

Edgar Filing: DATAWORLD SOLUTIONS INC - Form 10-Q

DATAWORLD SOLUTIONS INC  
Form 10-Q  
March 07, 2001

SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-QSB

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

For The Quarterly Period Ended December 31, 2000  
Commission File Number 33-7693

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DATAWORLD SOLUTIONS, INC.  
(Exact name of registrant as specified in its charter)

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   Delaware     
(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification Number)

920 Conklin Street, Farmingdale, New York 11735  
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (631) 293-1610

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 past 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  No

Indicate by check mark whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court.

Yes  No

On January 15, 2001, 29,044,000 shares of common stock, \$.001 par value were outstanding.

Note: This is Page 1 of a document consisting of 16 pages.

DATAWORLD SOLUTIONS, INC.

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## TABLE OF CONTENTS

### PART I: FINANCIAL INFORMATION

#### ITEM 1: FINANCIAL STATEMENTS:

Balance Sheet - December 31, 2000 and June 30, 2000 .....	3
Statement of Operations - Quarter Ended December 31, 2000 and 1999.....	4
Statement of Operations - Six Months Ended December 31, 2000 and 1999.....	5
Statement of Changes in Stockholders' Equity for the six months ended December 31, 2000.....	6
Statement of Cash flows for the six months ended December 31, 2000 and 1999.....	7
Notes to Financial Statements.....	8-10

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS .....	11-14
--	-------

PART II- OTHER INFORMATION.....	15
---------------------------------	----

SIGNATURES.....	16
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### DATAWORLD SOLUTIONS, INC. BALANCE SHEETS (Unaudited)

	December 31, 2000	June 2000
ASSETS		
CURRENT ASSETS:		
Cash.....	\$ -	\$ 51,153
Accounts receivable, net of allowance for doubtful accounts of \$85,000 and \$56,000 as of December 31, 2000 and June 30, 2000, respectively.....	3,366,408	3,058,572
Inventories, net.....	1,661,815	1,680,577
Prepaid expenses and other current assets.....	46,885	30,221
	5,075,108	4,820,523
TOTAL CURRENT ASSETS.....		
PROPERTY, PLANT AND EQUIPMENT, net.....	440,385	466,139
GOODWILL.....	3,344,568	3,437,472

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OTHER ASSETS.....	88,350	88,350
	-----	-----
TOTAL ASSETS.....	\$ 8,948,411	\$ 8,812,484
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current portion of long-term debt.....	\$ 17,114	\$ 22,972
Current portion Notes payable - Affiliate.....	66,666	66,666
Cash overdraft.....	114,081	-
Accounts payable.....	2,389,838	2,211,220
Accrued expenses and other.....	729,760	815,537
Bankruptcy distributions payable.....	249,004	291,000
	-----	-----
TOTAL CURRENT LIABILITIES.....	3,566,463	3,407,395
LONG-TERM DEBT, NET OF CURRENT PORTION.....	3,959,619	3,721,967
SUBSCRIPTIONS RECEIVED.....	217,000	217,000
NOTES PAYABLE - AFFILIATE, net.....	55,556	66,667
SECURED SUBORDINATED DEBENTURES, net.....	86,873	86,153
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
8% Series B Convertible Preferred Stock, \$.01		
par value, stated value \$1,000 per share;		
Redemption value \$2,000,000, authorized,		
3,000 shares; 1,600 shares issued and outstanding..	1,600,000	1,600,000
\$6 Senior Cumulative Convertible Preferred stock,		
stated value \$100 per share; authorized 5,000,000		
shares; 6,500 issued and outstanding.....	692,250	672,750
Common stock, par value \$.001 per share; authorized		
40,000,000 shares; 29,044,000 issued and outstanding		
at December 31, 2000 and June 30, 2000.....	29,044	29,044
Additional paid in capital, net.....	773,020	773,020
Accumulated deficit.....	(2,031,414)	(1,761,512)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY.....	1,062,900	1,313,302
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS'		
EQUITY.....	\$ 8,948,411	\$ 8,812,484
	=====	=====

The accompanying notes are an integral part of these financial statements.

