DATAWORLD SOLUTIONS INC
Form 10QSB
May 07, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549
FORM 10-QSB

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: December 31, 2003

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

Commission file number: 1-9263

DATAWORLD SOLUTIONS, INC.
(Exact name of small business issuer as specified in its charter)

Delaware	11-2816128
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

275K Marcus Blvd.
Hauppauge, NY 11788
(Address of principal executive offices, including zip code)

Registrant's Telephone No., including area code: (631) 951-4000

Check whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ___ No _X_

The number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date:

Common stock, $.001 par value	32,465,450
Class	Number of shares outstanding at May 6, 2004

Transitional Small Business Disclosure Format: Yes ___ No _X_

DATAWORLD SOLUTIONS, INC.

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PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

DATAWORLD SOLUTIONS, INC.
Condensed Consolidated Balance Sheet
December 31, 2003

	December 31, 2003 (Unaudited)	June 30, 2003*
ASSETS		
CURRENT ASSETS:		
Cash	$ 7,690	$ 11,888
Accounts receivable, net of allowance	62,481	173,309
Other current assets	3,000	-

TOTAL CURRENT ASSETS	73,171	185,197
TOTAL ASSETS	$ 73,171	$ 185,197

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:		
Payable to asset-based lender	$ 1,729,648	$ 1,838,655
Accounts payable	3,244,325	3,200,009
Accrued expenses and other	1,129,254	1,137,009
Current portion of notes payable	15,500	15,500
Bankruptcy distributions payable	281,499	270,332
Secured subordinated debentures, net	91,193	90,473
TOTAL CURRENT LIABILITIES	6,491,419	6,551,978
Notes payable-related parties	420,000	536,000
Accrued dividends on preferred stock	-	393,436
Subscriptions received	35,000	35,000
TOTAL LIABILITIES	6,946,419	7,516,414

COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIT:		
8% Series B Convertible Preferred Stock, $.01 par value, stated value $1,000 per share; Redeemable at $1,250 per share; authorized, 3,000 shares; 1,559 and 1,595 shares issued and outstanding at December 31, 2003 and June 30, 2003, respectively	1,559,000	1,595,000
Common stock, $.001 par value; 40,000,000 Shares authorized, 38,420,429 and 34,240,313 issued and outstanding at December 31, 2003 and June 30, 2003, respectively	38,420	34,240
Additional paid-in capital	6,375,986	3,144,931
Accumulated deficit	(14,846,654)	(12,105,388)
TOTAL STOCKHOLDERS' DEFICIT	(6,873,248)	(7,331,217)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 73,171	$ 185,197

*Condensed from audited financial statements
See accompanying notes to condensed consolidated financial statements.

DATAWORLD SOLUTIONS, INC.
Unaudited Condensed Consolidated Statements of Operations

Three Months ended December 31,

	2003	2002

Net sales	$ 92,519	$ 224,105
Cost of goods sold	61,529	117,703
Gross profit	30,990	106,402
Expenses:		
Selling, general and administrative expenses	2,578,627	158,127
Interest expense	111,983	110,036
Total expenses	2,690,610	268,163
	(2,659,620)	(161,761)

Other income:		
Commission income	32,026	62,278
Gain on settlement of debt	96,238	-
Total other income	128,264	62,278
Net loss	$ (2,531,356)	$ (99,483)
Accrued dividends on preferred stock	31,180	38,682
Net loss attributable to common shareholders	$ (2,562,536)	$ (138,165)
Basic and diluted loss per share	$ (0.07)	$ (0.00)
Weighted average common shares outstanding - basic and diluted	34,754,646	33,927,487

See accompanying notes to condensed consolidated financial statements.

DATAWORLD SOLUTIONS, INC.
Unaudited Condensed Consolidated Statements of Operations

Six Months ended December 31,

	2003	2002
Net sales	$ 238,002	$ 403,087
Cost of goods sold	146,243	222,602
Gross profit	91,759	180,485

Expenses:		
Selling, general and administrative expenses	2,706,271	345,328
Interest expense	246,895	229,505
Total expenses	2,953,166	574,833
	(2,861,407)	(394,348)

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Other income:		
Commission income	87,187	62,278
Gain on settlement of debt	96,238	-
Total other income	183,425	62,278
Net loss	$ (2,677,982)	$ (332,070)
Accrued dividends on preferred stock	63,284	80,332
Net loss attributable to common shareholders	$ (2,741,266)	$ (412,402)
Basic and diluted loss per share	$ (0.08)	$ (0.01)
Weighted average common shares outstanding - basic and diluted	36,037,833	33,851,400

See accompanying notes to condensed consolidated financial statements.

