, 2000 from $74,221 for the three month quarterly period ended

December 31, 1999, an increase of approximately 15%. This growth in net service revenues was primarily the result of having operations generating approximately $19,044 of revenues for the paging services in the three month quarter ended December 31, 2000, as compared with one month of paging operations for the same three month quarterly period in 1999. In addition, the Company provided Internet access service to approximately 1404

customers at December 31, 2000 as compared with only about 708 customers at December 31, 1999.

The Company's cost of internet and paging services consist primarily of paging airtime, postage and delivery expenses and allocated overhead costs. Cost of services increased to $48,212 for the three month quarter ended December 31, 2000 from $7,329 for the three month quarter ended December 31, 1999. This increase in cost of services was primarily due to an increase in customers, net services provided, and increasing cost concerning telecommunications services. Cost of service, as a percent of net service revenue, increased from 9.9% for the three month quarter ended December 31, 1999 to 56.5% for the same quarterly period in 2000. As a result, gross profit for the three month quarter ended December 31, 2000 was $37,154, as compared with $66,892 for the three month quarter ended December 31, 1999.

The Company incurred selling, general and administrative expenses of approximately $798,090 for the three month quarter ended December 31, 2000 compared with $322,144 for the three month quarter ended December 31, 1999, an increase of approximately 148%. These expenses consisted primarily of the addition of management and technical staff for the fiber optic business. The telephone expenses, insurance expenses, payroll expenses, legal and professional services and rent expense increased due to the staff increase. The staffing increase was 21 employees, a total of 32 employees at December 31, 2000 compared to 11 employees at December 31, 1999. Approximately much more of general and administrative expense for the three month quarter ended December 31, 2000 was incurred by the Company in order to pursue its broadband telecommunications network and enterprise data center business plans.

The Company incurred approximately $172,848 in other expense for the three month quarter ended December 31, 2000 as compared with $2,437 of other income for the three month quarter ended December 31, 1999. Other income (expense) was primarily associated with investment income, interest expense and various miscellaneous expenses. Imputed interest of approximately $182,263 was recorded in the three month quarter ended December 31, 2000 relating to a contract to acquire rights-of-way and fiber conduit which provided for payments over a period of months without stated interest.

LIQUIDITY:

The Company's primary liquidity needs consist of funding constructing and equipping the Company's enterprise data storage center, constructing the Company's fiber optic and broadband network, and cash flow losses from operations. For the three month quarter ended December 31, 2000, the Company used approximately $613,162 of net cash in operations. For the three month quarter ended December 31, 2000, the Company used approximately $712,522 for the purchase of property and equipment. These funds were provided by the sale of equity, and the placement of notes, and working capital.

Management has developed a new Business plan for Segment 1 construction in response to current capital market conditions. Management plans that the

Company will require approximately $65,000,000 in capital over the next twelve months to fund the following Segment 1 capital needs. Estimated expenditures include, but are not limited to, approximately $37,000,000 to acquire network rights-of-way plus the installation of conduit and fiber optic cable, $5,000,000 for optical electronics and software, $5,000,000 for operation support systems and network operation center software, $7,000,000 for Tier IV enterprise data storage center construction and improvements, and $11,000,000 in working capital and financing costs. Actual costs and estimates may vary from Management's current expectations.

In March 2000, the Company entered into an agreement with Qwest Communications to purchase approximately 500 miles of fiber conduit from New Orleans to Mobile, Alabama and from Pensacola, Florida to Jacksonville, Florida. The total purchase price under this agreement is approximately $15,120,000. Payments totaling approximately are currently due or past due under the agreement. Payments regarding the agreement were due quarterly through March 31, 2001. In January 2001, the Company met with Qwest Communications Corp in order to amend the agreement and modify the payment terms to conform to the Company's revised Interim Business Plan. This matter is under discussion but not yet resolved.

