NORTH AMERICAN DATACOM INC
Form 10-Q
May 17, 2002

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

(Mark one)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: March 31, 2002

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to ________

Commission file number: 33-17679

North American DataCom, Inc.

(Exact name of small business issuer as specified in its charter)

Delaware	84-1067694
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
751 County Road 989, Building 1000, Iuka, MS	38852

(Address of principal executive offices) (Zip Code)

662-424-5050

(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15 (d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such report(s)), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

Common Stock, $.0001 par value, 104,367,669 shares outstanding as of April 30, 2002.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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NORTH AMERICAN DATACOM, INC.

Consolidated Balance Sheets as of March 31, 2002 (Unaudited) and June 30, 2001

	March 31, 2002 (Unaudited)	June 30, 2001
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 13,507	$ 18,484
Accounts Receivable, Net of Allowance of $3,000 and $2,400 at March 31, 2002 and June 30, 2001	43,596	76,230
Inventories	8,370	5,978
Employee Advances	2,555	2,555
Other	19,000	-
Total Current Assets	$ 87,028	$ 103,247
Investments (Note 3)	-	-
Property and Equipment:		
Conduit and Optic Fiber (Note 4)	129,014	14,525,905
Computers and Equipment	728,102	728,032
Communications Equipment and Wireless Towers	640,860	627,507
Software	355,164	351,184
Other	105,324	123,763
Total Property and Equipment	1,958,465	16,356,391
Less Accumulated Depreciation and Amortization	(202,291)	(107,992)
Net Property and Equipment	1,756,174	16,248,399
Other Assets (Note 5)	850,965	651,794
Total Assets	$ 2,694,167	$ 17,003,440
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Trade Note Payable (Note 4)	$ -	$ 15,118,000
Accounts Payable	771,086	1,044,558
Accrued Expenses	893,730	692,103
Dividends Payable	-	55,950
Notes Payable, current portion (Note 10)	215,000	-
Convertible Notes Payable	33,541	33,541
Total Current Liabilities	1,913,357	16,944,152
Notes Payable (Note 10)	109,500	-
Payable to Officer	-	25,662
Total Liabilities	2,022,857	16,969,814
Commitments and Contingencies (Notes 4, 5, 6 and 8)	-	-
Stockholders' Equity (Note 9)		
Convertible Preferred Stock, No Par Value; 400,000 Shares Authorized, none outstanding	-	-
Series B Convertible Preferred Stock, $1,000 Par Value; 6% Cumulative; 5,000 Shares Authorized 2,411 and 1,756 Shares Issued and Outstanding as of March 31, 2002 and June 30, 2001, respectively	2,409,988	1,755,492
Common Stock, $.0001 Par Value; 150,000,000 Shares Authorized; 104,367,669 and 100,167,074 Shares Issued and Outstanding as of March 31, 2002 and June 30, 2001, respectively	10,436	10,016
Additional Paid in Capital	5,143,785	4,585,655
Other Accumulated Comprehensive Loss	(250,000)	(250,000)
Accumulated Deficit	(6,642,899)	(6,067,538)
Total Stockholders' Equity	671,309	33,626
Total Liabilities and Stockholders' Equity	$ 2,694,167	$ 17,003,440

See accompanying notes to condensed consolidated financial statements (unaudited).

NORTH AMERICAN DATACOM, INC.

Condensed Consolidated Statements of Operations (Unaudited)

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2002	2001	2002	2001
Net Service Revenues	$ 102,019	$ 201,999	$ 346,877	$ 358,372
Cost of Services	33,798	60,434	105,873	157,660
Gross Profit	68,220	141,565	241,005	201,712
Selling, General and Administrative Expense	457,886	731,719	1,453,556	2,245,673
Operating Loss	(389,666)	(590,154)	(1,212,551)	(2,043,961)
Other Income (Expense):				
Interest Expense	-	(176,347)	-	(541,224)
Loss in equity investment	(32,130)	-	(84,026)	-
Non-operating gain (Note 4)	721,109	-	721,109	-
Other	17	(63)	106	15,751-
Total Other Income (Expense)	688,996	(176,410)	637,189	(525,473)
Income (Loss) Before Income Tax Expense (Benefit)	299,331	(766,564)	(575,362)	(2,569,434)
Income Tax Expense (Benefit)	-	-	-	-
Net Income (Loss)	299,331	(766,564)	(575,362)	(2,569,434)
Net Income (Loss) Applicable to Common Shareholders - Basic (Note 1)	$ 0.003	$ (0.010)	$ (0.006)	$ (0.030)
Net Income (Loss) Applicable to Common Shareholders - Diluted (Note 1)	$ 0.002	$ (0.010)	$ (0.006)	$ (0.030)
Weighted Average Number of Common Shares Outstanding-Basic (Note 1)	103,747,669	98,656,448	102,212,459	98,546,362
Weighted Average Number of Common Shares Outstanding-Diluted (Note 1)	123,626,077	98,656,448	102,212,459	98,546,362

See accompanying notes to condensed consolidated financial statements (unaudited).

NORTH AMERICAN DATACOM, INC.

Condensed Consolidated Statements of Comprehensive Loss (Unaudited)

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2002	2001	2002	2001
Net Income (Loss)	$ 299,331	$ (766,564)	$ (575,362)	$ (2,569,434)
Net change in unrealized loss on investments (Note 3)	-	-	-	(90,000)
Comprehensive income (loss)	$ 299,331	$ (766,564)	$ (575,362)	$ (2,659,434)

See accompanying notes to condensed consolidated financial statements (unaudited).

NORTH AMERICAN DATACOM, INC.

Condensed Consolidated Statement of Changes in Stockholders' Equity (Unaudited)

	Series B Preferred		Common Stock		Additional	Accumulated	Net Unrealized Loss on	Stock-holders'
	Shares	Amount	Shares	Amount	PIC	Deficit	Investments	Equity
Balance, June 30, 2001	1,756	$1,755,492	100,167,074	$10,016	$4,585,656	$(6,067,538)	$(250,000)	$33,626
Issuance of Series B Preferred Stock	191	190,990	-	-	-	-	-	190,990
Issuance of additional Series B Preferred Stock (Note 7)	56	55,950	-	-	-	-	-	55,950
Issuance of shares for services rendered	-	-	90,000	9	12,591	-	-	12,600
Issuance of shares for equipment	-	-	40,000	4	9,996	-	-	10,000
Issuance of shares for settlement of claims (Note 7)		-	250,000	25	25,600	-	-	25,625
Stock options (Note 10)	-	-	-	-	8,000	-	-	8,000
Net loss of the period ended September 30, 2001	-	-	-	-	-	(312,568)	-	(312,568)
Balance, September 30, 2001	2,003	$2,002,432	100,547,074	$10,054	$4,641,843	$(6,380,106)	$(250,000)	$24,223
Issuance of Series B Preferred Stock	276	275,735	-	-	-	-	-	275,735
Issuance of Shares for services rendered	-	-	150,232	15	20,687	-	-	20,702
Issuance of Shares for services rendered	-	-	2,740,363	274	377,348	-	-	377,622
Net loss for the period ended December 31, 2001	-	-	-	-	-	(562,124)	-	(562,124)
Balance, December 31, 2001	2,279	2,278,167	103,437,669	10,343	5,039,878	(6,942,230)	(250,000)	136,158
Issuance of Series B Preferred Stock	132	131,821	-	-	-	-	-	131,821
Issuance of shares for legal rendered services	-	-	130,000	13	12,987	-	-	13,000
Issuance of shares for corporate securities services rendered	-	-	200,000	20	19,980	-	-	20,000
Issuance of shares for management services rendered	-	-	400,000	40	39,960	-	-	40,000
Issuance of shares for consulting services to be rendered	-	-	200,000	20	19,980	-	-	20,000
Stock options (Note 10)	-	-	-	-	11,000	-	-	11,000
Net income for the period ended March 31, 2002	-	-	-	-	-	299,331	-	299,331
Balance, March 31, 2002	2,411	$2,409,988	104,367,669	$ 10,436	$5,143,785	$(6,642,899)	$(250,000)	$ 671,309

See accompanying notes to condensed consolidated financial statements (unaudited).

