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VICOM INC
Form 10-Q
November 14, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934
FOR THE PERIOD ENDING SEPTEMBER 30, 2002
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____
COMMISSION FILE NUMBER 0 - 1325

VICOM, INCORPORATED

(Exact name of registrant as specified in its charter)

MINNESOTA

(State or other jurisdiction of incorporation or organization)

41 - 1255001

(IRS Employer Identification No.)

9449 SCIENCE CENTER DRIVE, NEW HOPE, MINNESOTA 55428

(Address of principal executive offices)

TELEPHONE (763) 504-3000 FAX (763) 504-3060

www.vicominc.net Internet

(Registrant's telephone number, facsimile number, and Internet address)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and 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

On October 31, 2002 there were 12,882,073 shares outstanding of the registrant's common stock, par value \$.01 per share, and 165,541 outstanding shares of the registrant's convertible preferred stock.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VICOM, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended		September 30, 2000
	September 30, 2002	September 30, 2001	
REVENUES	\$6,382,633	\$7,678,534	\$18,5
COSTS AND EXPENSES			
Cost of products and services	4,680,582	6,110,861	13,8
Selling, general and administrative	2,256,745	2,529,531	6,7
Impairment on property and equipment	119,480	0	1
Total Costs and Expenses	7,056,807	8,640,392	20,6
LOSS FROM OPERATIONS	(674,174)	(961,858)	(2,1
OTHER EXPENSES			
Interest expense	(349,388)	(352,735)	(1,1
Income (expense)	(93,171)	8,533	(
Total Other Expense	(442,559)	(344,202)	(1,1
LOSS BEFORE INCOME TAXES	(1,116,733)	(1,306,060)	(3,2
PROVISION FOR INCOME TAXES	0	0	
NET LOSS	\$ (1,116,733)	\$ (1,306,060)	\$ (3,2
Preferred stock dividends	(39,494)	(72,817)	(
LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ (1,156,227)	\$ (1,378,877)	\$ (3,3
LOSS PER SHARE-			
BASIC AND DILUTED	\$ (.09)	\$ (.15)	\$
WEIGHTED AVERAGE SHARES OUTSTANDING-BASIC AND DILUTED	12,028,501	8,939,847	11,3

See notes to condensed consolidated financial statements

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VICOM, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30, 2002	DECEMBER 31, 2001
	----- (UNAUDITED)	----- (AUDITED)
ASSETS		
CURRENT ASSETS		
Cash	\$ 261,931	\$ 6,000
Accounts receivable, net	2,165,072	2,500,000
Inventories, net	1,507,801	1,600,000
Other current assets	264,821	200,000
	-----	-----
TOTAL CURRENT ASSETS	4,199,625	5,100,000
PROPERTY AND EQUIPMENT, NET.	2,822,250	4,000,000
OTHER ASSETS		
Goodwill, net.	2,748,879	2,700,000
Other.	239,491	200,000
	-----	-----
TOTAL OTHER ASSETS	2,988,370	3,000,000
	-----	-----
TOTAL ASSETS	\$ 10,010,245	\$ 12,200,000
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Wholesale line of credit	\$ 817,873	\$ 1,300,000
Current portion of long term debt.	528,317	500,000
Current portion of capital lease obligations	39,006	300,000
Accounts payable	1,849,546	1,800,000
Accrued liabilities.	755,451	700,000
Deferred service obligations and revenue	308,609	400,000
	-----	-----
TOTAL CURRENT LIABILITIES.	4,298,802	4,700,000
LONG TERM DEBT, NET.	2,885,108	2,600,000
CAPITAL LEASE OBLIGATIONS, NET OF CURRENT PORTION.	76,015	600,000
	-----	-----
TOTAL LIABILITIES	7,259,925	8,000,000
	-----	-----
STOCKHOLDERS' EQUITY		
Cumulative convertible preferred stock, no par value:		
8% Class A (27,831 and 28,872 shares issued and outstanding)	418,252	400,000
10% Class B (6,200 and 8,700 shares issued and outstanding)	62,000	60,000
10% Class C (131,510 and 139,510 shares issued and outstanding)	1,699,407	1,800,000
14% Class D (0 and 40,000 shares issued and outstanding)	0	400,000
Common stock-no par value (12,757,634 and 10,679,450 shares issued; 12,700,313 and 10,604,113 shares outstanding)	4,802,146	3,400,000
Stock subscription receivable.	(573,740)	(600,000)
Options and warrants	25,604,899	24,900,000
Unamortized compensation	(769,295)	(1,200,000)
Accumulated deficit	(28,493,349)	(25,100,000)