In August 2000, the Company entered into an agreement with Norfolk Southern affiliates, Thoroughbred Technology & Communications (T-CUBED), to lay fiber conduit from Atlanta, Georgia to Chattanooga, Tennessee and from Chattanooga to Memphis, Tennessee. The total cost of this conduit is approximately $29,000,000. The Company has not made payments due under this agreement and Management is reviewing the contract with T-CUBED in order to modify some of the terms of the agreement.

Management plans to fund this capital requirement through the private placement of approximately $25 million of new equity, approximately $15 million of

equipment financing and the balance through real estate financing. A construction loan for some interim funding is being discussed. In addition, the Company plans to fund some of its capital needs through joint venture arrangements with strategic business partners and vendor financing Discussions are underway.

In order to fund working capital needs, in September 2000, Robert Crawford, the Company's president, director and principal shareholder purchased from the Company 500 shares of Series B cumulative convertible preferred for a purchase price of $1,000 per share. Each share of the Series B cumulative convertible preferred stock is convertible into 500 shares of Rule 144 restricted common stock commencing July 1, 2001, and is entitled to an annual dividend of $60. In December 2000, the Company sold 326 shares of Series B Preferred Stock to a principal shareholder for $325,904. Each of the newly preferred shares is convertible into 2000 Rule 144 restricted common shares reflecting the current market conditions.

In order to fund working capital needs, in July 2000 the Company agreed to sell 317,500 shares of common stock for a total purchase price of $635,000. In August 2000, the Company closed the placement of these shares, and the Board of Directors authorized the issuance of the 317,500 shares of common stock to satisfy the agreement. Costs incurred for this transaction totaled $59,997 and were paid in exchange for 30,000 shares of Rule 144 common stock. The Company further agreed to register the resale of such shares with the SEC. The S-1

registration became effective on January 31, 2001.

In September 2000, the Company closed a private placement of 150,000 shares of common stock for a total purchase price of approximately $442,125. The Company agreed to pay certain fees associated with the placement through the issuance of an additional 3,000 shares of Rule 144 restricted common stock and the payment of $13,700 in cash. The terms of the agreement provide that the Company shall file a registration statement with SEC for the resale of the 150,000 shares. Additional payments of 22,225 shares of common stock were made to the investor due to late SEC filing pursuant to the agreement. The S-1 registration was effective on January 31, 2001.

The Company's capital needs are substantial and the Company has no present commitments to fund those needs. As reflected in the Company's financial statements for fiscal year ended June 30, 2000 filed with the Company's Annual Report on Form 10-K, the accountant's opinion includes a going concern qualification. As stated in note 10 to the unaudited financial statements, as of December 31, 2000 the Company has negative working capital with obligations totaling $15,859,827 due within one year of which approximately $12.1 million is past due. In addition, the Company has sustained start up losses totaling $3,905,730 since inception. The inability of the Company to secure additional capital and financing and the inability of the Company to attain and maintain profitable operations would have a material adverse effect on whether the Company would be successful in implementing its proposed business plan and continue as a going concern.

RISKS AFFECTING FUTURE RESULTS:

A number of risk factors exist that may impair or prevent the Company from accomplishing its proposed business plan in some or all respects. Those risk factors include the following matters among others:

The Company is a Start Up with Historical Losses. Substantially all of the Company's historical revenues have been derived from its Internet access provider services and its digital and alpha paging services. The Company now has customers and will have revenues from its fiber optic and wireless broadband network in the next quarter. The Company has experienced operating losses in each fiscal quarter since it was founded and will likely continue to experience such losses. Because the Company's start-up operating history is extremely limited, and the Company has just begun to commence operations on its fiber optic and wireless broadband network and its enterprise data storage facility, it is difficult to evaluate the Company's business operations and prospects.

The Company Needs Substantial Additional Capital-Insolvency. The Company's present operations do not provide sufficient cash flow to pay its debts as they become due. The Company had negative working capital of approximately at and expects it will need to obtain additional capital of approximately $65,000,000 to finance its operating and capital needs over the next twelve months. See "Liquidity." The failure of the Company to obtain additional capital will significantly restrict the Company's proposed operations and may make it impossible for the Company to pursue its proposed business plan.