NORTH AMERICAN DATACOM, INC.
Condensed Consolidated Statements of Cash Flows (Unaudited)

	For the Nine Months Ended March 31,	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(575,362)	$(2,569,434)
Adjustments to reconcile net loss to cash used in operations:		
Depreciation and amortization (Note 4)	123,774	646,615
Loss in equity investment	84,026	-
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	32,634	(97,068)
Decrease in notes receivable	-	2,920
Increase in inventory	(2,392)	(5,290)
Decrease in other assets and employee advances	45,677	60,851
Increase (decrease) in accounts payable and accrued expenses	(436,363)	1,283,977
Net cash used in operations	(728,006)	(677,429)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(23,872)	(801,347)
Other Advance (Note 5)	-	(200,000)
Proceeds from the sale of property and equipment	27,017	-
Net cash provided (used) in investing activities	3,145	(1,001,347)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of common stock (Note 9)	-	1,098,431
Payments on trade note payable	-	(575,000)
Proceeds from sale of preferred stock (Note 9)	488,383	1,203,641
Proceeds from issuance of convertible notes payable	-	33,541
Increase (decrease) in notes payable	231,500	(23,917)
Net cash provided by financing activities	719,883	1,736,696
INCREASE (DECREASE) IN CASH		
AND CASH EQUIVALENTS, for the period	(4,977)	57,920
CASH AND CASH EQUIVALENTS, beginning of period	18,484	20,948
CASH AND CASH EQUIVALENTS, end of period	$13,507	$78,868

See accompanying notes to condensed consolidated financial statements (unaudited).

NORTH AMERICAN DATACOM, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Summary of Significant Accounting Policies:

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of North American DataCom, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America 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 March 31, 2002 and its results of operations and cash flows for the three-and-nine-month periods ended March 31, 2002 and 2001. These financial statements should be read in conjunction with the Company's audited consolidated financial statements as of June 30, 2001 including the notes thereto.

Nature of Business

The Company provides Internet access services and digital and alphanumeric paging services. The Company currently has a 150 mega byte per second (mbs) broadband fiber optic and redundant wireless connectivity into its headquarters in Iuka, Mississippi. The Company intends to deploy a 3,000 mile 192 giga byte per second (gbs) broadband network in the states of Tennessee, Mississippi, Louisiana, Alabama, Georgia and Florida, to provide application services, communications and information technology services with an emphasis on broadband fiber optic and wireless telecommunications services that support enterprise data storage solutions (EDS) and application service solutions.

Principles of Consolidation

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

Use of Estimates

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. 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 investments, 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 difference could be material.

Investments

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

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.

Loss per Share

Basic and diluted loss per common share have been computed based upon the weighted average number of shares outstanding during the nine month periods ending March 31, 2002 and 2001. Reduction in stock options was due to the expiration of 3,825,983 shares on December 31, 2001. Common stock equivalents consisting of stock options, convertible notes, convertible preferred stock and warrants were not considered in nine-month period ended March 31, 2002 and 2001 nor the three-month period ended March 31, 2002 and 2001, as their effect would be anti-dilutive. The maximum number of shares assuming full conversion from the Company's per share computations is as follows:

	For the Period Ended March 31,	
	2002	**2001**
Stock Options	10,218,233	14,104,216
Convertible Notes	47,208	47,208
Convertible Preferred Stock	9,612,967	1,808,000
	19,878,408	15,959,424

Property and Equipment

Property 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
Software	3

The carrying value 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. The impairment charge would be determined using fair value of asset (using quoted prices for similar items or discounted cash flows) compared to its carrying value.

License

Licenses relate to the Company's FCC License to provide personal communications and paging services. Generally, amortization begins with the commencement of service to customers and is computed using the straight-line method over an estimated useful life of 15 years.

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 officer approximate their respective fair values.

Business Lines

Application Service Provider: In August 2001, the Company reached an agreement to form Global PTX, LLC. The Company and SB Consulting Company have established an Application Service Provider business to design, develop and implement data warehousing and data mining applications. Global PTX will establish Private Trade Exchanges focusing on providing customers with an "end-to-end" solution for their business strategies. Initial development activities will be designed to target the Manufacturing and Retail Business Industry Sectors, specifically focused on vendor/customer supply chain management. SB Consulting Company is a specialized software and marketing management consultant to enterprises throughout the United States.

A) Internet Access: As of March 31, 2002, the Company provides Internet access services to 1,604 customers 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. As the Company's fiber optic and broadband wireless network expands, the Company will attempt to market its Internet access provider services to businesses and retail customers along the route of the network.

B) Digital and Alpha Paging Services: Through its wholly-owned subsidiary, Action Communications, Inc. ("Action"), the Company provides one-way digital and alpha numeric paging services to nine southeastern states and is expanding its coverage area to include portions of the eastern and southwestern United States. As a specialized mobile radio carrier, Action also provides dispatch, telephone and global position system services.

Remote Data Storage: The Company leases a state-of-the-art facility in Iuka, Mississippi. This facility includes 5,000 square foot computer engineering and programming center that was originally designed and constructed to house the NASA advanced solid rocket motor project. The computer storage center currently includes 3,500 square foot raised floor, temperature controlled computer room complete with security, UPS power backup and emergency diesel generator backup. The Company also has an additional 1,500 square foot temperature controlled area that is currently used as its telecommunications room that is adjacent to computer storage center. The hardware configuration for data storage currently is an EMC's Symmetrix open storage solution. The complex has a 50 mega-watt redundant power source provided by a TVA power station for current and additional power requirements that exceeds all of the Company's power requirements. In addition, 24-hour systems management is provided with onsite personnel trained in the areas of networks, Internet and transmission systems, and is available to monitor enterprise storage operations, data center services, network operation controls, and Internet hosting.

The Company's facility contains a full range of security features. These include 24-hour-a-day secured access with security breach alarms, cipher lock systems and security guards on premises. This facility is a government constructed, nearly tornado-proof building using full redundant primary power from two sources with multiple backup power generators. This physical and technical environment provides the Company's customers the reliability and flexibility necessary to store mission critical web-based information at affordable rates.

