

Edgar Filing: MULTIBAND CORP - Form 8-K/A

MULTIBAND CORP
Form 8-K/A
August 06, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K/A

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

Date of Report (Date of earliest reported) April 2, 2004

Multiband Corporation

(Exact name of registrant as specified in its charter)

Minnesota	13529	41-1255001
-----	-----	-----
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

9449 Science Center Drive New Hope, Minnesota	55428
-----	-----
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code 763-504-3000

Vicom, Incorporated

(Former name or former address, if changed since last report)

PART I

Acquisition of Assets

On April 2, 2004, Multiband Corporation (the Company), f/k/a Vicom, Incorporated, completed its acquisition of Minnesota Digital Universe, Inc. (MDU) for approximately 7.7 million dollars, half of which was paid for in Multiband Corporation common stock, valued at \$1.75 per share, (\$3,850,000), \$1.1 million paid in cash and the balance in promissory notes due by January 2005. The consideration paid was based on the Company's analysis of likely future net incomes to be generated over a six year period by the acquired company. The cash was provided by funds the company had previously raised in a private placement. The assets were acquired from Pace Electronics. Prior to the

Edgar Filing: MULTIBAND CORP - Form 8-K/A

transaction, there was no material relationship between the owners of MDU and the Company other than the fact that Pace Electronics previously owned a 50% interest in a company subsidiary, Multiband USA, Inc., which Vicom repurchased the remaining 50% of ownership from Pace Electronics in January 2004 for 30,000 shares of the Company's common stock valued at \$39,000.

With this acquisition, the Company became a nationwide agent for DirecTV. MDU services nearly 40,000 video subscribers through a network of private cable operators located throughout the United States. The purchase also permits the Company to receive ongoing residual payments from DirecTV, during the term of the master system operator agreement with DirecTV, which initially had approximately 25 months remaining at the time of purchase. Any required proforma information with regards this transaction will be filed as soon as available.

Item 7: Financial Statements and Exhibits:

- 7.1 Acquisition Agreement (previously filed)
 - a. Audited Financial Statements of Business Acquired for the years ended December 31, 2003 and 2002. See attached Exhibit 7.1(a)
 - b. Unaudited Financial Statements of Business acquired for the three months ended March 31, 2004 and 2003.
 - c. Unaudited Proforma Financial Information. See attached Exhibit 7.1(b)

ITEM 7.1(a) FINANCIAL STATEMENTS OF BUSINESSES ACQUIRED

MINNESOTA DIGITAL UNIVERSE, INC.
Rochester, Minnesota

FINANCIAL STATEMENTS
INCLUDING INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2003 AND 2002

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Minnesota Digital Universe, Inc.

We have audited the accompanying balance sheets of Minnesota Digital Universe, Inc., as of December 31, 2003 and 2002, and the related statements of operations, stockholders' equity (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Edgar Filing: MULTIBAND CORP - Form 8-K/A

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Minnesota Digital Universe, Inc. as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

VIRCHOW, KRAUSE & COMPANY, LLP

Minneapolis, Minnesota
July 7, 2004

4

MINNESOTA DIGITAL UNIVERSE, INC.
BALANCE SHEETS
DECEMBER 31, 2003 AND 2002

	2003	2002
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash	\$ 1,626,942	\$ 1,329,932
Accounts receivable	825,106	388,900
Note receivable - stockholder	20,599	--
Current portion - note receivable related party	234,306	245,426
	-----	-----
Total current assets	2,706,953	1,964,258
	-----	-----
PROPERTY AND EQUIPMENT, AT COST:		
Automobiles	58,802	58,802
Furniture and equipment	1,822	--
Less: accumulated depreciation	(11,622)	--
	-----	-----
Total property and equipment, net	49,002	58,802
	-----	-----
OTHER ASSETS:		
Note receivable related party, net of current portion	--	234,306
Other assets	--	245
Video subscriber list, net of amortization	65,200	85,789
	-----	-----
Total other assets	65,200	320,340
	-----	-----