DATAWORLD SOLUTIONS, INC.
Unaudited Condensed Consolidated Statements of Cash Flows

Six Months Ended December 31,

	2003	2002
Cash flows from operating activities:		
Net loss	$ (2,677,982)	$ (332,070)
Adjustments to reconcile net loss to cash used by operating activities:		
Depreciation	-	1,000
Loss on seizure of assets	-	5,460
Amortization of bond discount	720	720
Gain on settlement of debt	(96,238)	-
Interest component of beneficial conversion feature of convertible loans	58,000	-
Common stock issued for consulting services	338,000	-
Stock options granted for consulting services	1,965,165	-

Changes in current assets and liabilities:		
Accounts receivable	110,828	3,433
Other current assets	(3,000)	-
Accounts payable and accrued liabilities	154,149	213,667
Accrued interest on bankruptcy liability	11,167	1,749
Cash used by operating activities	(139,191)	(106,041)
Cash flows from financing activities:		
Principal repayments on loans	(6,000)	-
Borrowings from asset-based lender and loan agreements	303,565	491,964
Repayment of amounts due asset-based lender	(312,572)	(390,795)
Common stock sales	150,000	-
Cash provided by financing activities	134,993	101,169
Increase (decrease) in cash	(4,198)	(4,872)
Cash, beginning of period	11,888	4,872
Cash, end of period	$ 7,690	$ 0
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 0	$ 0
Cash paid for interest	$ 0	$ 0
Non-Cash Investing and Financing Activities:		
Conversion of notes payable and accrued interest and dividends to common stock	$ 677,555	$ -
Conversion of accrued liability to common stock	$ 97,248	$ -
Conversion of preferred stock and accrued dividends to common stock	$ 45,505	$ -
Dividends accrued on preferred stock	$ 63,284	$ 80,332

See accompanying notes to condensed consolidated financial statements.

DATAWORLD SOLUTIONS, INC.
Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1: Summary of Significant Accounting Policies

(A) - Unaudited Interim Financial Information

The unaudited consolidated interim financial statements, and accompanying notes included herein, have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and reflect all adjustments which are of a normal recurring nature and which, in the opinion of management, are necessary for the fair statement of the results of the three and six months ended December 31, 2003 and 2002. Certain information and footnote disclosures have been condensed or omitted pursuant to such rules and regulations. The results for the current interim period are not necessarily indicative of the results for the full year. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in the Company's latest annual report filed with the SEC on Form 10-KSB for the year ended June 30, 2003.

The accompanying financial statements include the accounts of the Company and its wholly-owned subsidiaries on a consolidated basis. All significant intercompany accounts and transactions have been eliminated. The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies as of the date of the consolidated financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from those estimates.

(B) - Nature of Business

The Company distributes electronic wire, cable and related products used primarily for data communication and distribution. The principal market for the Company's products is the United States with a concentration in the New York metropolitan area.

In October, 2003, the Company established a new division, DWS Defense Systems, to address the demand for security and safety products, internationally and domestically.

(C) - Net Income (Loss) Per Basic and Diluted Common Share

Net income (loss) per basic and diluted common share is computed on the basis of the weighted average number of basic and diluted common shares outstanding during the period. Only the weighted average number of shares of common stock outstanding was used to compute basic and diluted loss per common share for the three months and six months ended December 31, 2003 and 2002. Options and warrants to purchase 3,000,000 and 160,000 shares of common stock, respectively, have been excluded from the calculation of diluted loss per share, as their effect would have been anti-dilutive.

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(D) - Income Taxes

The Company records its income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes", which requires the recognition of deferred tax assets and liabilities for the future tax consequences of temporary differences between the financial statement and tax basis carrying amounts of assets and liabilities. There were no differing methods of reporting income for tax purposes as compared to financial reporting purposes.

(E) - Stock-Based Compensation

The Company accounts for stock-based compensation pursuant to Statements of Financial Accounting Standards Nos. 123 and 148. This pronouncement allows companies to either expense the estimated fair value of all stock options or, with respect to options granted to employees and directors, to continue to follow the intrinsic value method previously set forth in Accounting Principles Board Opinion No. 25, but disclose the pro forma effects on net income (loss) had the fair value of those options been expensed. The Company has elected to continue to apply the intrinsic value method in accounting for stock options granted to employees and directors. The fair value method is used in accounting for stock options granted to others.