DATAWORLD SOLUTIONS, INC.  
STATEMENTS OF OPERATIONS  
(Unaudited)

Three Months En  
Dec

Net sales.....	\$ 3,850,151	\$ 3,055,460
Cost of goods sold.....	2,954,425	2,164,649
	-----	-----
Gross profit.....	895,726	890,811
Selling, general and administrative expenses.....	771,675	746,572
Depreciation and amortization.....	80,103	83,145
	-----	-----
Earnings before interest .....	124,051	144,239

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Interest expense.....	139,224	118,273
	-----	-----
Net loss.....	(95,276)	(57,179)
Accrued dividends on preferred stock.....	41,748	-
	-----	-----
Net loss applicable to common stockholders.....	\$ (137,024)	\$ (57,179)
	=====	=====

Share Information

Basic and diluted loss per share.....	\$ (.01)	\$ (.002)
Weighted average number of common shares outstanding.....	29,044,000	26,824,000

The accompanying notes are an integral part of these financial statements.

DATAWORLD SOLUTIONS, INC.  
STATEMENTS OF OPERATIONS  
(Unaudited)

Six Months En

Net sales.....	\$ 7,511,507	\$ 6,336,372
Cost of goods sold.....	5,680,604	4,765,582
	-----	-----
Gross profit.....	1,830,903	1,570,790
Selling, general and administrative expenses.....	1,588,692	1,318,030
Depreciation and amortization.....	159,851	159,391
	-----	-----
Earnings before interest.....	242,211	252,760
Interest expense.....	268,766	218,530
	-----	-----
Net loss.....	(186,406)	(125,161)
Accrued dividends on preferred stock.....	83,496	-
	-----	-----
Net loss applicable to common stockholders.....	\$ (269,902)	\$ (125,161)
	=====	=====

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Share Information

Basic and diluted loss per share.....	\$	(.01)	\$	(.005)
Weighted average number of common shares outstanding.....		29,044,000		26,824,000

The accompanying notes are an integral part of these financial statements.

DATAWORLD SOLUTIONS, INC.  
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
(Unaudited)

	Preferred stock amount	Preferred stock amount	Common shares	8% Common stock amount	\$6.00 in capital, net	Accumulated deficit	stock- holder's equity
	-----	-----	-----	-----	-----	-----	-----
Balance July 1, 2000	\$1,600,000	\$672,750	29,044,000	\$29,044	\$773,020	\$(1,761,512)	\$1,313,300
Accrued dividends on 8% Preferred stock						(63,996)	(63,996)
Accrued dividends on \$6 Preferred stock		19,500				(19,500)	-
Net loss						(186,406)	(186,406)
Balance December 31, 2000	\$1,600,000	\$692,250	29,044,000	\$29,044	\$773,020	\$(2,031,414)	\$1,062,900

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The accompanying notes are an integral part of these financial statements.

DATAWORLD SOLUTIONS, INC.  
STATEMENTS OF CASHFLOWS  
(Unaudited)

	Six Months Ende	
	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss.....	\$(186,406)	\$ (125,161)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization.....	159,851	159,901
Provision for doubtful accounts.....	15,000	-
Change in operating assets and liabilities:		
Increase in accounts receivable.....	(322,836)	(859,009)
(Decrease) increase in inventories.....	18,762	(91,752)
Increase in prepaid expenses and other current assets.....	(16,664)	(21,572)
Increase in other assets.....	-	(5,195)
Increase (decrease) in accounts payable and accrued expenses.....		28,844
	-----	-----
Net cash used in operating activities.....	(303,449)	(967,462)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures.....	(40,473)	(178,675)
	-----	-----
Net cash used in investing activities	(40,473)	(178,675)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings under debt and loan agreements.....	231,795	845,934
(Repayment) borrowings from affiliate.....	(11,111)	73,000
Issuance of subordinated debenture.....	-	250,000
Cash overdraft.....	114,081	-
Decrease in bankruptcy distributions payable.....	(41,996)	-
	-----	-----
Net cash provided by financing activities.....	292,769	1,168,934
	-----	-----
NET (DECREASE) INCREASE IN CASH.....	(51,153)	22,797
CASH at beginning of period.....	51,153	-
	-----	-----
CASH at end of period.....	\$ -	\$ 22,797
	=====	=====

Supplemental disclosure of cash flow information:  
Cash paid for:

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Interest.....	\$ 268,766	\$ 218,021
	=====	=====
Non cash financing transaction:		
Warrants issued in connection with		
Subordinated debenture.....	\$ -	\$ 51,000
	=====	=====

DATAWORLD SOLUTIONS, INC.  
NOTES TO FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

DATAWORLD SOLUTIONS, INC., (the "Company") operates primarily in one business segment - assembly and distribution of electronic wire, cable and related products used primarily for data communication and distribution. The principal market for the Company's products is in the United States.