Default on Certain Obligations. In March 2000, the Company entered into an agreement with Qwest Communications to purchase 500 miles of fiber conduit from New Orleans to Mobile, Alabama and from Pensacola, Florida to Jacksonville, Florida. The

total purchase price under this agreement is approximately $15,000,000. Payments totaling approximately $12,000,000 are currently due or past due under the agreement. The Company has not made any of the payments due under this agreement, but no default has been declared. The Company's obligations under this agreement are personally guaranteed by the Company's president. The Company is negotiating with Qwest to amend the contract and develop new payment schedules. The Company has also entered into a contract to lay fiber conduit between Atlanta and Memphis, through Chattanooga, at a total cost of approximately $29,000,000, of which 10% was due on October 15, 2000. The Company has not made the payments due under this contract. The Company is negotiating with contractors to amend the contract and develop new payment schedules.

The Company Leases its Facilities. The Company's primary facility in Iuka, Mississippi is leased by the Company from the Mississippi Development Authority, (MDA). This facility is critical to the Company's proposed business plan because it already contains many of the features necessary to establish an enterprise data storage facility. A new 20 year lease has been agreed to, in principle, by the Company and MDA with certain terms to be resolved. Management believes and expects that it will be executed by the end of February.

The Company Experiences General Risks Associated with Business. The future success of the Company is heavily dependent on its ability to develop, promote and sustain strong government relationships, reach agreements with certain third parties necessary for the telecommunications needs of its operations and attract and retain customers at suitable prices. The Company's business involves competition with existing companies. There can be no assurance that the business of the Company will ever be profitable.

The Company will Likely Experience Customer Concentration. Until and unless the Company secures multiple customer relationships, it is likely that the Company will experience periods during which it will be highly dependent on one or a limited number of customers. Dependence on a single or a few customers will make it difficult to satisfactorily negotiate attractive prices for the Company's services and will expose the Company to the risk of substantial losses if a single dominant customer stops conducting business with the Company.

The Company Must Comply with Telecommunications Regulations. Most of the Company's proposed business services and products are subject to regulation at the federal and state levels. These regulations are in some cases uncertain and are often undergoing change. The failure of the Company to comply with these regulations could have a materially adverse effect on the Company.

The Company Must Comply with Environmental Regulations. The Company's intended operations, especially the construction and operation of a fiber optic network, are subject to various federal, state and local laws and regulations relating to the protection of the environment. These environmental laws and regulations, which have become increasingly stringent, are implemented principally by the Environmental Protection Agency and comparable state agencies, and govern the management of hazardous wastes, the discharge of pollutants into the air and into surface and underground waters, and the manufacture and disposal of certain substances. There are no material environmental claims currently pending or, to the Company's knowledge, threatened against the Company. In addition, the Company believes that its operations are in material compliance with current laws and regulations. The Company estimates that any expenses incurred in maintaining compliance with current laws and regulations will not have a material effect on the Company's earnings or capital expenditures. However, there can be no assurance that current regulatory requirements will not change, that currently unforeseen environmental incidents will not occur, or that past non-compliance with environmental laws will not be discovered on the Company's properties.

The Company's Operating Results are Likely to Fluctuate Widely. The

Company expects that its operating results for the foreseeable future are likely to fluctuate widely from quarter to quarter and from year to year. This is especially true while the Company is building its fiber optic and wireless broadband network. Fluctuation of results may occur due to a variety of factors including, demand for and market acceptance of the Company's products and services, reliability of service and network availability, the ability to increase bandwidth as necessary, customer retention, capacity utilization of the Company's enterprise data storage facility, the timing of customer needs, the timing and magnitude of capital expenditures, changes in pricing policies or practices of competitors, and changes in governmental regulations.

The Company will Face Significant Competition. The Company's market is intensely competitive. There can be no assurance that the Company will have the resources to compete successfully in the future. Current and potential competitors include national, foreign and regional internet service providers, global, regional and local telecommunications companies and the Regional Bell Operating Companies,

providers of server hosting and data storage services, and other technology services and products companies. Most of these competitors will have substantially greater resources than the Company.