In October and November, 2003, the Company issued 3,000,000 options to purchase shares of common stock at various exercise prices ranging from $0.50 to $5.00 per share, to individuals serving on the Advisory Board of DWS Defense Systems, Inc., a wholly owned subsidiary of the Company. The fair value of these options on their grant dates using the Black-Scholes pricing model was approximately $1,950,000, and the Company incurred a non-cash charge for this amount for the three and six month periods ended December 31, 2003 as a result of the issuance of these options. This amount is included in selling, general and administrative expenses on the Condensed Consolidated Statement of Operations.

The determination of the fair value of these options was based on the following elements:

Stock price volatility: 151%-187%
Annual interest rate: 0.95%
Dividends paid on common stock: $0.00
Estimated useful life of options: 5-10 years

(F)- Fair Value of Financial Instruments

The Company has estimated the fair value for financial instruments using available market information and other valuation methodologies in accordance with Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments." Management of the Company believes that the fair value of financial instruments, consisting of cash, accounts receivable, accounts payable, notes payable, long-term debt and subordinated debentures approximate carrying value for assets and is undeterminable for liabilities.

(G) - Recent Accounting Pronouncements

FASB Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities," was issued in January 2003, and a revised interpretation of FIN 46 (FIN 46-R) was issued in December 2003. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The provisions of FIN 46 were effective immediately for all arrangements entered into after January 31, 2003, and application of FIN 46 was required through the end of the Company's second quarter of fiscal 2004. The Company is required to adopt the provisions of FIN 46-R for those arrangements in the third quarter of fiscal 2004. For arrangements entered into prior to February 1, 2003, the Company is required to adopt the provisions of

FIN 46-R in the fourth quarter of fiscal 2004. The Company does not believe it has investments in variable interest entities and, as a result, the adoption of FIN 46-R will not impact its consolidated financial statements.

In May 2003, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," (SFAS 150). Under SFAS 150, certain financial instruments, which under previous guidance were accounted for as equity, should be accounted for as liabilities. The financial instruments affected include mandatory redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets and certain obligations that can be settled with shares of stock. SFAS 150 is effective for all financial instruments entered into or modified after May 31, 2003. The Company does not anticipate an impact on its financial position by adoption of SFAS 150.

In April 2003, The Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS 149 amends and clarifies the accounting for derivative instruments, including derivative instruments imbedded in other contracts, and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS 149 is generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The Company does not anticipate an impact on its financial position by adoption of SFAS 149.

In December 2002, the FASB issued Statement of Financial Accounting Standard 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" (SFAS 148). SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of Statement of Financial Accounting Standard 123, "Accounting for Stock-Based Compensation" (SFAS 123), to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

Note 2: Going Concern

The Company has current assets of $73,171 (including $7,690 in cash) compared with current liabilities of $6,491,419, resulting in a working capital deficit of $6,418,248 as of December 31, 2003. In addition, the Company incurred a net loss of $2,677,982 for the six months ended December 31, 2003 and has incurred significant net losses in each of the three preceding fiscal years and has a stockholder's equity deficit of $6,873,248 at December 31, 2003. Such deficits and recurring losses raise questions about the Company's ability to continue as a going concern.

Additionally, the Company's continuation is also threatened by the existence of numerous judgments on trade payables, defaults on various secured indebtedness and delinquencies on certain tax obligations. These conditions could result in the seizure of Company assets and/or its being forced into bankruptcy. (See Note 7).

The Company is currently implementing a business plan that it believes will increase revenue and generate profits. The plan involves a series of initiatives. The Company is seeking to restructure its liabilities by negotiating with secured and unsecured creditors and vendors to settle or restructure the outstanding debt, or exchange debt for equity. The Company is also actively engaged in raising capital through private investors. If successful, this will provide additional working capital and allow the Company to pursue more profitable projects and lines of business. The Company is working to complete all outstanding SEC filings and remain current on a going-forward basis. This will allow it to apply for re-listing on the OTC Bulletin Board, thereby increasing shareholder liquidity and gaining easier access to capital through equity transactions. In October, 2003 the Company formed a new subsidiary, DWS Defense Systems ("DWS"), to address the demand for security and safety products in the domestic and international business community. The Company believes that this new venture will complement and enhance its current product offerings and greatly expand its customer base. Additionally, the Company has formed an advisory board to assist DWS in the development and execution of its business plan. The board consists of several recognized business and industry leaders. These individuals will provide guidance and experience, access to prospective customers, and build industry awareness for DWS's products and services. The Company may also pursue strategic acquisitions that provide it with growth and vertical integration within this new area. There is no assurance that the Company will be successful in accomplishing its objectives. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Note 3: Notes payable-related parties