The Company proposes to become a Tier IV data center supporting secure enterprise data hosting and storage services. The Company believes that its Iuka facility is uniquely designed to provide the physical environment necessary for a Tier IV data center with relatively minimal additional expenditure. When completed, at a current estimated cost of $2,000,000, this data center should enable the Company to offer enterprise storage operations, Internet hosting co-location, web-based data storage and general real-time data backup running 24-hours-a-day, 7-days-a-week. The proposed facility has been custom designed with raised floors, HVAC temperature control systems with separate cooling zones and full electric power redundancy, which features are desirable for the Company s operations and the services provided. The Company intends to continue to develop and upgrade its current data center in Iuka, Mississippi to support up to 40,000 square feet of raised floor data center services.

In order to upgrade the Company's existing facilities to offer Tier IV services the Company will need to upgrade various elements of its facilities, including: (i) multiple data entrances, (ii) multiple power supplies, (iii) enhanced physical security for the premises and (iv) expansion of square footage of raised floor space. Currently the Company has sufficient data access to its hosting facility provided by microwave wireless transmission and leased lines from Atlanta and Memphis. As the Company's broadband network is expanded the Company expects to be able to provide dual redundant alternative data entrances to its hosting and storage facility.

The Company plans to expand its enterprise data storage infrastructure around the E-Business Infrastructure Architecture. The core components of the Company's data storage infrastructure are expected to be fault tolerant enterprise storage, fully supported redundant servers, and state-of-the-art database software. The Company believes that it has selected a proven network structure and best-in-class components to build its enterprise storage system. The hardware configuration for data storage is expected to expand its EMC's Symmetrix open storage solution and introduce other technology as needed by its customers. The redundant storage architecture and world-class support is expected to make the Company's storage solution equal to or superior to other business data center providers. With final Board of Directors approval to proceed the Company projects that it will require 12 months to complete initial expansion of it enterprise data storage infrastructure facility.

The software that the Company has chosen for use in its enterprise storage centers provides backups, testing, offline processing and performance measurements to customers that require zero downtime. The Company's remote storage facility is planned to provide mirroring of data between customer's data storage systems to ensure continuous data availability.

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's network as a preferred alternative to existing telephone and satellite data transmission systems. The Company installed a wireless network connecting Iuka, MS to Atlanta, GA and Memphis, TN during fiscal 2001. This wireless network currently operates at a DS-3 bandwidth level, and fiber optic connection can operate at OC-3 bandwidth level.

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.

In March 2000, the Company entered into an agreement with Qwest Communications in which the Company purchased 504 miles of conduit installed along the CSX railroad track from New Orleans, Louisiana to Mobile, Alabama, and from Pensacola, Florida to Jacksonville, Florida. The agreement with Qwest included payments of approximately $15 million over the course of the agreement (none of which were made). Due to market conditions a new agreement was finalized with Qwest Communications, Inc. and signed on February 1, 2002. Under this new agreement, Qwest reacquired the Company's 504 miles of fiber optic conduit from New Orleans to Jacksonville, FL for a purchase price of $15.12 million. The conduit had a book value of $14,396,891. As a result of this agreement, the Company reduced its trade payables by $15.12 million and recorded a non-operating gain of $721,109 from this transaction. The Company has no further obligation under the agreements with Qwest.

In August 2000, the Company entered into an agreement with a subsidiary of Norfolk Southern Company to install fiber conduit between Atlanta, Georgia and Chattanooga, Tennessee and from Chattanooga to Memphis, Tennessee. The Norfolk Southern Company contractor did not complete the conduit installation, and the Company did not make any payments under this agreement.

The Company has installed 24 miles of conduit, of which approximately 8 miles was sold to Bell South in fiscal 2001, providing access to the Company's enterprise data center in Iuka, Mississippi.

In December 2001, the Company entered into a wireless bandwidth agreement extending through December 2003. The wireless bandwidth was acquired from Corban Communications in exchange for 2,740,363 shares of NADA common restricted stock. This transaction is valued at $377,622.

While the Company is building its broadband network, the Company has installed a heavy load communications tower to provide wireless connectivity, initially up to 500 MBPS, from the Company's facility in Iuka, Mississippi. This connectivity provides worldwide Internet and telecommunications system through Atlanta and Memphis. This provides the Company with a capability to test and market its application services, its data storage services, its web-hosting services, and competitive local exchange carrier (CLEC) and interstate exchange carrier (IXC) telephone applications services.

At present, the Company provides four distinct services to customers and small businesses: Internet access, digital and alpha paging services, remote data storage and application services.

2. Recent Accounting Pronouncements:

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, Business Combinations ("SFAS 141") and No. 142, Goodwill and Other Intangible Assets ("SFAS 142"), which collectively address business combinations and intangible assets acquired individually, with a group of other assets, or in a business combination. SFAS 141 and 142 will become effective July 1, 2002 and are not expected to have a material impact on the Company's financial position or results of operations.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (FAS 144), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. FAS 144 supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations for a Disposal of a Segment of a Business. The Company will adopt FAS 144 as of February 1, 2002 and does not believe that the adoption of FAS 144 will have a material impact on the Company's financial position or results of operations.

3. Investments:

The Company's investments are classified as available-for-sale. The amortized cost, gross unrealized losses and estimated fair value, less the option price of $0.12 per share, for these investments were as follows at March 31, 2002 and June 30, 2001.

	Cost Basis	Gross Unrealized Losses	Estimated Fair Value
March 31, 2002			
New York Regional Rail Corporation Stock Options	$250,000	$(250,000)	$0
June 30, 2001			
New York Regional Rail Corporation Stock Options	$250,000	$(250,000)	$0

4. Property and Equipment:

In March 2000, the Company entered into an agreement with Qwest Communications in which the Company purchased 504 miles of conduit installed along the CSX railroad track from New Orleans, Louisiana to Mobile, Alabama, and from Pensacola, Florida to Jacksonville, Florida. The agreement with Qwest included payments of approximately $15 million over the course of the agreement (none of which were made). Due to market conditions a new agreement was finalized with Qwest Communications, Inc. and signed on February 1, 2002. Under this new agreement, Qwest reacquired the Company's 504 miles of fiber optic conduit from New Orleans to Jacksonville, FL for a purchase price of $15.12 million. The conduit had a book value of $14.40 million. As a result of this agreement, the Company reduced its trade payables by $15.12 million and recorded a non-operating gain of $721,109 from this transaction. The Company has no further obligation under the agreements with Qwest.

The Company has installed 24 miles of fiber optic conduit, of which approximately 8 miles was sold to Bell South in February 2001, providing fiber optic access to the Company's enterprise data center in Iuka, Mississippi.

5. Other Assets:

Other assets consist of the following items as of:

	For the Period Ended	
	March 31, 2002	June 30, 2001
FCC License, net of amortization of $57,558 and $39,057, respectively	$ 312,442	$ 330,943
Advance to Affiliate	200,000	200,000
Net Investment in Global PTX, LLC	126,574	-
Other	211,949	120,851
	$ 850,965	$ 651,794

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 in Turkey. The Company and Global plan to have a fifty (50%) percent interest in the joint venture. 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. The venture is currently inactive due to economic conditions in Turkey. The majority shareholder guarantees the advance.

In August 2001, the Company reached an agreement to form Global PTX, LLC. The Company and SB Consulting Company have established an Application Service Provider business to design, develop and implement data warehousing and data mining applications. Global PTX will establish Private Trade Exchanges focusing on providing customers with an "end-to-end" solution for their business strategies. Initial development activities will be designed to target the Manufacturing and Retail Business Industry Sectors, specifically focused on vendor/customer supply chain management. SB Consulting is a specialized software and management consulting provider to enterprises throughout the United States. During the quarter ended March 31, 2002, the Company invested a total of $210,600 in this venture and recorded its proportionate share of Global PTX's losses totaling $84,026.