The Company is Entering a New Market. The market for Internet system and network management solutions has only recently begun to develop, is evolving rapidly and is characterized by an increasing number of market entrants. This market may not prove to be viable or, if it becomes viable, may not continue to grow. The Company currently incurs costs in excess of its revenues. If the Company cannot attract and retain a customer base, it will not be able to increase its sales and revenues nor create economies of scale to offset its fixed and operating costs.

The Company Must be able to Manage Growth. In order for the Company to accomplish its proposed business plan, it must experience rapid growth in building its enterprise data storage facilities and network infrastructure, expand its service offering, expand its geographical coverage, expand its customer base and increase the number of employees. This growth is expected to place a significant strain on the Company's financial, management, operational and other resources, including its ability to ensure customer satisfaction. This expansion will require significant time commitments from senior management and involve the efficient management of multiple relationships with a growing number of third parties. The Company's ability to manage its growth effectively will require the Company to continue to expand operating and financial procedures and controls, to upgrade operational, financial and management information systems and to attract, train, motivate and retain key employees. The ability to attract, hire and retain qualified employees in today's competitive employment market is another significant challenge which the Company faces. If the Company's executives are unable to manage growth effectively, the Company's business could be materially adversely affected.

System Failures Could Lead to Significant Costs. The Company must protect its network infrastructure and equipment against damage from human error, physical or electronic security breaches, power loss and other facility failures, fire, earthquake, flood, telecommunications failure, sabotage, vandalism and similar events. Despite extensive precautions the Company has taken, a natural disaster or other unanticipated problems at the Company's facilities could result in interruptions in services or significant damage to customer equipment or data. Any damage to or failure of the Company's systems or

service providers could result in reductions in, or terminations of, services supplied to the Company's customers, which could have a material adverse effect on the Company's business.

The Company will Depend on Network Interconnections with Third Parties. The Company will rely, in part, on a number of public and private network interconnections to allow its customers to connect to other networks. If the networks with which the Company interconnects were to discontinue their interconnections, the Company's ability to exchange traffic would be significantly constrained. Furthermore, the Company's business could be harmed if these networks do not add more bandwidth to accommodate increased traffic. Some of these networks will likely require the payment of fees for the right to maintain interconnections. There usually is nothing to prevent any networks from increasing fees or denying access. In such cases, the Company's ability to pursue the proposed business plan could be materially adversely affected.

Some of the Company's Business may be Subject to International Risks. The Company is pursuing international business opportunities, especially with respect to the Country of Turkey. Risks inherent in international operations include unexpected changes in regulatory requirements, export restrictions, tariffs and other trade barriers; challenges in staffing and managing foreign operations; differences in technology standards; employment laws and practices in foreign countries; longer payment cycles and problems in collecting accounts receivable; political instability; changes in currency exchange rates and imposition of currency exchange controls and potentially adverse tax consequences.

SAFE HARBOR STATEMENT UNDER PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Quarterly Report on Form 10-Q and other reports and statements issued on behalf of the Company may include forward-looking statements in reliance on the safe harbor provided by the Private Securities Litigation Reform Act of 1995. Forward-looking statements include the use of forward-looking words such as "plans," "estimates," "believes," "expects," "may," "will," "should," "anticipates" and "proposes" and the negative or other variations of such terms or comparable terminology, or by discussion of strategy or business plans that involve risks and uncertainties. These forward-looking statements are subject to substantial risks and uncertainties, including those discussed above, and actual results may differ materially from those contained in any such forward-looking statement. The Company undertakes no obligation to update or revise any such forward-looking statements to reflect subsequent events or circumstances.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

The Company has not entered into any transaction using derivative financial instruments and believes that its exposure to market risk associated with other financial instruments is not material. The Company's cash equivalents are maintained primarily in money market risks maturing in less than three months. Accordingly, the Company does not believe that it has any significant exposure to interest rate risk. The Company currently operates only in the United States and all sales are made in U.S. dollars. Accordingly, the Company does not have any material exposure to foreign currency rate fluctuations.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is not currently involved in any lawsuits.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

In July 2000, holders of stock options exercised the options and acquired 11,542 shares of common stock at an aggregate exercise price of $10,000.