Notes payable-related parties, as of December 31, 2003, consists of the following:

TW Cable, LLC	$ 249,900
Edward Goodstein	160,600
J&B Associates	25,000
	435,500
(Less) current maturities	(15,500)
	$ 420,000

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For the six months ended December 31, 2003, the Company's borrowings from Augustine Capital Management ("Augustine") required the recognition of $58,000 of additional interest expense related to the lender's right to convert the outstanding balance of their note payable into shares of common stock at a 25% discount from market. Any future borrowings under this agreement will result in the recognition of additional interest expense related to this beneficial conversion feature. As of December 31, 2003, Augustine had converted all of its outstanding loans. (See Note 6).

Note 4: Other related - party transactions

As of December 31, 2003, approximately $230,000 of accrued compensation due the Company's President and Chief Executive Officer was included in accrued expenses in the Condensed Consolidated Balance Sheet. (See also Note 9B).

Note 5: Income taxes

No income taxes were provided since the Company incurred losses from its operations. As of December 31, 2003, the Company has net operating loss carry-forwards totaling approximately $19,300,000, expiring at various dates through fiscal 2023.

Note 6: Capital Stock Transactions

(A) Gain on settlement of debt

In November 2003, a former employee entered into an agreement to convert the outstanding balance of $44,790 of principal and interest on a note payable into 14,000 share of common stock, valued at $9,800 or $0.70 a share. As a result of this transaction, the Company recorded a gain of $34,990.

In December 2003, the Company settled a $97,248 liability with the issuance of 60,000 shares of common stock valued at $36,000 or $0.60 a share. As a result of this transaction, the Company recorded a gain of $61,248.

(B) Other capital stock transactions

In October 2003, the Company awarded 400,000 shares of common stock to an individual in consideration of his acceptance to serve on the Advisory Board of the Company's subsidiary, DWS Defense Systems, Inc.

In November 2003, the Company awarded 100,000 shares of common stock to an individual in consideration of his acceptance to serve on the Advisory Board of the Company's subsidiary, DWS Defense Systems, Inc.

In November 2003, two existing stockholders entered into agreements with the Company to purchase a total of 300,000 shares of common stock for $150,000, or $0.50 per share.

In December 2003, Augustine converted the outstanding balance of $185,550 of principal and interest on a note payable, together with $447,215 of outstanding dividends on their 8% Series B Convertible Preferred Stock, into 632,765 shares of common stock based on a conversion price of $1.00 per share.

Following is a schedule of changes in shareholders' deficit for the six months ended December 31, 2003:

	8% Preferred Stock Amount	Common Shares	Common Stock Amount	Additional Paid in Capital	Retained Earnings (accumulated deficit)	Stock-holder's Deficit
Balance July 1, 2003	$1,595,000	34,240,313	$34,240	$3,144,931	$(12,105,388)	($7,331,217)
Conversion of preferred stock to common stock	(36,000)	2,673,351	2,674	42,831		9,505
Value of beneficial conversion feature of convertible loans				58,000		58,000
Common stock sales		300,000	300	149,700		150,000

Common stock issued in exchange for consulting services		500,000	500	337,500		338,000
Conversion of note payable and accrued dividends to common stock		632,765	632	632,133		632,765
Conversion of note payable and accrued interest to common stock		14,000	14	9,786		9,800
Conversion of debt payable to common stock		60,000	60	35,940		36,000
Stock options granted for consulting services				1,965,165		1,965,165
Accrued dividends on 8% preferred stock					(63,284)	(63,284)
Net loss for six months ended December 31, 2003	-	-	-	-	(2,677,982)	(2,677,982)
Balance December 31, 2003	$1,559,000	38,420,429	$38,420	$6,375,986	$(14,846,654)	$(6,873,248)

Note 7: Commitments and contingencies

(A) Litigation matters

The Company is a party to legal matters arising in the general course of business. During fiscal 2001 and subsequently, the Company decided not to dispute litigation with suppliers and other creditors for collection of amounts owed to them. As a result, as of December 31, 2003, the Company had outstanding judgments amounting to $1,250,865. This balance is included in accounts payable in the accompanying consolidated financial statements.

In September 2000, the Company began to negotiate a potential merger with American Access Technologies ("AAT"), which resulted in a merger agreement being signed in April 2001. In June 2001, the Company was notified by AAT that they were unilaterally terminating the agreement claiming that the Company had suffered material and adverse changes and that such change entitled AAT to terminate the agreement. AAT then filed suit against the Company seeking reimbursement of various incurred costs. The Company has filed a counter suit against AAT alleging wrongful termination. The matter is currently set for trial in June 2004. The ultimate outcome of this matter is not expected to have a material adverse effect on the Company's results of operations or financial position.