Edgar Filing: MULTIBAND CORP - Form 8-K/A

\$ 2,821,155 \$ 2,343,400
 =====

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

CURRENT LIABILITIES:

Accounts payable	\$ 83,115	\$ 104,330
Accrued commissions	882,664	631,248
Notes payable - stockholders	--	54,300
Accrued liability	1,901,972	1,294,992
	-----	-----
Total current liabilities	2,867,751	2,084,870
	-----	-----

STOCKHOLDERS' EQUITY (DEFICIT):

Common stock, no par value, 2,500 shares authorized, 1333.34 shares issued and outstanding	588	588
Retained earnings (accumulated deficit)	(47,184)	257,942
	-----	-----
Total stockholders' equity (deficit)	(46,596)	258,530
	-----	-----
	\$ 2,821,155	\$ 2,343,400
	=====	=====

See accompanying notes to financial statements.

5

MINNESOTA DIGITAL UNIVERSE, INC.
 STATEMENTS OF OPERATIONS
 FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003		2002	
	Amount	Percent	Amount	Percent
	-----	-----	-----	-----
REVENUES, NET	\$6,242,414	100.0	\$5,956,729	100.0
COST OF SALES, NET	5,253,971	84.2	4,945,696	83.0
	-----	-----	-----	-----
GROSS PROFIT	988,443	15.8	1,011,033	17.0
GENERAL AND ADMINISTRATIVE EXPENSES	534,550	8.6	472,366	8.0
	-----	-----	-----	-----
INCOME FROM OPERATIONS	453,893	7.2	538,667	9.0
	-----	-----	-----	-----
OTHER INCOME				
Interest income	15,644	.3	33,332	.6
	-----	-----	-----	-----
Other income	15,644	.3	33,332	.6

Edgar Filing: MULTIBAND CORP - Form 8-K/A

	-----	-----	-----	-----
NET INCOME	\$ 469,537	7.5	\$ 571,999	9.6
	=====	=====	=====	=====

See accompanying notes to financial statements.

6

MINNESOTA DIGITAL UNIVERSE, INC.
 STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
 FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	Common Stock		Retained Earnings (accumulated deficit)	Total
	Shares	Amount		
	-----	-----	-----	-----
BALANCES - DECEMBER 31, 2001	1,333.34	\$ 588	\$ 606,501	\$ 607,089
Distributions to stockholders	--	--	(920,558)	(920,558)
Net income	--	--	571,999	571,999
	-----	-----	-----	-----
BALANCES - DECEMBER 31, 2002	1,333.34	588	257,942	258,530
Distributions to stockholders	--	--	(774,663)	(774,663)
Net income	--	--	469,537	469,537
	-----	-----	-----	-----
BALANCES - DECEMBER 31, 2003	1,333.34	\$ 588	\$ (47,184)	\$ (46,596)
	=====	=====	=====	=====

See accompanying notes to financial statements.

7

MINNESOTA DIGITAL UNIVERSE, INC.
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 469,537	\$ 571,999
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	32,456	17,648
Changes in operating assets and liabilities:		
Accounts receivable	(436,206)	71,170

Edgar Filing: MULTIBAND CORP - Form 8-K/A

Accounts payable	(21,215)	73,431
Accrued commissions	251,416	338,369
Accrued liability	606,980	352,110
	-----	-----
Net cash flows from operating activities	902,968	1,424,727
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,822)	(58,802)
Purchase of video subscriber list	--	(102,947)
Advances on note receivable - related party stockholder	(20,599)	--
Payments received on note receivable	245,426	251,613
	-----	-----
Net cash flows from investing activities	223,005	89,864
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable - stockholders	(54,300)	(25,000)
Proceeds from notes payable - stockholders	--	54,300
Distributions to stockholders	(774,663)	(920,558)
	-----	-----
Net cash flows from financing activities	(828,963)	(891,258)
	-----	-----
NET INCREASE IN CASH	297,010	623,333
CASH, BEGINNING OF YEAR	1,329,932	706,599
	-----	-----
CASH, END OF YEAR	\$ 1,626,942	\$ 1,329,932
	=====	=====

See accompanying notes to financial statements.