6. Commitments:

In March 2001, the Company and the Mississippi Economic Development Agency agreed to amend the original lease, signed by the Company in January 1999, to include a 20-year term for its main facility in Iuka, Mississippi. This lease provides the Company with 25,000 square feet of office and equipment space at the former National Aeronautics and Space Administration facility. The State, acting through the Mississippi Development Authority (MDA), has also granted the Company a 10-year right of first refusal to lease an additional 75,000 square feet at the Iuka facility, to accommodate the Company's expansive business plan.

The Company has agreed to sell to the majority shareholder up to 5,000 shares of Series B Preferred Stock at $1,000 per share. As of March 31, 2002, 2,411 such shares were sold to the shareholder.

7. Supplemental Cash Flow Information:

For purposes of the consolidated statements of cash flows, cash and cash equivalents consists of cash on hand, demand deposit accounts and short-term investments in certificates of deposit with maturities of three months or less.

Noncash investing and financing activities during the nine-month period ended March 31, 2002:

March 31, 2002

Noncash investment in Global PTX, LLC from notes payable $93,000

Qwest reacquired the Company's 504 miles of fiber optic conduit from New Orleans to Jacksonville, FL for a purchase price of $15.12 million. The conduit had a book value of $14.40 million. As a result of this agreement, the Company reduced its trade payables by $15.12 million and recorded a non-operating gain of $721,109 from this transaction. The Company has no further obligation under the agreements with Qwest (Note 4).

Noncash equity transactions during the nine-month period ended March 31, 2002 and 2001:

	No. of Shares	Dollar Amount
March 31, 2002		
Issuance of stock for services	2,890,595	$ 398,324
Payable to officer converted to preferred stock	26	$ 25,662
Conversion of preferred dividends payable to preferred stock	56	$ 55,950
Issuance of stock for services	90,000	$ 12,600
Issuance of stock for equipment	40,000	$ 10,000
Issuance of stock for settlement of claims (Note 9)	250,000	$ 25,625
Issuance of stock options	0	$ 19,000
Issuance of stock for legal services	130,000	$ 13,000
Issuance of stock for consulting corporate securities services	200,000	$ 20,000
Issuance of stock for management services	400,000	$ 40,000
Issuance of stock for consulting services	200,000	$ 20,000
Issuance of preferred stock in exchange for investment in Global PTX, LLC	85	$ 84,500
March 31, 2001		
Issuance of stock for payment of accounts payable	54,225	$ 115,032

8. Litigation:

On March 26, 2001, the Company was served with a summons and complaint entitled Tom Epperson, Freddie Wilson and Omega Shelters, Inc. v. North American DataCom, Inc. and North American Infotech, LLC, (U.S.D.C. Northern District of Mississippi, Case No. 1:02CV105-D-D). By decision of the Court dated June 28, 2001, the matter was dismissed without prejudice for lack of subject matter jurisdiction. No further action has been filed.

David Cray, former Vice President and Corporate Treasures, departed the Company effective March 5, 2001, upon his return from a leave of absence. Mr. Cray and the Company have reached an agreement to settle outstanding differences regarding expenses and compensation. The Company and Mr. Cray have agreed to terms, but final agreement has not been completely executed. The terms of the settlement will not materially affect the finances of the Company.

On June 13, 2001, the Company was served with a summons and complaint in the matter known as OptiCom v. North American DataCom, Inc., (County Court of Tishomingo, State of Mississippi, Cause No. CV01-0077(G)(T). Plaintiff OptiCom has alleged that the Company has failed to pay $28,000 for optical conduit provided for the last mile access along the Tishomingo Railroad. The Company is defending the lawsuit and has engaged OptiCom in settlement negotiations.

On December 18, 2001, the Company was served with a summons and complaint in the matter known as Portal v. North American DataCom, Inc., (Superior Court of the State of California, County of Santa Clara, Cause No. CV803226). Plaintiff Portal has alleged that the Company has failed to pay $439,816 for software and maintenance. The Company is defending the lawsuit.

Although the ultimate outcome of any pending litigation or claims cannot be ascertained at this time, the Company currently believes that the liability, if any, resulting from the aggregate amount of uninsured damages for outstanding lawsuits, investigations and asserted claims will not have a material adverse effect on its consolidated financial position and results of operations. However, in view of the unpredictable nature of such matters, no assurances can be given in this regard.

9. Stockholders' Equity:

In March 2002, the Company issued 130,000 shares of common stock totaling $13,000 to the Company's general counsel for legal services rendered to the Company.

In March 2002, the Company issued 200,000 shares of common stock totaling $20,000 to three individuals for corporate securities consulting services rendered to the Company under an agreement with the Company dated November 6, 2001.

In March 2002, the Company issued 400,000 shares of common stock totaling $40,000 to the Company's Chairman and Chief Executive Officer for management services rendered to the Company during the period of April 1, 2001 through September 30, 2001.

In March 2002, the Company issued 200,000 shares of common stock totaling $20,000 to one individual for consulting services to be rendered to the Company under an agreement with the Company.

In March 2002, the Company sold 132 shares of Series B Convertible Preferred Stock to a principal shareholder for $131,821. In December 2001, the Company sold 276 shares of Series B Convertible Preferred Stock to a principal shareholder for $275,735. In September 2001, the Company sold 191 shares of Series B Convertible Preferred Stock to a principal shareholder for $190,990. In July 2001, the cumulative dividends payable on the Series B Convertible Preferred Stock totaling $55,950 from fiscal 2001 were exchanged for 56 additional shares of Series B Convertible Preferred Stock. The conversion terms of the Series B Preferred shares were amended by action of the Board of Directors. A time value of money and market fluctuation discount factor of 30% of the average registered common stock price was initially utilized to value the Rule 144 stock price. The conversion rate now reflects the valuation of the registered common stock as per the end of each quarter in order to accommodate market valuation changes, based upon the closing bid price of the shares during the 5 trading days prior to the end of each quarter. The Board of Directors approved that the new conversion terms apply to shares issued after September 30, 2000.

In August 2001, the Company issued 90,000 shares of common stock totaling $12,600 for electrical services rendered to the Company in providing power to the wireless bandwidth heavy load tower the Company constructed .

In August 2001, the Company issued 40,000 shares of common stock totaling $10,000 in exchange for Internet service equipment.

In August 2001, the Company issued 250,000 shares of common stock totaling $25,625 to a former employee for services rendered to the Company for design of its fiber optic network.

In November 2001, the Company issued 150,232 shares of common stock totaling $20,702 for services rendered to the Company in conjunction with building the Company's wireless bandwidth system.

In November 2001, the Company issued 2,740,363 shares of common stock totaling $377,622 for DS-3 communication services rendered to the Company and to continue through December 2003, of which $128,945 is reflected in other assets as a prepaid.

The value of the shares issued to non-employees for services is determined by the amount of the invoice provided to the Company by the non-employee party. The price per share is determined by negotiation with the third party. Normally, the 5-day average closing price of the Company's common stock at the time of the settlement of the transaction is utilized for valuation.