(B) Default on debt obligations

All of the Company's assets have been pledged as collateral under the term of its financing agreement with Rosenthal & Rosenthal, Inc (hereinafter "R&R"). The Company has been in default on this agreement since fiscal 2001. R&R stopped advancing on collateral in October 2003. As a consequence of the default, R&R has the right to seize the Company's assets. The Company has negotiated a settlement of this obligation which is currently being reduced to writing and which if completed, will settle all claims and eliminate R&R's ability to seize the Company's assets. Should negotiations not be successful, the Company could be forced to cease operations.

The Company is currently in default on payments owed on its bankruptcy distributions payable. This could result in the Company's creditors requesting that the Company's Chapter 11 bankruptcy proceedings be re-opened.

Additionally, the Company has not made payments on its Secured Subordinated Debentures since January, 2001, and may be declared in default. This obligation is secured by all of the Company's assets, but is subordinate to all current and future loan facilities.

(C) Sales and payroll tax delinquencies

As of August 2001, the Company failed to remit sales taxes that it collected from customers in four states. As of December 31, 2003, approximately $378,000 was due these states (inclusive of estimated penalties and interest). The Company is presently negotiating a settlement of its approximately $317,000 liability with the State of New York. Should negotiations not be successful, the Company could be forced by the State of New York to cease operations.

As of March 2002, the Company failed to remit federal payroll taxes that it had collected. As of December 31, 2003, approximately $60,000 was due, inclusive of estimated penalties and interest.

Note 8: Consulting Agreements

(A) Consulting and commission agreement

In October 2003, the Company entered into an agreement with a consultant/advisor in consideration of his acceptance to serve on the Advisory Board of the Company's subsidiary, DWS Defense Systems, Inc. The agreement calls for the consultant to devote such time and attention to his duties, as he deems appropriate in order to expand the Company's business. The agreement has four components: a commission component, a loan component, a grant component and a stock option component.

The commission component calls for the consultant/advisor to receive 2% of gross receipts from all contracts or other sales of the Company or affiliates that result from his originations.

The grant component calls for the consultant to receive 400,000 shares of the Company's Common Stock upon signing of the agreement.

The stock option component calls for the consultant/advisor to be awarded 1,200,000 options that are exercisable immediately and expire October 29, 2013.

The options have exercise prices as follows: $.50 per share for the first 200,000 shares, $1.00 per share for the next 200,000 shares, $2.00 per share for the next 200,000 shares, $3.00 per share for the next 200,000 shares, $4.00 per share for the next 200,000 shares and $5.00 per share for the last 200,000 shares.

The loan component calls for the Company to loan the consultant $150,000 without interest which is required to be repaid with profits earned by the consultant out of the sale of shares acquired by him pursuant to the stock grant or stock options provided for in this agreement, by 2013.

Pursuant to this agreement the Company is obligated to issue 400,000 shares of common stock.

In addition, as a result of the aforementioned consulting agreement being executed, the Company paid a finder's fee of $50,000, and issued warrants to purchase 900,000 shares of common stock at prices ranging from $0.50 to $5.00 per share; such warrants to expire in five years.

(B) Other consulting agreements

In November 2003, the Company entered into an agreement with a consultant in consideration of his acceptance to serve as Chairman of the Advisory Board of the Company's subsidiary, DWS Defense Systems, Inc. The agreement calls for the consultant to devote such time and attention to his duties, as he deems appropriate in order to expand the Company's business. In consideration, the Company awarded 300,000 options to purchase common stock that are exercisable immediately and expire in November 2008. The options have exercise prices as follows: $.75 per share for the first 50,000 shares, $1.00 per share for the next 100,000 shares, $1.50 per share for the next 50,000 shares, $2.00 per share for the next 50,000 shares, and $2.50 per share for the last 50,000 shares.

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In November 2003, the Company entered into an agreement with a consultant in consideration of his acceptance to serve on the Advisory Board of the Company's subsidiary, DWS Defense Systems, Inc. The agreement calls for the consultant to devote such time and attention to his duties, as he deems appropriate in order to expand the Company's business. In consideration, the Company awarded 100,000 shares of common stock, and 300,000 options to purchase common stock that are exercisable immediately and expire in November 2008. The options have exercise prices as follows: $.75 per share for the first 50,000 shares, $1.00 per share for the next 100,000 shares, $2.00 per share for the next 50,000 shares, $3.00 per share for the next 50,000 shares, and $5.00 per share for the last 50,000 shares. Pursuant to this agreement the 100,000 shares were issued in November 2003 and were valued at $74,000, or $0.74 per share, the weighted average closing market price for the two days before and after the date of the agreement.