In July 2000, the Company awarded 1,000 shares of its common stock to three individuals as a non-cash prize in connection with a logo contest held for local area students.

In August 2000, holders of stock options exercised the options and acquired 115,423 shares of common stock at an aggregate exercise price of $10,000.

In August 2000, the Company closed a private placement of 317,500 shares of common stock for a total purchase price of $635,000 to a private investor. Costs for this placement was $59,997 and was paid in exchange for 30,000 shares of Rule 144 restricted common stock.

In September 2000, the Company sold 500 shares of Series B cumulative convertible preferred stock to the Company's president, director and principal shareholder for a purchase price of $1,000 per share. Each share of the Series B cumulative convertible preferred stock is convertible into 500 shares of Rule 144 restricted common stock commencing July 1, 2001, and is entitled to an annual dividend of $60.

In September 2000, the Company closed the private placement of 150,000 shares of common stock for a total purchase price of approximately $442,125. The Company paid certain fees associated with this placement through the issuance of 3,000 shares of Rule 144 restricted common stock and the payment of $13,700 in cash. The terms of the transaction provide that the Company file a registration statement with SEC for the resale of the 150,000 shares by October 5, 2000. Delays in filing the registration statement with the SEC after October 5, 2000 required the Company to make a payment in cash or common stock based upon the closing OTC bid price of the shares of Company's common stock as of the end of each fifteen day period. The Company filed a registration statement and paid 22,225 shares of Rule 144 restricted common stock for said filing delays. The registration was effective on January 31, 2001, which prevented further additional payments.

In December 2000, the Company sold 326 shares of Series B cumulative convertible preferred stock to the Company's president, director and principal shareholder for a purchase price of $1,000 per share. Each share of the Series B cumulative convertible preferred stock is convertible into 2000 shares of Rule 144 restricted common stock commencing July 1, 2001, and is entitled to an annual dividend of $60.

In December 2000, holder of stock options exercised the options and acquired 15,000 shares of common stock for at an aggregate exercise price of $1,305 pursuant to an amended option agreement dated December 2000. The sales and issuances of securities in the transactions described above were deemed by the Company to be exempt from registration under the Securities Act of 1933 in reliance upon Section 4(2) of the Securities Act, Regulation D promulgated thereunder, Rule 701 promulgated thereunder and, in the case of the issuance of common stock as a prize in a logo contest, on the basis that no "sale" as defined in the Securities Act occurred.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES. None.

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

No shareholders meetings were held during the Company's quarter ended December 31, 2000.

ITEM 5. OTHER INFORMATION. Not applicable.

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

Index to Exhibits:

10.1 Right of First Refusal Agreement effective August 1, 2000 between the State of Mississippi and the Company, incorporated herein by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2000.

10.2 Fiber Optic Conduit Agreement dated August 15, 2000 between Thoroughbred Technology and Telecommunications, Inc. and North American Infotech, LLC, incorporated herein by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2000.

10.3 Right of Way Entry Agreement dated August 15, 2000 among Norfolk Southern Railway Company, Inc and North American Infotech, LLC., incorporated herein by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2000.

10.4 Right of Way Sublease Agreement dated July 6, 2000 between Tishomingo Railroad Company, Inc. and North American Infotech, LLC, incorporated herein by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2000.

Current Reports on Form 8-K:

No current reports on Form 8-K were filed by the Company during the quarter ended December 31, 2000.

SIGNATURES

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

NORTH AMERICAN DATACOM, INC.
(Registrant)

DATE: February 13, 2001

/s/ Robert R. Crawford

Robert R. Crawford
President
Chief Executive Officer

/s/ David A. Cray

David A. Cray, Vice President
Corporate Treasurer

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