10. Notes Payable:

In September 2001, revised in December 2001, a note was issued to Citrus Springs Trust, a significant shareholder, in the amount of $100,000 due on or before August 31, 2002. Interest will accrue at a rate of one and one half percent (1.50%) per month on the unpaid balance of this note after the maturity date. The note holder was granted an option to acquire a block of 100,000 shares of restricted common stock for ten cents ($0.10) a share, which is exercisable until December 31, 2003.

In September 2001, revised in December 2001, a note was issued to Jack Freeman, President, in the amount of $40,000 due on or before August 31, 2002. Interest will accrue from September 1, 2001 at a rate of three quarters of a percent per month until maturity and at one and one half percent (1.5%) per month on the unpaid balance of this note after the maturity date. The note holder was granted an option to acquire a block of 100,000 shares of restricted common stock for sixteen cents ($0.16) a share, which is exercisable until December 31, 2003.

In October 2001, a note was issued to Jack Freeman, President, in the amount of $75,000 due on or before August 31, 2002. Interest will accrue from October 1, 2001 at a rate of three quarters of a percent per month until maturity and at one and one half percent (1.5%) per month on the unpaid balance of this note after the maturity date. The note holder was granted an option to acquire a block of 100,000 shares of restricted common stock for sixteen cents ($0.16) a share, which is exercisable until December 31, 2003.

In March 2002, a note was issued to a related party in the amount of $109,500 due on or before June 30, 2003. Interest will accrue at a rate of three quarters of one percent per month and will increase to one and one half percent (1.5%) per month on the unpaid balance of this Note after the maturity date. The note holder was granted an option to acquire a block of 200,000 shares of restricted common stock for ten ($0.10) a share, which is exercisable until December 31, 2003.

Collectively, the stock options were valued at $19,000 and deferred as financing costs.

11. 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 March 31, 2002, the Company has negative working capital totaling $1,826,329. The improvement in the Company's negative working capital is attributable to the resolution of the Qwest obligation in February 2002, whereby the Company reduced its trade payables by $15.12 million and recorded a non-operating gain of $721,109 (See Note 4). The Company has an arrearage of certain federal tax liabilities of approximately $750,000, including payroll liabilities. In

addition, the Company incurred losses totaling $6,642,899 since inception (September 1, 1998). While these matters raise doubt about the Company's ability to continue on as a going concern, the Company has significantly reduced its losses in this fiscal year and plans to be profitable in the next fiscal year. 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 and its principal shareholder and chief executive officer, Robert Crawford, plan to continue to fund the Company through quarterly sales of Series B Preferred Stock as needed. Additional financing is being planned. The Company has identified potential sources of capital and believes that the Company will be able to secure the necessary capital to put their business plan into operation. The capital requirements for the Global PTX are included in the earlier announced capital planning. This is part of the EDS Center investment of Segment 1 of the bandwidth network. In March 2001, the Company entered into an agreement with IFG Private Equity LLC. Under this agreement IFG will purchase up to $50 million of the Company's common stock through February 2003. The agreement is planned to operate in a manner similar to a line of credit, allowing the Company to draw upon funds periodically, when and if desired. The funding is planned to provide the underlying support to proceed with the business plan. The funding is subject to the effectiveness of a registration statement to be filed with the SEC. The Company intends to use the financing to immediately expand its application services and related data storage operations. As of March 31, 2002, the registration statement has not been filed, and the Company can make no assurance that such registration statement will become effective when filed.

12. Subsequent Events:

On April 23, 2002, the Company announced that it had appointed two new members to its Board of Directors. Jack Freeman stepped down as President of the Company, but became a member of the Board. Robert Crawford has assumed the duties of the office of President of the Company. The second new Member was Dr. William Durham, MD, an investor in the Company.

On April 30, 2002, the Company announced that it had opened a liaison office in Greater China. The liaison office, established in Shanghai, will focus on application service product development, and will strengthen the Company's ability to rapidly respond to market opportunities within the Pacific Rim region.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

As used in this Quarterly Report on Form 10-Q, the term the "Company" means North American DataCom, Inc. and its subsidiaries.

Forward-Looking Statements

The discussion in this report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. The statements contained in this Report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Act"), and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"), including statements regarding its expectations, beliefs, intentions or strategies regarding the future. All forward-looking statements included in this document are based on information available to the Company on the date hereof. The Company s actual results could differ materially from those described in its forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, its negative working capital, its ability to raise additional capital at terms and conditions satisfactory to the Company, its limited operating history in a new and rapidly evolving industry; its ability to implement its business plan; and its ability to successfully market its products and services. See the discussion under "Risks Affecting Future Results" below. Reference is made to Exhibit 99.1, "Private Securities Litigation Reform Act of 1995, Safe Harbor Compliance Statement for Forward-Looking Statements".

The Company makes forward-looking statements in the "Management s Discussion and Analysis of Financial Condition and Results of Operations" in this Quarterly Report. These forward-looking statements include, but are not limited to, statements about its plans, objectives, expectations, intentions and assumptions and other statements that are not historical facts. The Company generally intend the, words "expect", anticipate", "intend", "plan", "believe", "seek", "estimate" and similar expressions to identify forward-looking statements.

Acquisitions

The Company was organized in September 1998 as North American Software Associates, Limited, a Delaware corporation. It 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 restricted shares of its common stock. 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 restricted shares of its common stock. The Action transaction has been treated for accounting purposes as a purchase of assets and liabilities. Accordingly, 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 recapitalization 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.

Overview

The Company provides Internet access services and digital and alphanumeric paging services. To date, substantially all of the Company s revenues have been derived from its Internet access services, paging services, the sale of fiber optic conduit, and data storage to consumers and small businesses.

The Company currently has a 150 mega byte per second (mbs) broadband fiber optic and redundant wireless connectivity into its headquarters in Iuka, MS. The Company has planned to deploy a 3,000 mile 192 giga byte per second (gbs) broadband network in the states of Tennessee, Mississippi, Louisiana, Alabama, Georgia and Florida, to provide application services, communications and information technology services with an emphasis on wideband fiber optic and wireless telecommunications services that support Enterprise Data Storage (EDS) and Application Service solutions. This network is expandable by several orders of magnitude, as needed in the future. The Company plans to utilizes advanced, state-of-the-art technology for its network to provide a wide range of services to telecommunication companies, ISPs and large organizations, including government agencies and departments. Its plan is to provide superior quality and secure broadband communications in connection with its data storage services.

The Company is currently operating a 5,000 square foot Data Storage Center at its Iuka facility. The Company s Enterprise Data Storage business (EDS) enables it to archive data. The Company plans to develop two highly secure "Major Center" at its headquarters in Iuka, MS. The Company also plans to operate five co-location data storage "Satellite Centers" to provide mirroring and archiving services that are directly connected by its fiber optic network at its Major Center in Iuka, MS.

In August 2001, the Company reached an agreement to form Global PTX, LLC. The Company and SB Consulting Company have established an Application Service Provider business to design, develop and implement data warehousing and data mining applications. Global PTX will establish Private Trade Exchanges focusing on providing customers with an "end-to-end" solution for their business strategies. Initial development activities will be designed to target the Manufacturing and Retail Business Industry Sectors, specifically focused on vendor/customer supply chain management. SB Consulting is a specialized software and management consulting provider to enterprises throughout the United States. During the quarter ended March 31, 2002, the Company invested a total of $210,600 in

this venture (See Note 7) and recorded its proportionate share of Global PTX's losses totaling $84,026.