The balance sheet as of December 31, 2000 and the related statements of operations, statement of changes in stockholders' equity and cash flows for the three and six months ended December 31, 2000 have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flows at December 31, 2000 and for all periods presented have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principals have been condensed or omitted. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the Annual Report on Form 10-KSB for the year ended June 30, 2000 filed by the Company. The results of operations for the years ended June 30, 2000 and 1999 are not necessarily indicative of the operating results for the respective full years.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern, which assumes the realization of assets and settlement of liabilities in the normal course of business. For the six months ended December 31, 2000, the Company incurred a net loss of \$1865406 and at such date had working capital of \$1,508,645, which is not sufficient to fund the Company's operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management is currently seeking additional sources of working capital, although no assurances can be given that management will be successful in receiving additional capital.

2. INVENTORIES

Inventory consists principally of products held for sale. The Company regularly reviews its inventory for obsolete and slow-moving items which includes reviews of inventory levels of certain product lines and an evaluation of the inventory based on changes in technology and markets. As of December 31, 2000 and June 30, 2000, the allowance for obsolete and slow-moving inventory was approximately \$514,000 and \$532,000, respectively.

	December 31,	June 30,	
	2000	2000	
Raw Materials	\$ 1,431,485	\$ 1,590,577	
Work in Process		220,330	90,000
Finished Goods		10,000	-

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----- Inventories, net	\$ 1,661,815	\$ 1,680,57
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DATAWORLD SOLUTIONS, INC.  
NOTES TO FINANCIAL STATEMENTS

3. LONG-TERM DEBT

Long-term debt consists of the following:

	2000	
Revolving asset-based loan (a).....	\$ 3,903,887	\$ 3,657,677
Capitalized lease obligations(b).....	72,847	87,262
	3,976,734	3,744,939
Less current portion of long-term debt.....	17,114	22,972
	\$ 3,959,620	\$ 3,721,967

a. The Company has a financing agreement ("Agreement") with a financial institution that, as amended, provides for revolving loans and letters of credit subject to maximum borrowings of \$5,000,000 through January 31, 2002. Total borrowings are limited to 85% of eligible accounts receivable (constituting those amounts outstanding 90 days or less), 50% of eligible accounts receivable outstanding between 91 and 120 days, 40% of regular inventories, 10% of slow moving inventory and the amount of collateral deposited by TW Cable LLC, a related entity ("TW"). The Company is required to pay interest at prime plus 2 1/2% (12% at December 31, 2000) and a commitment fee of 1% per annum. At December 31, 2000, there were \$110,000 outstanding letters of credit issued for inventory purchases. Borrowings under the Agreement are collateralized by all of the assets of the Company. In connection with the Agreement, TW agreed to deposit approximately \$1,268,000 as additional collateral for borrowings under the Agreement. Under the terms of the Agreement, TW has the right to draw down on such collateral beginning January 2000 and began to do so on June 15, 2000. The Agreement, as amended, requires, among other things, the Company to maintain a deficiency in tangible net worth of not more than \$3,500,000 and a deficiency in working capital of not more than \$3,800,000, as defined.

b. The Company leases certain computer equipment, which are accounted for as capital leases. The obligation for the computer equipment requires the Company to make monthly payments of \$1,426 through March 2005.



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### DATAWORLD SOLUTIONS, INC. NOTES TO FINANCIAL STATEMENTS

#### 4. NET LOSS PER COMMON SHARE

Stock options and warrants to purchase 822,500 shares have been excluded from the calculation of diluted loss per share, as their effect would have been antidilutive.

#### 5. CONTINGENCIES

##### a. LITIGATION MATTERS

The Company is a party to legal matters arising in the general conduct of business. Management believes the ultimate outcome of such matters is not expected to have a material adverse effect on the Company's results of operations or financial position.

##### b. BANKRUPTCY DISTRIBUTIONS

On March 24, 2000, the Company agreed with the Official Committee of Unsecured Creditors (the "Committee") as to the modification of the treatment of the Class 7 Unsecured Creditors (the "Class 7 Creditors") under the Company's confirmed Chapter 11 plan of reorganization, as previously modified (the "Plan"). Pursuant to such agreement, in satisfaction of the claims of the Class 7 Creditors, the Company paid the Class 7 Creditors, \$400,000 from an escrow account and \$100,000 from the Company on or about April 24, 2000. As of December 31, 2000 the balance due to the Class 7 Creditors is approximately \$249,000. This amount is payable in monthly installments of approximately \$11,000 at 8% interest. In addition, the Company has the option, until March 31, 2001, to pay the then balance due plus an additional \$25,000 to the Class 7 creditors. In the event the Company does not exercise this option, the Company is obligated to pay the Class 7 Creditors a percentage of the Company's cumulative cash flow, as defined, through September 2002, as originally specified in the Plan.