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TOTAL STOCKHOLDERS' EQUITY	2,750,320	4,
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 10,010,245	\$ 12,

See notes to condensed consolidated financial statements.

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VICOM, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	NINE
	SEPTEMBER
	200
OPERATING ACTIVITIES	
Net loss	\$ (3,278)
Adjustments to reconcile net loss to net cash flows from operating activities	
Depreciation	730
Amortization of deferred compensation	408
Amortization of original issue discount	768
Impairment on property and equipment	119
Common stock issued for services	14
Loss on sales of property and equipment	118
Discount on preferred stock related to warrants	(53)
Changes in operating assets and liabilities:	
Accounts receivable, net	428
Inventories, net	138
Costs, estimated earnings and billings	
Other current assets	(30)
Other assets	19
Wholesale line of credit	(506)
Accounts payable and accrued liabilities	140
Deferred service obligations and revenue	(107)
Net cash flows from operating activities	(1,090)
INVESTING ACTIVITIES	
Purchases of property and equipment	(583)
Purchase acquisition	
Proceeds from sale of property and equipment	965
Collections on notes receivable	33
Net cash flows from investing activities	415
FINANCING ACTIVITIES	
Proceeds from notes and installment obligations payable	
Proceeds from long-term debt and warrants issued with long term debt	672
Payments on long term debt	(96)
Payments on capital lease obligations	(919)
Proceeds from issuance of stock and warrants	840
Stock issuance costs	

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Redemption of preferred stock.	(94)
Preferred stock dividends.	(90)

Net cash flows from financing activities	311

DECREASE IN CASH	(362)
CASH	
Beginning of period.	624

End of period.	261
	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid for interest, net of amortization of original issue discount	393
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES	
Stock options issued below fair market value related to compensation.	
Issuance of preferred stock for acquisition of assets.	18
Warrants issued with debt	8
Notes payable converted to preferred stock	414
Accounts payable converted to common stock	7
Accounts payable converted to preferred stock.	
Conversion of preferred stock to common stock.	150
Subscriptions receivable on common stock	
Conversion of note receivable to common stock	34
Conversion of preferred stock to note payable	290
Stock issued for guarantee of debt	14
Purchase acquisition	
Assets acquired	
Liabilities assumed	
Equity securities consideration	
Employee Stock Options Issued with Unamortized Compensation	

See notes to condensed consolidated financial statements

VICOM, INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 - UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The information furnished in this report is unaudited and reflects all adjustments which are normal recurring adjustments and, which in the opinion of management, are necessary to fairly present the operating results for the interim periods. The operating results for the interim periods presented are not necessarily indicative of the operating results to be expected for the full fiscal year.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REVENUES AND COST RECOGNITION

Vicom, Inc. and subsidiaries (the Company) earns revenues from four sources: 1) Video and computer technology products which are sold but not installed, 2) Voice, video and data communication products which are sold and installed, 3) Service revenues related to communication products which are sold and both installed and not installed, and 4) MultiBand user charges to multiple dwelling units.

Revenues from video and computer technology products, which are sold but not

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installed, are recognized when delivered and the customer has accepted the terms and has the ability to fulfill the terms.