Revised Business Plan Information

On February 2, 2002, the Company announced the reduction of its capital budget for the balance of this fiscal year to approximately $3 million. The Company has subsequently reduced the capital budget to less than $1 million. This was due to the reduced costs of needed equipment and software due to price weakness in the marketplace. As of this date this budget has been funded. This budget was funded through continued private placements of equity and debt capital. In addition, additional funding may be provided through its funding agreement with IFG Equity Funding, LLC, subject to market conditions.

On December 4, 2001, the Company announced its plans to expand its Internet and Data Services business to one hundred twenty-nine (129) cities in Mississippi, Alabama, and Tennessee. This expansion will allow virtually anyone in Mississippi, Alabama, and Tennessee to have local Internet access and/or Data Services, or at least a choice of service providers. The expansion will complement the high-speed Internet access and Data Services network that has been planned for the underserved areas within the Southeast. The Company's expansion supports its revised business plan and is expected to increase the Company's Internet and Data Services business revenues. This expansion will provide synergistic support for the Company's data storage services, broadband connectivity and information technology services. The expanded Internet and Data access will provide an additional benefit for customers of the Company's Global PTX venture, who can use the increased professional and application services.

On October 24, 2001, the Company announced its approved revised Business Plan. The revised plan is focusing on immediate revenue growth and immediate reduction of investment and expenses associated with delayed broadband infrastructure development. This Plan that had been formulated last year with Cap Gemini Ernst and Young, calls for the construction of a 3,000-mile fiber optic network throughout the Southeast United States. The Company has divided the proposed fiber optic network construction into six discreet segments. The Company now plans to complete the first segment (roughly 550 route miles, extending from Atlanta to Memphis) by late 2002. The original 5-year Plan identified a $700 million capital investment for seven EDS centers, plus the 3,000-route-mile broadband network. The current market pricing has reduced the estimated capital investment to under $400 million. Revenues at the end of 5 years were projected to be over $500 million.

The Company s revised business plan projects operating cash flow to be breakeven by July 2002, and profits in October 2002. Due to economic conditions the Company will soon announce a modification to its business plan that will effectively add 6 to 9 months to its complete implementation. This will not change the short term cash flow and profit objectives, but will reduce Revenue and net income by at least 50 percent in fiscal year 2003.

Results of Operations

For the Three-Month Period Ended March 31, 2002 Compared to the Three-Month Period Ended March 31, 2001

For the three-month period ended March 31, 2002, the Company had net service revenues of $102,019, of which 83% were from Internet revenues and 17% from paging revenues, compared to $139,115, of which 53% were from Internet revenues and 16% from paging revenues for the comparable period of the prior year, excluding PixSell revenues of $62,884 for the three-month period ended March 31, 2001. Comparing only Internet and Paging revenues, the three-month period ended March 31, 2002 had Internet revenues of $84,878 and paging revenues of $17,141, compared to $73,661 of Internet revenue and $21,920 of paging revenues for the same three-month period of the prior year. This represents an increase of $6,438 or 6%, which is directly attributable to an increase in Internet revenues. The decrease of $37,096 or 27% compared to the three-month period ended March 31, 2001 arises from $43,534 of conduit sales (Note 4).

Cost of services were $33,798 during the three-month period ended March 31, 2002 compared to $60,434 for the three-month period ended March 31, 2001. Cost of services were composed of cost of goods sold, paging airtime, postage expense and a 5% allocated overhead expense of total expenses. The decrease in cost of service is a reflection of control of incremental costs and results of cost reduction efforts further described below. The Company's gross profit margins, excluding PixSell, were 33% and 43%, respectively.

The Company incurred selling, general and administrative expenses of $457,886 during the three-month period ended March 31, 2002 compared to $731,719 for the same period of the prior year. This decrease was primarily attributed to the expense reduction program put in place in June 2001, which decreased labor expense by $266,000, travel expense by $20,000, and professional fees by $130,000. In effect, its operating loss decreased from $590,154 during the three-month period ended March 31, 2001 to $389,666 for the three-month period ended March 31, 2002 or a decrease of 34%.

The Company had other income of $688,996 for the three-month period ended March 31, 2002 compared to other expense of $176,410 for the three-month period ended March 31, 2001. The other income during the three-month period ended March 31, 2002, was attributable to the non-operating gain of $721,109 that was recorded as a result of the resolution of the Qwest obligation (Note 4) offset by the loss in equity investment of $32,130 (Note 5). The other expense during the three-month period ended March 31, 2001, was largely attributable to the imputed interest expense relating to a contract to acquire rights-of-way and fiber conduit.

The Company had a net income of $299,331 for the three-month period ended March 31, 2002 compared to a net loss of $766,564 for the same period of the prior year. This improvement in the net loss is directly attributable to the expense reduction program put in place in June 2001, described above, and the recording of a non-operating gain of $721,109 in February 2002 (See Note 4, Property and Equipment, to the Notes to Condensed Consolidated Financial Statements).

For the Nine-Month Period Ended March 31, 2002 Compared to the Nine-Month Period Ended March 31, 2001

For the nine-month period ended March 31, 2002, the Company had net revenues of $346,877 compared to $358,372 in fiscal 2001. The net revenues for services were $300,911, of which 81% were from Internet revenues and 19% from paging revenues. The nine-month period ended March 31, 2001 were $251,954, excluding PixSell data storage revenues of $62,884 and conduit sales of $43,534 to Bell South (Note 4). Internet revenues accounted for 79% and paging revenues for 21%. In comparing the nine-month period ended March 31, 2002 with the same nine-month period of the prior year, the Internet revenues of $243,991 compared to $192,816 and paging revenues of $56,920 compared to $59,138. This represents an increase of $48,957 or 16%, which is directly attributable to an increase in Internet revenues. Conduit and broadband sales for 2002 have not been pursued due to market conditions. Due to existing market conditions, the data storage business for 2002 is down from $62,884 to $45,966. This is expected to improve in the next year as the Global PTX application service business develops.

Cost of services was $105,873 during the nine-month period ended March 31, 2002 compared to $156,660 for the nine-month period ended March 31, 2001. Cost of services were composed of cost of goods sold, paging airtime, postage expense and a 5% allocated overhead expense of total expenses. The decrease in cost of services is a reflection of control of incremental costs and results of cost reduction efforts further described below. The Company's gross profit margins, excluding PixSell, were 35% and 53%, respectively.

The Company incurred selling, general and administrative expenses of $1,453,556 during the nine-month period ended March 31, 2002 compared to $2,245,673 for the same period of the prior year. This decrease was primarily attributed to the expense reduction program put in place in June 2001, which decreased labor expense by $400,000, travel expense by $70,000, professional fees by $300,000, and advertising by $20,000. In addition, during the nine-month period ended March 31, 2002, no employee relocation expense was incurred compared to $45,038 incurred during the same period of the prior year. In effect, its operating loss decreased from $2,043,961 during the

nine-month period ended March 31, 2001 to $1,212,551 for the nine-month period ended March 31, 2002 or a decrease of 41%.