8

MINNESOTA DIGITAL UNIVERSE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS - Minnesota Digital Universe, Inc. (the "Company") was incorporated on July 1, 1997 in the state of Minnesota. The Company is located in Rochester, Minnesota, and markets its services throughout the Midwest region of the United States. The Company distributes television programming and services and acts as a commissioned sales representative for DIRECTV to solicit and take orders for DirectTV commissionable programming packages. Distribution markets include residential multiple dwelling units (MDUs), hotels and hospitals via satellite master antenna television (SMATV), and commercial businesses.

CONCENTRATION OF CREDIT RISK - The Company maintains its cash in high quality financial institutions. The balances, at times, may exceed federally insured limits.

ACCOUNTS RECEIVABLE - At December 31, 2003 and 2002, the Company did not have an allowance for doubtful accounts. The Company believes all accounts receivable are fully collectible. Accounts receivable over 60 days are considered past due. The Company does not accrue interest on past due accounts. If accounts

Edgar Filing: MULTIBAND CORP - Form 8-K/A

receivable are determined uncollectible, they are charged to expense in the year that determination is made. The Company extends unsecured credit to customers in the normal course of business.

DEPRECIATION - Property and equipment are recorded at cost. Depreciation is provided for using the straight-line method over the estimated useful life ranging from three to five years. Maintenance, repairs and minor renewals are expensed when incurred. Depreciation expense was \$11,622 and \$0 for the years ended December 31, 2003 and 2002, respectively.

AMORTIZATION - The Company records video subscriber lists purchased at cost. Amortization is provided using the straight-line method over a five year estimated useful life. Amortization expense was \$20,834 and \$17,648 for the years ended December 31, 2003 and 2002, respectively. Estimated amortization expense of video subscriber lists for the years ending December 31, 2004, 2005, 2006 and 2007 is \$20,589, \$20,589, \$20,589 and \$3,433, respectively.

ACCRUED COMMISSIONS - Based on the Company's agreement with DirecTV, a portion of the commissions received from activation fees may be charged back to the Company if a customer does not maintain video programming services for 12 months upon activation. The Company also has the right to charge back an appropriate percentage of the commissions paid to system operators related to these charged back activation fees. The Company has estimated the potential charge back of commissions paid on activation fees during the past 12 months based on historical percentages of customer cancellations and has included that amount in accrued commissions.

ACCRUED LIABILITY - The Company has recorded an accrued liability for amounts received from DirecTV in excess of the contract agreement.

9

MINNESOTA DIGITAL UNIVERSE, INC. NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2003 AND 2002

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION - The Company earns revenue primarily through the activation of and residual fees on video programming services.

Revenue generated from activation is earned in the month of activation. According to the Company's agreement with DirecTV, in the event that a customer cancels within the first 12 months of service, DirecTV has the right to charge back the Company for a portion of the activation fees received. In accordance with Securities Exchange Commission Staff Accounting Bulletin No. 101, "Revenue Recognition", the Company has estimated the potential charge back of commissions received on activation fees during the past 12 months based on historical percentages of customer cancellations and has included that amount as a reduction of revenue.

Residual income is earned as services are provided by DirecTV through the system operators. As a commissioned sales agent for DirecTV, the Company earns a fixed percentage based on net cash received from DirecTV.

INCOME TAXES - The Company, with the consent of its stockholders, has elected under the Internal Revenue Code to be an S corporation. In lieu of corporate income taxes, the stockholders of an S corporation are taxed on their proportionate share of the Company's taxable income. Therefore, no provision or liability for federal or state income taxes has been included in the financial

Edgar Filing: MULTIBAND CORP - Form 8-K/A

statements.

ADVERTISING COSTS - Advertising costs are charged to expense as incurred. Advertising costs were \$6,151 and \$4,800 for the years ended December 31, 2003 and 2002, respectively.