Customer contracts for both the purchase and installation of voice and data networking technology products and certain video technologies products on one sales agreement, as installation of the product is essential to the functionality of the product. Revenues and costs on the sale of products where installation is involved are recognized under the percentage of completion method. Costs are expensed as incurred. The amount of revenue recognized is the portion that the cost expended to date bears to the anticipated total contract cost, based on current estimates to complete. Contract costs include all labor and materials unique to or installed in the project, as well as subcontract costs. Costs and estimated earnings in excess of billings are classified as current assets; billings in excess of costs and estimated earnings are classified as current liabilities.

Service revenues related to technology products including consulting, training and support are recognized when the services are provided. The Company, if the customer elects, enters into equipment maintenance agreements for products sold once the original manufacturer's warranty has expired. Revenues from all equipment maintenance agreements are recognized on a straight-line basis over the terms of each contract. Costs for services are expensed as incurred.

MultiBand user charges are recognized as revenues in the period the related services are provided.

Warranty costs incurred on new product sales are substantially reimbursed by the equipment suppliers.

Goodwill

Goodwill represents the excess of acquisition costs over the fair value of identifiable net assets acquired and was amortized using the straight-line method over ten years. The carrying value of goodwill is reviewed if the facts and circumstances suggest that it may be impaired. If the review indicates that goodwill will not be recoverable, as determined based on the undiscounted cash flows of the assets acquired over the remaining amortization period, the Company's carrying value of goodwill is reduced by the estimated shortfall of cash flows. The Company did not record any impairment charges related to goodwill during the nine months ended September 30, 2002 and 2001. Amortization was \$0 and \$89,284 for the three months ended September 30, 2002 and 2001. Amortization was \$0 and \$264,904 for the nine months ended September 30, 2002 and 2001. (See Note 3).

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NET LOSS PER SHARE

Basic net loss per common share is computed by dividing the loss attributable to common stockholders by the weighted average number of common shares outstanding for the reporting period. Diluted net loss per common share is computed by dividing loss attributable to common stockholders by the sum of the weighted average number of common shares outstanding plus all additional common stock that would have been outstanding if potentially dilutive common shares related to common share equivalents (stock options, stock warrants, convertible preferred shares, and issued but not outstanding restricted stock) had been issued. All options, warrants, convertible preferred shares, and restricted stock outstanding during the three months ended September 30, 2002 and 2001 were anti-dilutive.

NOTE 3 - ADOPTION OF NEW ACCOUNTING STANDARDS

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In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations", effective for acquisitions initiated on or after July 1, 2001, and No. 142, "Goodwill and Other Intangible Assets", effective for fiscal years beginning after December 15, 2001. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, and includes guidance on the initial recognition and measurement of goodwill and other intangible assets arising from business combinations. SFAS No. 142 indicates that goodwill (and intangible assets deemed to have indefinite lives) will no longer be amortized but will be subject to annual impairment tests. Other intangible assets will continue to be amortized over their useful lives. We adopted the new rules effective January 1, 2002. We performed the required goodwill impairment test at the close of the quarter ended September 30, 2002. As part of adopting this standard, we obtained an independent appraisal to assess the fair value of our business units to determine whether goodwill carried on our books was impaired and the extent of such impairment, if any. The independent appraisal used the income method to measure the fair value of our business units. Under the income method, value is dependent on the present value of future economic benefits to be derived from ownership. Future net cash flows available for distribution are discounted at market-based rates of return to provide indications of value. The independent appraiser used a discount factor of 18.35%. Based upon this independent appraisal, we determined that our current goodwill balances were not impaired as of July 1, 2002.