In November 2003, the Company entered into an agreement with a consultant in consideration of his acceptance to serve on the Advisory Board of the Company's subsidiary DWS, Defense Systems, Inc. The agreement calls for the consultant to devote such time and attention to his duties, as he deems appropriate in order to expand the Company's business. In consideration, the Company awarded 300,000 options to purchase common stock that are exercisable immediately and expire in November 2008. The options have exercise prices as follows: $.75 per share for the first 50,000 shares, $1.00 per share for the next 100,000 shares, $2.00 per share for the next 50,000 shares, $3.00 per share for the next 50,000 shares, and $5.00 per share for the last 50,000 shares.

Note 9: Subsequent events

(A) Stockholder loan

In January 2004, the Company entered into an agreement with a stockholder whereby the stockholder agreed to advance up to $200,000 to the Company on a short-term basis for purposes of settling outstanding judgments and financing ongoing projects. As of May 1, 2004, the outstanding balance was approximately $115,000. As this debt is non-interest bearing, the Company will impute interest.

(B) Consulting agreement

In January 2004, the Company entered into a consulting agreement with a relative of the Company's President and Chief Executive Officer. The agreement calls for the consultant to provide business planning and consulting services. In consideration, the Company awarded him 200,000 shares of Common Stock valued at $80,000, or $0.40 per share, the weighted average closing market price for the two days before and after the date of the agreement.

(C) Stock issuances

In January 2004, a stockholder/consultant purchased 400,000 shares of common stock for $100,000, or $0.25 per share.

In February 2004, the Company issued 500,000 shares of common stock to the Company's Chief Operating Officer upon his acceptance of the position.

(D) Stock issuance under subscription agreement

In February 2004, the Company issued 500,000 shares of common stock to four unaffiliated individuals, pursuant to four subscription agreements for total proceeds of $100,000 or $0.20 per share.

(E) Contribution of treasury shares

In April 2004, the Company's President and Chief Executive Officer contributed six million shares of common stock that he had previously held to the Company's treasury.

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

The following discussion and analysis covers material changes in the financial condition of Data World Solutions, Inc., (the "Company") since June 30, 2003 and material changes in our results of operations for the three and six months ended December 31, 2003, as compared to the same periods in 2002. This discussion and analysis should be read in conjunction with "Management's Discussion and Analysis" included in the Company's Annual Report on Form 10-KSB for the year ended June 30, 2003, including audited financial statements contained therein, as filed with the Securities and Exchange Commission.

Special note regarding forward-looking statements

This report contains forward-looking statements within the meaning of federal securities laws. These statements plan for or anticipate the future.

Forward-looking statements include statements about our future business plans and strategies, statements about our need for working capital, future revenues, results of operations and most other statements that are not historical in nature. In this Report, forward-looking statements are generally identified by the words "intend", "plan", "believe", "expect", "estimate", and the like. Investors are cautioned not to put undue reliance on forward-looking statements. Except as otherwise required by applicable securities statutes or regulations, the Company disclaims any intent or obligation to update publicly these forward-looking statements, whether as a result of new information, future events or otherwise. Because forward-looking statements involve future risks and uncertainties, these are factors that could cause actual results to differ materially from those expressed or implied.

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Results of Operations

Three Months Ended December 31, 2003, vs. Three Months Ended December 31, 2002

Sales revenue decreased approximately 58.7 percent, to $92,519 for the three months ended December 31, 2003, from $224,105 for the comparative period in the prior year primarily due to decreased demand for the Company's data products and a reduction in sales staff.

Costs of revenue decreased approximately 47.7 percent, to $61,529 for the three months ended December 30, 2003, from $117,703 for the three months ended December 31, 2002 primarily due to the decrease in product sales.

Gross profit decreased approximately 70.9 percent, to $30,990 for the three months ended December 31, 2003, from $106,402 for the three months ended December 31, 2002, primarily due to the decrease in product sales. Gross profit margin decreased to 33.5% for the three months ended December 31, 2003, compared to 47.5% for the three months ended December 31, 2002, due to a higher percentage of sales of lower margin products such as patchcords and other commodity-type products.