The Company had other income of $637,189 for the nine-month period ended March 31, 2002 compared to other expense of $525,473 for the nine-month period ended March 31, 2001. The other income during the nine-month period ended March 31, 2002, was attributable to the non-operating gain of $721,109 that was recorded as a result of the resolution of the Qwest obligation (Note 4) offset by the loss in equity investment of $84,026 (Note 5). The other expense during the nine-month period ended March 31, 2001, was largely attributable to the imputed interest expense relating to a contract to acquire rights-of-way and fiber conduit.

The Company had a net loss of $575,362 for the nine-month period ended March 31, 2002 compared to a net loss of $2,569,434 for the period of the prior year. This improvement in the net loss is directly attributable to the expense reduction program put in place in June 2001, explained above, and the recording of a non-operating gain of $721,109 in February 2002 (See Note 4, Property and Equipment, to the Notes to Condensed Consolidated Financial Statements).

Liquidity

For the nine-month period ended March 31, 2002, the Company s cash flow statement shows it used $728,006 for its operating activities, of which $420,458 was for the net loss less depreciation costs and the balance augmented by small account changes was used to reducing accounts payable and accrued expenses by a total of $436,363. This compares with nine-month period ended March 31, 2001 in which a similar level of cash, $677,429, was used for operating activities. However, $1,922,819 was used by the much larger net loss, adjusted for depreciation and amortization costs, and a large $1,283,977 increase in accounts payable was used to reduce the cash needed the net losses. The balance of the cash provided in the nine-month period ended March 31, 2002 for the operating shortfall was raised from financing activities primarily the sale of Series B Convertible Preferred Stock and proceeds from the issuance of convertible notes that totaled $719,883.

For the nine-month period ended March 31, 2001, an additional $1,001,347 of cash was used for asset investment. The cash generated from financing activities totaled $2,311,696 once again through the sale of equity with no significant debt. This improvement in 2002 cash flow from operating activities was principally the result of the resolution of the Qwest obligation, which provided a non-operating gain of $721,109 (See Note 4, Property and Equipment, to the Notes to Condensed Consolidated Financial Statements). For the nine-month period ended March 31, 2002, the Company s net cash flow used in investing activities was $3,145 arising from the purchase and sale of some property and equipment. The Company had $13,507 of cash at March 31, 2002 compared to cash of $78,868 for the same period of the prior year.

Total current assets at March 31, 2002 were $87,028 compared to $103,247 at its fiscal year ended June 30, 2001, or a decrease of 16%. This decrease in total current assets is directly attributable to the decrease in accounts receivable. The Company s accounts receivable decreased by $32,634 from $76,230 at June 30, 2001 to $43,596 at March 31, 2002.

Net fixed assets, consisting principally of property and equipment, was $1,756,174 at March 31, 2002 compared to $16,248,399 at June 30, 2001. This decrease was primarily attributable to the resolution of the Qwest obligation in February 2002, which the Company reduced its fixed assets by 14,396,891 (See Note 4, Property and Equipment, to the Notes to Condensed Consolidated Financial Statements). Other assets increased from $651,794 at June 30, 2001 to $850,965 at March 31, 2002. This increase was primarily attributable to the net investment in Global PTX, LLC of $126,574 (Note 5). Total assets at March 31, 2002 were $2,694,167 compared to $17,003,440 at June 30, 2001. This decrease in total assets was largely due to the decrease in net fixed assets, as described above.

The current liabilities were $1,913,357 at March 31, 2002 compared to $16,944,152 at June 30, 2001. This improvement in current liabilities is a direct result of the resolution of the Qwest obligation in February 2002, which the Company reduced its trade payable by $15.12 million (See Note 4, Property and Equipment, to the Notes to Condensed Consolidated Financial Statements). At March 31, 2002, the Company had accounts payable of $771,086 compared to $1,044,558 at June 30, 2001. This decrease is primarily due to the expense reduction program put in place in June 2001, which decreased travel expense and legal expenses, conversion of accounts payable to common stock and payment of accounts payable by notes payable. At March 31, 2002, the Company had accrued expenses and other liabilities of $1,251,771 compared to $781,594 at June 30, 2001. The increase in accrued expense and other liabilities is attributable to the increase in notes payable of $324,500, which was used to fund the Company s working capital, and is partially offset by conversion of dividends payable and payable to officer to preferred stock.

In addition, the Company s trade notes payable was decreased by $15.12 million with an agreement that was finalized with Qwest Communications, Inc. and signed on February 1, 2002. Qwest acquired from the Company 504 miles of fiber optic conduit from New Orleans to Jacksonville, FL for a purchase price of $15.12 million (See Note 4, Property and Equipment, to the Notes to Condensed Consolidated Financial Statements).

The Company modified its business plan to accommodate prevailing capital market conditions and the difficulty in securing financing at acceptable terms. The Company estimates that its capital needs to be approximately $10,000,000 during the next twelve months. This will fund approximately $5,000,000 for network assets and for data storage center improvements; and $5,000,000 for working capital requirements. Actual costs and estimates may vary from its current expectations, which could materially adversely affect its business and financial conditions.

The Company's longer term capital planning includes a public offering to raise funds for the development of its fiber optic network. Current fiber optic network valuations dictate a complete network investment analysis to determine whether it is more cost effective to buy needed fiber optic segments that are now available compared to the Company's installation of its fiber optic network.

The Company plans to complete a $3 to $5 million private placement. Approximately $2 million will be used for working capital requirements and the balance for infrastructure expansion. The working capital contribution will allow the Company to complete the implementation of payment plans to bring the Company's current ratio in balance. The fixed asset infrastructure expansion will be primarily for data storage and software assets. These assets are planned to be used to support our application service businesses of which GPTX is a primary segment. The Company currently has wireless and fiber optic bandwidth capability in Iuka to support its plans for the next 15 months.

In August 2000, the Company entered into an agreement with a subsidiary of Norfolk Southern Company to lay fiber conduit between Atlanta, Georgia and Chattanooga, Tennessee and from Chattanooga to Memphis, Tennessee. The contractor did not complete the conduit installation. The Company did not make any payments under this agreement. This agreement was terminated due to changing in the schedule of installations.

In order to fund working capital needs, the Company sold restricted securities (See Note 9, Stockholders' Equity, to the Notes to Condensed Consolidated Financial Statements) to Robert Crawford, Chairman of the Board, Chief Executive Officer, director and principal shareholder as follows: in March 2002, the Company sold 132 shares of Series B Convertible Preferred Stock for $131,821, in December 2001, the Company sold 276 shares of Series B Convertible Preferred Stock for $275,735 and in September 2001, the Company sold 191 shares of Series B Convertible Preferred Stock for $190,990. In July 2001, the cumulative dividends payable on the Series B Convertible Preferred Stock totaling $55,950 for fiscal 2001 were exchanged for 56 additional shares of Series B Convertible Preferred Stock.

Continuing capital requirements, while not as substantial as they were in the past, are still significant. The Company is planning to fund those needs. As reflected in the Company s financial statements for its fiscal year ended June 30, 2001, which were filed with its Annual Report on Form 10-K, the accountant's opinion included a going-concern qualification. Reference is made to Note 10, Liquidity, to the Company s Notes to Consolidated Financial Statements. As of March 31, 2002, the Company had reduced its negative working capital to $1,826,329, which is directly attributable to the resolution of the Qwest obligation (See Note 4, Property and Equipment, to the Notes to Consolidated Financial Statements). In addition, the Company has an arrearage of certain federal tax liabilities of approximately $750,000, including payroll liabilities. The Company has sustained start-up losses of $6,642,899, since inception (September 1, 1998). The continuation of the Company as a going concern is dependent upon the Company continued progress toward positive cash flow from operations, plus the Company s raising additional $5 million of equity capital and attaining and maintaining profitable operations. The Company s management believes that its record over the past year indicates that it is a going concern.