Components of intangible assets are as follows:

	September 30, 2002		December 31, 2001	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
		-----		-----
Intangible assets subject to amortization				
Domain name	83,750	18,146	83,750	5,5
Intangible assets not subject to amortization				
Goodwill	3,531,157	782,278	3,531,157	782,2

Amortization of intangible assets was \$4,185 and \$0 for the three months ended September 30, 2002 and 2001, respectively, and \$12,555 and \$0 for the nine months ended September 30, 2002 and 2001, respectively. Amortization expense is expected to be approximately \$4,185 for the remainder of 2002 (a total of approximately \$16,740 for 2002). Estimated amortization expense of intangible assets for the years ending December 31, 2003, 2004, 2005 and 2006 is \$16,740, \$16,740, \$16,740 and \$11,202, respectively. Our net loss excluding goodwill

amortization expense, for the three months and nine months ended September 30, 2001 would have been as follows had we adopted SFAS No. 142 on January 1, 2001:

Three Months Ended Nine Months Ended
September 30, 2001

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Net loss-as reported	\$	(1,306,060)	\$	(3,764,355)
SFAS No. 142 amortization adjustment		89,784		264,904
Net loss-as adjusted	\$	(1,216,276)	\$	(3,499,451)
Basic and diluted net loss per share-as reported	\$	(0.15)	\$	(0.48)
Basic and diluted net loss per share-adjusted	\$	(0.14)	\$	(0.42)

NOTE 4 - LIQUIDITY

The accompanying condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern that contemplates the realization of assets and satisfaction of liabilities in the normal course of business. For the nine months ended September 30, 2002 and 2001, the Company incurred net losses of \$3,278,757 and \$3,764,355, respectively. At September 30, 2002, the Company had an accumulated deficit of \$28,493,349. The Company's ability to continue as a going concern is dependent on it ultimately achieving profitability and/or raising additional capital. Management intends to obtain additional debt or equity capital to meet all of its existing cash obligations and fund commitments on planned MultiBand projects, however, there can be no assurance that the sources will be available or available on terms favorable to the Company. Management anticipates that the impact of the actions listed below, will generate sufficient cash flows to pay current liabilities, long-term debt and capital lease obligations and fund the Company's future operations:

1. Continued reduction of operating expenses by controlling payroll, professional fees and other general and administrative expenses.
2. Solicit additional equity investment in the Company by either issuing preferred or common stock.
3. Continue to market MultiBand services and acquire additional multi-dwelling unit customers.
4. Control capital expenditures by contracting MultiBand services and equipment through a landlord-owned equipment program.

NOTE 5 - CAPITAL LEASE OBLIGATIONS

During the three months ended September 30, 2002, the Company paid off capital lease obligations of approximately \$738,000. During the three months ended September 30, 2002, the Company sold property and equipment related to the Multiband subsidiary resulting in a net loss of approximately \$111,000.

NOTE 6 - STOCK WARRANTS

Stock warrants activity is as follows for the nine months ended September 30, 2002:

	NUMBER OF WARRANTS		WEIGHTED AVERAGE EXERCISE PRICE
	-----		-----
WARRANTS OUTSTANDING - DECEMBER 31, 2001	9,564,450	\$	2.37
GRANTED	1,443,690		1.64
CANCELED OR EXPIRED	0		0
EXERCISED	0		0
	-----		-----
WARRANTS OUTSTANDING - SEPTEMBER 30, 2002	10,008,140	\$.64
	-----		-----

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The warrants granted during the nine months ended September 30, 2002 were awarded as part of common stock issued, services related to equity financing, and in connection with notes payable.

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NOTE 7 - BUSINESS SEGMENTS

The following is Company business segment information for the three months ended September 30, 2002 and 2001:

	Vicom -----	CTU -----	MultiBand -----	Total -----
Three months ended September 30, 2002:				
Revenues	0	6,227,683	154,950	6,382,633
Gain/(Loss) from operations	(437,013)	164,881	(402,042)	(674,174)
Identifiable assets	3,020,620	5,020,048	1,969,577	10,010,245
Depreciation and amortization	140,871	107,966	110,101	358,938
Capital expenditures	2,126	195,421	130,744	328,291
Three months ended September 30, 2001:				
Revenues	0	7,618,442	60,092	7,678,534
Loss from operations	(554,126)	(86,777)	(320,955)	(961,858)
Identifiable assets	2,782,481	7,666,404	3,199,417	13,648,302
Depreciation and amortization	223,434	139,160	126,894	489,488
Capital expenditures	0	18,613	162,712	181,325