#### 6. WEB SITE DEVELOPMENT COSTS

In January 2000, the Company issued 1,800,000 non-forfeitable shares of its common stock, in exchange for services valued at \$360,000 to be provided in connection with the development of the Company's Web site. Through December 31, 2000, the Company recognized \$54,000 of expense relating to the initial design of the Web site. Unamortized Web site development costs have been classified as a component of stockholders' equity in the accompanying financial statements and will be recognized as services are provided.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

When used herein, the words "believe," "anticipate," "think," "intend," "will be," "expect" and similar expressions identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are not guarantees of future performance, and actual results may differ materially from those in the forward-looking statements. Readers are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date hereof. Readers are also urged carefully to review and consider the various disclosures made by the Company which attempt to advise interested parties of the factors which affect the Company's business, including, without limitation, the disclosures made hereunde.

#### Results of Operations Quarter Ended December 31, 2000

Net sales for the quarter ended December 31, 2000 were approximately \$3,851,000. Net sales for the quarter ended December 31, 1999 were approximately \$3,055,000. This increase of approximately \$796,000 or 26.1% in sales was due to the addition of new customers, increased sales to certain existing strategic customers, and expanded product lines with its vendors.

Gross profit for the quarter ended December 31, 2000 was approximately \$896,000. Gross profit as a percentage of sales was 23.3% for the quarter ended December 31, 2000. Gross profit for the quarter ended December 31, 1999 was approximately \$891,000. Gross profit as a percentage of sales was 29.2% for the quarter ended December 31, 1999. The growth in gross profit and gross profit percentage was due to increased sales volume, which provides for the absorption of fixed costs and further, afforded the Company the opportunity to obtain more favorable pricing of purchased components.

Selling, general and administrative expenses were approximately \$772,000 or 20.1% of sales for the quarter ended December 31, 2000. For the quarter ended December 31, 1999 selling, general and administrative expenses were approximately \$747,000 or 24.5% of sales. The increase of approximately \$25,000 is primarily due to increased office salaries of approximately \$10,000 and other office expenses and also included in selling, general and administrative expenses for the quarter ended December 31, 2000 is approximately \$15,000 for a provision for doubtful accounts.

Interest expense for the quarter ended December 31, 2000 was approximately \$139,000. For the quarter ended December 31, 1999 interest expense was approximately \$118,000. This increase of approximately \$21,000 is a result of an increase in borrowings under the Company's revolving credit facility.

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### Results of Operations

Six Months Ended December 31, 2000

Net sales for the six months ended December 31, 2000 were approximately \$7,512,000. Net sales for the six months ended December 31, 1999 were approximately \$6,336,000. This increase of approximately \$1,176,000 or 18.6% in net sales was due to the addition of new customers, increased sales to certain existing strategic customers, and expanded product lines with its vendors.

Gross profit for the six months ended December 31, 2000 was approximately \$1,831,000. Gross profit as a percentage of sales was 24.4% for the six months ended December 31, 2000. Gross profit for the six months ended December 31, 1999 was approximately \$1,571,000. Gross profit as a percentage of sales was 24.8% for the six months ended December 31, 1999. The growth in gross profit was due to increased sales volume.

Selling, general and administrative expenses were approximately \$1,589,000 or 21.2% of sales for the six months ended December 31, 2000. Selling, general and administrative expenses were approximately \$1,318,000 or 20.8% of sales for the six months ended December 31, 1999. The increase was principally due to the combination of the following; a provision for accounts receivable was recorded for approximately \$30,000, an increase in office salaries of approximately \$49,000, an increase in insurance costs of approximately \$16,000, an increase in computer expenses of approximately \$28,000, an increase in stockholder reporting fees of approximately \$52,000 and an increase in bank charges relating to an increases in the Company's credit facility of approximately \$34,000.