The Company has identified potential sources of capital and believes that it will be able to secure the necessary capital to implement its revised business plan. The capital requirements for the Global PTX are included in the earlier announced capital planning. This is part of the EDS Center investment of Segment 1 of the bandwidth network.

In the next four quarters the Company is planning to utilize the IFG PIPE financing depending on market conditions. This funding will provide the capital to continue to expand the application service businesses and the data storage support infrastructure investments. In March 2001, the Company entered into an agreement with IFG Private Equity, LLC. Under this agreement IFG will purchase up the Company s common stock through February 2003 subject to market conditions. The agreement is planned to operate in a manner similar to a line of credit, allowing the Company to draw upon funds periodically, when and if desired. The funding is planned to provide the underlying support to proceed with the business plan. The funding is subject to the effectiveness of a registration statement to be filed with the SEC. The Company intends to use the financing to immediately expand its fiber optic and related data storage operations. As of March 31, 2002, the registration statement has not been filed, and the Company can make no assurance that such registration statement will become effective when filed.

Risks Affecting Future Results

A number of risk factors exist that may impair or prevent the Company from accomplishing the 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 digital and alpha paging services. The Company has experienced operating losses in each fiscal quarter since inception and will likely continue to experience such losses. Because the Company s operating history is extremely limited, and has just commenced operations on its fiber optic and wireless broadband network and enterprise data storage (EDS) facility, it is difficult to evaluate the Company s business operations and prospects.

The Company Needs Substantial Additional Capital Insolvency.

Present cash flow from operations is not sufficient to pay certain of the Company s debts as presently structured. At March 31, 2002, the Company had negative working capital of $1,826,329, and estimates that it will need to secure additional capital of approximately $10,000,000 to finance its operations and capital needs over the next twelve months. See the discussion under "Liquidity" above. The failure of the Company to obtain additional capital will significantly restrict its proposed operations and may make it impossible for the Company to fulfill the timing of its proposed business plan.

Default of Certain Obligations.

In March 2000, the Company entered into an agreement with Qwest Communications in which the Company purchased 504 miles of conduit installed along the CSX railroad track from New Orleans, Louisiana to Mobile, Alabama, and from Pensacola, Florida to Jacksonville, Florida. Fiber optic cable has not yet been installed within such conduit purchased from Qwest Communications. The agreement with Qwest called for payments of approximately $15 million over the course of the agreement, all which was past due by the Company. Qwest declared a default in October 2001, but did not initiate arbitration or other proceedings. An agreement was finalized with Qwest Communications, Inc. and signed on February 1, 2002 under which Qwest reacquired from the Company 504 miles of fiber optic conduit from New Orleans to Jacksonville, FL for a purchase price of $15.12 million. The conduit had a book value of $14,396,891. The Company reduced its trade payables by $15.12 million and recorded a non-operating gain of $721,109 from this transaction. The Company has no further obligation under the agreements with Qwest (See Note 4, Property and Equipment, to the Notes to Condensed Consolidated Financial Statements).

In August 2000, the Company entered into an agreement with a subsidiary of Norfolk Southern to lay fiber conduit between Atlanta, Georgia and Chattanooga, Tennessee and from Chattanooga to Memphis, Tennessee. The conduit installation was not completed. The Company has not made any payments under this agreement. This agreement was terminated due to changing in the schedule of installations. The Company plans to amend certain terms of the agreement based upon new schedules. The Company has installed 24 miles of conduit, of which approximately 8 miles was sold to Bell South in fiscal 2001, providing fiber optic access to the Company s enterprise data center in Iuka, Mississippi.

The Company Leases its Facilities.

On March 7, 2001, the Company and the Mississippi Economic Development Agency agreed to amend the original lease, signed by the Company in January 1999, to include a 20-year term for its main facility in Iuka, Mississippi. This lease provides the Company with 25,000 square feet of office and equipment space. This facility is essential to the Company s proposed business plan because it already contains many of the features necessary for the Company to establish an enterprise data storage (EDS) facility. The State of Mississippi, acting through the Mississippi Development Authority (MDA), has also granted the Company a 10-year right of first refusal to lease an additional 75,000 square feet at the Iuka facility, to accommodate the Company s expansive business plan.

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 many of which have far greater capital resources and longer operating histories than the Company. 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Reference is made in Note 8 to the Notes to Condensed Consolidated Financial Statements.

On March 26, 2001, the Company was served with a summons and complaint entitled Tom Epperson, Freddie Wilson and Omega Shelters, Inc. v. North American DataCom, Inc. and North American Infotech, LLC, (U.S.D.C. Northern District of Mississippi, Case No. 1:02CV105-D-D). By decision of the Court dated June 28, 2001, the matter was

dismissed without prejudice for lack of subject matter jurisdiction. No further action has been filed.

David Cray, former Vice President and Corporate Treasures, departed the Company effective March 5, 2001, upon his return from a leave of absence. Mr. Cray and the Company have reached an agreement to settle outstanding differences regarding expenses and compensation. The Company and Mr. Cray have agreed to terms, but final agreement has not been completely executed. The terms of the settlement will not materially affect the finances of the Company.

On June 13, 2001, the Company was served with a summons and complaint in the matter known as OptiCom v. North American DataCom, Inc., (County Court of Tishomingo, State of Mississippi, Cause No. CV01-0077(G)(T). Plaintiff OptiCom has alleged that the Company has failed to pay $28,000 for optical conduit provided for the last mile access along the Tishomingo Railroad. The Company is defending the lawsuit and has engaged OptiCom in settlement negotiations.

On December 18, 2001, the Company was served with a summons and complaint in the matter known as Portal v. North American DataCom, Inc., (Superior Court of the State of California, County of Santa Clara, Cause No. CV803226). Plaintiff Portal has alleged that the Company has failed to pay $439,816 for software and maintenance. The Company is defending the lawsuit.

Item 2. Changes in Securities and Use of Proceeds

In March 2002, the Company sold 132 shares of Series B Convertible Preferred Stock to a principal shareholder for $131,821.

The Company believes that the transaction above was exempt from registration pursuant to Section 4(2) of the Act as privately negotiated, isolated, non-recurring transactions not involving any public solicitation. The purchaser represented his intention to acquire the securities for investment only and not with a view to the distribution thereof. Appropriate restrictive legends are affixed to the stock certificates issued in such transactions. The recipient either received adequate information about the Company or had access, through employment or other relationships, to such information. In addition, the purchaser is an "accredited investors" (as that term is defined in Rule 501(a)(3) promulgated under the Act).

Item 3. Default Upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

During the quarter ended March 31, 2002, the Company did not file any Reports on Form 8-K.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the issuer has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

North American DataCom, Inc.

By: /s/ Robert R. Crawford
Robert R. Crawford, Chairman, Chief Executive Officer, Chief Financial and Accounting Officer and Sole Director
Dated: May 17, 2002
Iuka, MS