The following is Company business segment information for the nine months ended September 30, 2002 and 2001:

	Vicom -----	CTU -----	MultiBand -----	Total -----
Nine months ended September 30, 2002				
Revenues	0	18,204,795	384,450	18,589,245
Gain/(Loss) from operations	(1,286,465)	88,638	(910,424)	(2,108,251)
Identifiable assets	3,020,620	5,020,048	1,969,577	10,010,245
Depreciation and amortization	414,699	340,706	383,377	1,138,782
Capital expenditures	2,126	279,860	301,566	583,552
Nine months ended September 30, 2001				
Revenues	0	26,030,626	160,956	26,191,582
Loss from operations	(1,403,296)	(28,255)	(1,367,790)	(2,799,341)
Identifiable assets	2,782,481	7,666,404	3,199,417	13,648,302
Depreciation and amortization	696,328	391,728	346,560	1,434,616
Capital expenditures	0	218,073	1,367,205	1,585,278

NOTE 8- COMMITMENTS AND CONTINGENCIES

(A) Vicom, Incorporated announced on July 26, 2002 that it had received notice from Nasdaq that its closing bid price has failed to meet the minimum

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requirement of \$1.00 per share for the last 30 consecutive trading days. Under the notice, the Company has until January 21, 2003 to come back into compliance or be subject to removal from the Nasdaq SmallCap Market.

(B) Recently, one of Multiband's suppliers of satellite TV programming, WNet, filed Chapter 11 Bankruptcy. While the Company does have alternate suppliers for programming, it could be potentially disruptive and detrimental to Multiband's business if WNet were to entirely cease operations with little notice.

NOTE 9 - RELATED PARTY TRANSACTIONS

During the three months ended September 30, 2002, the Company sold property and equipment to the Chairman of the Company's board of directors and an entity controlled by another Director, resulting in a net loss of approximately \$111,000. The Company also approved an option for the Chairman to purchase two additional properties held by Multiband. The Company believes these transactions were at fair market value.

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NOTE 10 - RECLASSIFICATION

For comparability, certain third quarter 2001 amounts have been reclassified to conform with classifications adopted in the third quarter 2002.

FORWARD-LOOKING STATEMENTS

From time to time, the Company may publish forward-looking statements relating to such matters as anticipated financial performance, business prospects, product pricing, management for growth, integration of acquisitions, technological developments, new products, and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements including those made in this statement. In order to comply with the terms of the Private Securities Litigation Reform Act, the Company notes that a variety of factors could cause the Company's actual results and experience to differ materially from the anticipated results or Company's forward-looking statements.

The risks and uncertainties that may affect the operations, performance, developments and results of the Company's business include the following: national and regional economic conditions; pending and future legislation affecting IT and telecommunications industries; market acceptance of the Company's products and services; the Company's products and services; the Company's continued ability to provide integrated communication solutions for customers in a dynamic industry; and other competitive factors.

Because these and other factors could affect the Company's operating results, past financial performance should not necessarily be considered as a reliable indicator of future performance and anticipated future period results.

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ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

GENERAL

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Vicom, Incorporated (Vicom) is a Minnesota corporation formed in September 1975. Vicom is the parent corporation of two wholly-owned subsidiaries, Corporate Technologies, USA, Inc. (CTU), and MultiBand, Inc. (MultiBand).

Vicom completed an initial public offering in June 1984. In November 1992, Vicom became a non-reporting company under the Securities Exchange Act of 1934. In July 2000, Vicom regained its reporting company status. In December, 2000, Vicom stock began trading on the NASDAQ stock exchange under the symbol VICM.

Vicom's website is located at: www.vicominc.net .