General and administrative expenses increased approximately 1,531 percent, to $2,578,627 for the three months ended December 31, 2003, from $158,127 for the three months ended December 31, 2002. The increase is related to a non-cash charge to consulting expenses related to the granting of common stock and options to certain individuals, as disclosed in Note 1E and Note 8 to the Condensed Consolidated Financial Statements.

Interest expense increased 1.8 percent, to $111,983 for the three months ended December 31, 2003, from $110,036 for the three months ended December 31, 2002. This was primarily related to interest expense incurred as a result of the beneficial conversion feature of a note payable, offset by a $1.2 million reduction in notes payable between December 31, 2003 and 2002, respectively.

(Note: Each of the two preceding expense totals for the 2002 period have been reclassified from the amounts disclosed in the Management Discussion and Analysis of the interim periods included in the Company's cumulative Form 10-KSB for the annual period ended June 30, 2003. Such reclassifications do not affect the net results of operations for the 2002 period.)

The Company incurred a net loss of $2,531,356 for the three months ended December 31, 2003, as compared to a net loss of $99,483 for the three months ended December 31, 2002, an increase of 2,445 percent, primarily due to the aforementioned non-cash charge.

The net loss applicable to common shareholders for the three months ended December 31, 2003 and 2002 was $2,562,536 and $138,165, respectively. This was due to dividends accrued on convertible preferred stock of $31,180 and $38,682 for the three months ended December 31, 2003 and 2002, respectively.

Six Months Ended December 31, 2003, vs. Six Months Ended December 31, 2002

Sales revenue decreased approximately 41.0 percent, to $238,002 for the six months ended December 31, 2003, from $403,087 for the comparative period in the prior year primarily due to decreased demand for the Company's data products and a reduction in sales staff.

Costs of revenue decreased approximately 34.3 percent, to $146,243 for the six months ended December 31, 2003, from $222,602 for the six months ended December 31, 2002 primarily due to the decrease in product sales.

Gross profit decreased approximately 49.2 percent, to $91,759 for the six months ended December 31, 2003, from $180,485 for the six months ended December 31, 2003, primarily due to the decrease in product sales. Gross profit margin decreased to 38.6% for the six months ended December 31, 2003, compared to 44.8% for the six months ended December 31, 2002, due to a higher percentage of sales of lower margin products such as patchcords and other commodity-type products.

General and administrative expenses increased approximately 684 percent, to $2,706,271 for the six months ended December 31, 2003, from $345,328 for the six months ended December 31, 2002. The increase is related to a non-cash charge to consulting expenses related to the granting of common stock and options to certain individuals, as disclosed in Note 1E and Note 8 to the Condensed Consolidated Financial Statements.

Interest expense increased 7.6 percent, to $246,895 for the six months ended December 31, 2003, from $229,505 for the six months ended December 31, 2002. This was primarily related to interest expense incurred as a result of the beneficial conversion feature of a note payable, offset by a $1.2 million reduction in notes payable between December 31, 2003 and 2002, respectively.

(Note: Each of the two preceding expense totals for the 2002 period have been reclassified from the amounts disclosed in the Management Discussion and Analysis of the interim periods included in the Company's cumulative Form 10-KSB for the annual period ended June 30, 2003. Such reclassifications do not affect the net results of operations for the 2002 period.)

The Company incurred a net loss of $2,677,982 for the six months ended December 31, 2003, as compared to a net loss of $332,070 for the six months ended December 31, 2002, an increase of 707 percent, primarily due to the aforementioned non-cash charge.

The net loss applicable to common shareholders for the six months ended December 31, 2003 and 2002 was $2,741,266 and $412,402, respectively. This was due to dividends accrued on convertible preferred stock of $63,284 and $80,332 for the six months ended December 31, 2003 and 2002, respectively.

Liquidity and Capital Resources

The Company has current assets of $73,171 (including $7,690 in cash) compared with current liabilities of $6,491,419, resulting in a working capital deficit of $6,418,248 as of December 31, 2003. In addition, the Company incurred a net loss of $2,677,982 for the six months ended December 31, 2003 and has incurred significant net losses in each of the three preceding fiscal years and has a stockholder's equity deficit of $6,873,248 at December 31, 2003. Such deficits and recurring losses raise questions about the Company's ability to continue as a going concern.

Additionally, the Company's continuation is also threatened by the existence of numerous judgments on trade payables, defaults on various secured indebtedness and delinquencies on certain tax obligations. These conditions could result in the seizure of Company assets and/or its being forced into bankruptcy. (See Note 7 to the Condensed Consolidated Financial Statements).