Interest expense for the six months ended December 31, 2000 was approximately \$269,000. For the six months ended December 31, 1999 interest expense was approximately \$218,000. This increase of approximately \$51,000 is a result of an increase in borrowings under the Company's revolving credit facility.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Liquidity and Financial Condition

As of December 31, 2000

The Company has net working capital of approximately \$1,509,000 at December 31, 2000. The working capital at December 31, 2000 is not sufficient to meet the Company's current liquidity needs. The Company is exploring opportunities to increase operating efficiencies and intends to make a concerted effort to decrease the average days sales in accounts receivable in order to increase its cash position. Management is also working to obtain additional sources of working capital. However, there can be no assurances that management will be successful in increasing operating efficiencies or obtaining additional sources of working capital.

During the six months ended December 31, 2000, the Company used approximately \$303,000 in cash from operating activities. Net cash used during the six months was primarily due to the an increase in accounts receivable of approximately

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\$322,000 and a decrease in inventory of approximately \$19,000, offset by an increase in accounts payable of approximately \$29,000. This increase in receivables gave the Company additional borrowing under its revolving credit facility, which enabled the Company to decrease the average days outstanding for its payables.

Investing activities used net cash of approximately \$40,000 during the six months ended December 31, 2000. The principal use was for purchases of additional computer equipment needed for the Company's new system implemented in January 2000.

Financing activities provided cash of approximately \$293,000. The cash provided by financing activities was funded by increased borrowings under the Company's revolving credit facility.

On May 31, 2000, the Company issued 1,600 shares of newly created 8% Series B Convertible Preferred Stock ("8% Preferred Stock"), \$.01 par value, with a stated value of \$1,000 per share, 3,000 shares authorized, to accredited investors pursuant to Regulation D under the Securities Act of 1933 for net cash proceeds of approximately \$1,435,000. The 8% Preferred Stock has no voting rights and is convertible into common stock of the Company at an effective conversion price of 63% of the market price, subject to further reduction for each month or partial month subsequent to the date hereof that the related SEC registration statement is not declared effective and subject to reduction to 50% if such registration statement is not effective by May 31, 2001. In addition, the investors were granted five-year warrants to purchase 160,000 shares of common stock at a purchase price equal to 120% of the lowest of the closing bid prices for the Company's common stock for the five trading days prior to May 31, 2000. The Company recorded a deemed dividend of \$638,780 for the year ended June 30, 2000, representing the discount resulting from the allocation of the proceeds to the beneficial conversion feature and the fair value of the underlying warrants. Such deemed dividend was recognized on the date of issuance since the 8% Preferred Stock was immediately convertible. In connection with this transaction, the Company issued five-year warrants to the broker/finder to purchase an aggregate of 100,000 shares of the Company's common stock at 120% of the lowest of the closing bid prices for the Company's common stock for the five trading days preceding the closing date, May 31, 2000. These warrants were fair valued at \$105,000. In addition the Company issued 500,000 warrants to a consultant.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Financial Condition  
As of December 31, 2000  
(CONTINUED)

Management plans to continue to pursue revenue growth, which would provide additional borrowings under its revolving credit facility. In light of the recent economic downturn in the United States (including delays in spending by some of the Company's telecom customers), the Company plans to focus in the near-term on expanding its relationships with its OEM customer base. The Company has been repaying cash collateral under the credit facility on a monthly basis beginning June 15, 2000 of approximately \$15,000 per month. In an effort to continue to grow the Company, management intends to seek additional sources of equity and debt financing.

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As required by the terms of the Company's 8% Series B Convertible Preferred Stock, the Company filed a registration statement in December 2000. The Registration Statement covers shares of the Company's common stock issuable (i) upon conversion of such Preferred Stock, (ii) in lieu of cash dividends on such Preferred Stock and pursuant to (iii) upon exercise of certain options and warrants issued, in connection with such financing.

The Company's continuing existence as a going concern is dependent on its ability to obtain profitable operations, generate sufficient cash flow to meet its obligations on a timely basis, comply with the terms and covenants of its financing agreement and to obtain additional financing as may be required.

### PART II- OTHER INFORMATION

#### Item 1. Legal Proceedings

NONE

#### Item 5. Other Information

NONE

#### Item 6. Exhibits and Reports on Form 8-K

##### (a) Exhibits

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27. Financial Data Schedule

(b) Reports on Form 8-K

None

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 6, 2001

DATAWORLD SOLUTIONS, INC.  
By: /s/ Daniel McPhee

-----  
Chief Executive Officer

By: /s/ Christopher Francis

-----  
Chief Operating Officer