Vicom recently expanded its efforts to establish itself within the rapidly evolving telecommunications and computer industries. Effective December 31, 1998, Vicom acquired the assets of the Midwest region of Enstar Networking Corporation (ENC), a data cabling and networking company. In late 1999, in the context of a forward triangular merger, Vicom, to expand its range of computer products and related services, purchased the stock of Ekman, Inc. d/b/a Corporate Technologies, and merged Ekman, Inc. into the newly formed surviving corporation, Corporate Technologies, USA, Inc. (CTU). CTU provides voice, data and video systems and services to business and government. MultiBand, Inc. was incorporated in February 2000. MultiBand, Inc. provides voice, data and video services to multiple dwelling units (MDU's).

As of September 30, 2002, CTU was providing telephone equipment and service to approximately 1,000 customers, with approximately 10,000 telephones in service. In addition, CTU provides computer products and services to approximately 3,000 customers. MultiBand, as of September 30, 2002, had approximately 850 customers. Telecommunications systems distributed by Vicom are intended to provide users with flexible, cost-effective alternatives as compared to systems available from major telephone companies, including those formerly comprising the Bell System and from other interconnect telephone companies.

CTU provides a full range voice, data and video communications systems and service, system integration, training and related communication sales and support activities for commercial, professional and institutional customers, most of which are located in Minnesota, North Dakota, and South Dakota. CTU purchases products and equipment from NEC America, Inc. (NEC), Siemens Enterprise Networks (Siemens), Cisco Systems, Inc. (Cisco), Nortel Networks Corp. (Nortel), Tadiran Telecom, Inc. (Tadiran), and other manufacturers of communications and electronic products and equipment. CTU uses these products to design telecommunications systems to fit its customers' specific needs and demands.

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SELECTED CONSOLIDATED FINANCIAL DATA

DOLLAR AMOUNTS AS A PERCENTAGE OF REVENUES THREE MONTHS ENDED		DOLLAR AMOUNTS AS A PERCENTAGE OF REVENUES NINE MONTHS ENDED	
September 30, 2002 (unaudited)	September 30, 2001 (unaudited)	September 30, 2002 (unaudited)	September 30, 2001 (unaudited)

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REVENUES	100%	100%	100%	100%
COST OF PRODUCTS & SERVICES	73.3%	79.6%	74.4%	79.1%
GROSS MARGIN	26.7%	20.4%	25.6%	20.9%
SELLING, GENERAL & ADMINISTRATIVE	35.4%	32.9%	36.3%	31.6%
IMPAIRMENT ON PROPERTY AND EQUIPMENT	1.9%	0	.06%	0
OPERATING LOSS	-10.6%	-12.5%	-11.3%	-10.7%
INTEREST EXPENSE & OTHER, NET	6.9%	-4.5%	6.3%	-3.7%
LOSS BEFORE TAXES	-17.5%	-17.0%	-17.6%	-14.4%
INCOME TAX	0	0	0	0
NET LOSS	-17.5%	-17.0%	-17.6%	-14.4%

The following table sets forth, for the period indicated, the gross margin percentages for Corporate Technologies USA, Inc. and MultiBand, Inc.

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	September 30, 2002	September 30, 2001	September 30, 2002	September 30, 2001
GROSS MARGIN PERCENTAGES:				
CORPORATE TECHNOLOGIES USA, INC.	26.8%	20.0%	25.6%	20.9%
MULTIBAND, INC.	24.0%	76.3%	30.9%	6.5%

RESULTS OF OPERATIONS

Revenues

Revenues decreased 16.9% to \$6,382,633 in the quarter ended September 30, 2002, as compared to \$7,678,534 for the quarter ended September 30, 2001.

Vicom Inc. has recorded no revenue since the first quarter of Fiscal 2001 as all sales operations were transferred to Corporate Technologies, USA, Inc.

Revenues for Corporate Technologies decreased 18.3% to \$6,227,683 as compared to \$7,618,442 in the third quarter of fiscal 2001. This decrease in CTU's revenues resulted primarily from CTU's desire to increase gross margins versus maintaining top line revenues. Thus, CTU has chosen to eliminate certain lower margin equipment sales and instead has increased sales of services which have higher margins.