The Company is currently implementing a business plan that it believes will increase revenue and generate profits. The plan involves a series of initiatives. The Company is seeking to restructure its liabilities by negotiating with secured and unsecured creditors and vendors to settle or restructure the outstanding debt, or exchange debt for equity. The Company is also actively engaged in raising capital through private investors. If successful, this will provide additional working capital and allow the Company to pursue more profitable projects and lines of business. The Company is working to complete all outstanding SEC filings and remain current on a going-forward basis. This will allow it to apply for re-listing on the OTC Bulletin Board, thereby increasing shareholder liquidity and gaining easier access to capital through equity transactions. In October, 2003 the Company formed a new subsidiary, DWS Defense Systems ("DWS"), to address the demand for security and safety products in the domestic and international business community. The Company believes that this new venture will complement and enhance its current product offerings and greatly expand its customer base. Additionally, the Company has formed an advisory board to assist DWS in the development and execution of its business plan. The board consists of several recognized business and industry leaders. These individuals will provide guidance and experience, access to prospective customers, and build industry awareness for DWS's products and services. The Company may also pursue strategic acquisitions that provide it with growth and vertical integration within this new area. There is no assurance that the Company will be successful in accomplishing its objectives. If the Company is not successful in these initiatives, it may be forced to severely curtail operations or seek protection under the bankruptcy laws.

The Company's cash balance at June 30, 2003 decreased $4,198, from $11,888 to $7,690 as of December 31, 2003. The decrease was the result of a combination of cash used for the repayment of loans totaling $318,572, and negative cash flows from operations totaling $139,191, offset by cash proceeds from shareholder loans and advances from the Company's asset-based lender totaling $303,565, and proceeds from commons stock sales totaling $150,000. Operating activities exclusive of changes in current assets and liabilities required $412,335, offset by a decrease in receivables of $107,828, and an increase in accounts payable and accrued liabilities of $165,316.

The Company's capital resources include private stock sales and loans and advances from principal shareholders. During the six month period ended December 31, 2003, the Company borrowed an additional $99,000 under the terms of its convertible loan agreement with Augustine, bringing the total indebtedness to $174,000, all of which was subsequently converted into shares of common stock. The agreement provides for maximum loans of $500,000, all of which may be converted to common stock.

In November 2003, the Company raised additional capital through the sale of common stock to private investors totaling $150,000. In January 2004, the Company raised additional capital through the sale of common stock to another private investor totaling $100,000. In February 2004, the Company raised additional capital through the sale of common stock to a group of unaffiliated private investors totaling $100,000.

ITEM 3. CONTROLS AND PROCEDURES

Daniel McPhee, Chief Executive and Financial Officer of Data World Solutions, Inc. has established and is currently maintaining disclosure controls and procedures for the Company. The disclosure controls and procedures have been designed to ensure that material information relating to the Company is made known to him as soon as it is known by others within the Company.

The Company's Chief Executive and Financial Officer conducts an update and a review and evaluation of the effectiveness of the Company's disclosure controls and procedures and has concluded, based on his evaluation within 90 days of the filing of this Report, that such disclosure controls and procedures are effective for gathering, analyzing and disclosing the information the Company is required to disclose in its reports filed under the Securities Exchange Act of 1934. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of the previously mentioned evaluation.

PART II. OTHER INFORMATION

Item 1 - Legal Precedings:

There were no new legal proceeding or significant developments in existing proceedings that occurred during the three months ended December 31, 2003.

Item 2 - Changes in Securities:

As a result of several transactions, the Company issued 1,506,765 shares of common stock during the three month period ended December 31, 2003, as disclosed in Note 6 to the Condensed Consolidated Financial Statements.

Item 3 - Defaults Upon Senior Securities:

As of December 31, 2003, the Company is in default on the following obligations, as disclosed in Note 7B to the Condensed Consolidated Financial Statements: The R&R Financing Agreement, the Secured Subordinated Debentures, and the Class 7 Bankruptcy Distributions. Additionally, as disclosed in Notes 7A and 7C, the Company has approximately $1.3 million in judgments entered against it for unpaid trade payables and is delinquent on payment of certain sales and payroll tax obligations.

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

(a) Exhibits:

Exhibit No.	Description
31	Section 302 Certification
32	Section 906 Certification

(b) Reports on Form 8-K:

None.

SIGNATURES

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

DATAWORLD SOLUTIONS, INC.

Date: May 6, 2004

By: /s/ Daniel McPhee

Daniel McPhee Chief Executive Officer and Chief Financial Officer