MultiBand revenues increased 157.8% to \$154,950 in the quarter ended September 30, 2002 as compared to \$60,092 in the third quarter of fiscal 2001. This increase is due to the continual addition of MultiBand subscribers.

Revenues for the nine-month period ended September 30, 2002 decreased 29.0% to \$18,589,245 from \$26,191,582 for the comparable nine-month period of fiscal 2001.

Gross Margin

The Company's gross margin increased 8.6% or \$134,378 to \$1,702,051 for the

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three months ended September 30, 2002, as compared to \$1,567,673 for the similar quarter last year. For the three months ended September 30, 2002, as a percent of total revenues, gross margin was 26.7% as compared to 20.4% for the similar period last year. This increase in gross margin percentage is primarily due to an increase in service sales which have better margins than equipment sales.

Gross margin for CTU increased by 9.8 %, or \$148,990 to \$1,670,806 for the three months ended September 30, 2002, as compared to \$1,521,816 in the three months ended September 30, 2001.

Gross margin for Multiband, Inc. for the three months ended September 30, 2002 decreased 18.8% to \$37,245 as compared to \$45,857 in the third quarter of 2001. Gross margin is expected to increase in the fourth quarter as the Company is anticipating credits to invoices for circuits it believes it has overpaid for as of September 30, 2002.

For the nine-month period ended September 30, 2002, the Company's gross margin decreased 13.0% or \$712,538 to \$4,764,735, as compared to \$5,477,273 for the similar period last year. The decrease in gross margin is directly attributable to the Company's decrease in revenues.

For the nine-month period ended September 30, 2002, as a percent of total revenues, gross margin was 25.6% as compared to 20.9% for the similar period last year.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased 10.8% to \$2,256,745 in the three months ended September 30, 2002, compared to \$2,529,531 in the prior year quarter. This decrease in selling, general and administrative expenses was, as a percentage of revenues, 35.4% for the three months ended September 30, 2002 and 32.9% for the similar period a year ago.

For the nine-month period ended September 30, 2002, these expenses decreased 18.4% to \$6,753,506, as compared to \$8,276,614 for the same period in 2001. As a percentage of revenues, selling, general and administrative expenses are 36.3% for the period ended September 30, 2002, as compared to 31.6% for the same period last year. This percentage increase is primarily attributable to lower top line revenues.

Interest Expense

Interest expense was \$349,388 for the three months ended September 30, 2002, versus \$352,735 for the similar period a year ago. Amortization of original issue discount was \$218,400 and \$187,500 for the three months ended September 30, 2002 and 2001.

Interest expense was \$1,122,292 for the nine months ended September 30, 2002, and \$1,018,944 for the same period last year. For the nine months ended September 30, 2002 amortization of the original discount was \$768,159 and \$179,968 in the same nine month period last year.

Net Loss

In the three months ended September 30, 2002, the Company incurred a net loss of \$1,116,733 compared to a net loss of \$1,306,060 for the three months ended September 30 of 2001. The nine-month period ended September 30, 2002, resulted in a net loss of \$3,278,757 compared to a net loss of \$3,764,355 for

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the same period last year. This reduction in net loss is primarily due to elimination of goodwill amortization in 2002.

LIQUIDITY AND CAPITAL RESOURCES

Available working capital at September 30, 2002 decreased over the similar period last year due to operating losses. Vicom experienced a material decrease in accounts payable for the period ended September 30, 2002 versus last year's period, primarily due to reduced revenues. Accounts receivable decreased for the period ended September 30, 2002, compared to the prior year period, due to a significant decrease in revenues.

Inventories as of September 30, 2002 decreased as compared to the period ended September 30, 2001 due to the aforementioned revenue decreases. Net borrowings under notes, leases and installment obligations payable decreased materially for the period ended September 30, 2002 versus prior year period primarily due to payoff of \$738,000 worth of leases.

Management of Vicom believes that, for the near future, cash generated by sales of stock, and existing credit facilities, in aggregate, are adequate to meet the anticipated liquidity and capital resource requirements of its Corporate Technologies USA, Inc. business for the next twelve months provided Company cash losses continue to decrease. Significant continuation of the Company's MultiBand, Inc.'s build-out is highly dependent on securing additional financing for future projects. Management believes that while future build-out financing is available, there is no guarantee that said financing will be obtained.

CAPITAL EXPENDITURES

The Company used \$583,552 for capital expenditures during the nine months ended September 30, 2002, as compared to \$1,585,278 in the similar period last year. Capital expenditures consisted of equipment acquired for internal use and for MultiBand build-out projects as compared to the same period last year when MultiBand build-out costs for construction totaled \$1,548,072. The Company has started a new business approach with having the building owners buy the equipment and pay MultiBand a reduced management fee.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Impairment of Long-Lived Assets

The Company's long-lived assets include property, equipment and leasehold improvements. The estimated fair value of these assets is dependent on the Company's future performance. In assessing for potential impairment for these assets, the Company considers future performance. If these forecasts are not met, the Company may have to record an impairment charge not previously recognized, which may be material. During the nine months ended September 30, 2002 and 2001, the Company recorded an impairment loss related to long-lived assets of \$119,480 and \$0 for the nine months ended September 30, 2002 and 2001.

Impairment of Goodwill

We periodically evaluate acquired businesses for potential impairment indicators. Judgments regarding the existence of impairment indicators are based on legal factors, market conditions and operational performance of our acquired businesses. Future events could cause us to conclude that impairment indicators exist and that goodwill associated with our acquired businesses is impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations. During the nine months ended September 30, 2002 and 2001, the Company did not record any impairment losses

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related to goodwill.

Inventories

We value our inventory at the lower of the actual cost or the current estimated market value of the inventory. We regularly review inventory quantities on hand and record a provision for excess and obsolete inventory. Rapid

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technological change, frequent new product development, and rapid product obsolescence that could result in an increase in the amount of obsolete inventory quantities on hand characterize our industry.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS.

In October 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 147, "Acquisitions of Certain Financial Institutions." SFAS No. 147 is effective October 1, 2002. The Company believes the adoption of SFAS No. 147 will not have a material effect on the Company's consolidated financial position or results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Vicom is not subject to any material interest rate risk as any current lending agreements are at a fixed rate of interest.

ITEM 4. CONTROLS AND PROCEDURES

Within 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-14(c) of the Securities Exchange Act of 1934. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in alerting them in a timely basis to material information relating to the Company required to be disclosed in the Company's periodic SEC reports. There have been no significant changes in the Company's internal controls or in other factors which could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As of September 30, 2002, the Company was not engaged in any legal proceedings whose anticipated results would have a material adverse impact.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

99.1

(b) Reports on Form 8-K.

None.

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- c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function);

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: November 14, 2002

Signature: /s/ James Mandel

James Mandel
Chief Executive Officer

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CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Steven Bell, Chief Financial Officer of Vicom Incorporated, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vicom Incorporated;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

- a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

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- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
- c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function);

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: November 14, 2002

Signature: /s/ Steven Bell

Steven Bell
Chief Financial Officer

Exhibit 99.1

Vicom, Inc.

Certification Pursuant to 18 U.S.C. Section 1350
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with this Quarterly Report Form 10-Q, Vicom, Inc. (the "Company") for the period ended September 30, 2002, I, James L Mandel, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1. This Periodic Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- 2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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Date: November 14, 2002

By: /s/ James L. Mandel
Chief Executive Officer

In connection with this Quarterly Report Form 10-Q, Vicom, Inc. (the "Company") for the period ended September 30, 2002, I, Steven M. Bell, Secretary and Treasurer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. This Periodic Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2002

By: /s/ Steven M. Bell
Chief Financial Officer