MANAGEMENT'S 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) SIGNIFICANT RELATIONSHIP

SYSTEM OPERATOR AGREEMENTS

The Company is a master agent for DirecTV pursuant to a system operator agreement with DirecTV dated May 22, 2003. The initial term of the agreement is for three years and provides for two additional two-year renewals if the Company has a minimum number of paying video subscribers in its system operator network. Termination of the Company's DirecTV agreement would have a material adverse impact on the Company's on-going operations. The percent of gross revenues earned from DirecTV for years ended December 31, 2003 and 2002, were 92.1% and 82.3%, respectively.

10

MINNESOTA DIGITAL UNIVERSE, INC. NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2003 AND 2002

(3) RELATED PARTIES

Note Receivable Stockholder

The Company advanced funds to a stockholder, who is also an officer of the Company, during 2003. These unsecured advances are due upon demand and bear no interest. The balance at December 31, 2003 and 2002 was \$20,599 and \$0, respectively.

Note Receivable Related Party

In October 2001, the Company loaned \$792,520 to a company related through common ownership. The loan was originally payable in 36 monthly installments of \$23,931 including interest at 5.5%. In December 2002, the balance of \$499,718 was refinanced. The loan is unsecured, payable in 24 monthly installments of \$21,756 including interest at 4.25%. The balance at December 31, 2003 and 2002 was \$234,306 and \$479,732 with a current portion of \$234,306 and \$245,426, respectively. Interest income totaled \$15,644 and \$33,332 for the years ended December 31, 2003 and 2002, respectively.

The Company also paid office sharing expenses and commissions to this related company. The total amount paid during the years ended December 31, 2003 and 2002 was \$1,793,543 and \$763,563, respectively. The unsecured amount due to this related company at December 31, 2003 and 2002 was \$83,115 and \$96,500, respectively and is included in accounts payable.

Notes Payable - Stockholders

Edgar Filing: MULTIBAND CORP - Form 8-K/A

During 2002, the Company borrowed \$54,300 from two of its stockholders. The note was unsecured and due on demand. This amount was repaid in May 2003. No interest was paid on this short-term loan.

During 2003, the Company paid one of its stockholders \$33,657 for consulting services. It also paid for services provided by a company partially owned by this stockholder in the amount of \$14,161 and \$28,758 which is included in Selling, General and Administrative Expenses on the Statement of Operations for the years ended December 31, 2003 and 2002, respectively.

(4) SUBSEQUENT EVENT

On April 2, 2004, certain assets of the Company were purchased and certain liabilities assumed by Vicom, Incorporated. The purchase price was \$7.0 million, half of which was paid for in Vicom, Incorporated common stock, valued at \$1.75 per share, \$1 million paid in cash and the balance in unsecured promissory notes due by January 2005. Promissory notes bear no interest and are to be paid in three installments, the final one to be January 2, 2005.

11

MINNESOTA DIGITAL UNIVERSE, INC. BALANCE SHEET

	MARCH 31, 2004 (UNAUDITED)	DECEMBER 31, 2003 (AUDITED)
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash	\$ 1,004,546	\$ 1,626,942
Accounts receivable	779,868	825,106
Note receivable - stockholder	300,000	20,599
Current portion - note receivable related party	171,305	234,306
	-----	-----
Total current assets	2,255,719	2,706,953
	-----	-----
PROPERTY AND EQUIPMENT, NET	44,102	49,002
OTHER ASSETS:		
Video subscriber list, net of amortization	60,052	65,200
	-----	-----
Total other assets	60,052	65,200
	-----	-----
TOTAL ASSETS	\$ 2,359,873	\$ 2,821,155
	=====	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	\$ 10,181	\$ 83,115
Accrued commissions	1,051,029	882,664
Accrued liability	1,901,972	1,901,972
	-----	-----

Edgar Filing: MULTIBAND CORP - Form 8-K/A

Total current liabilities	2,963,182	2,867,751
	-----	-----
STOCKHOLDERS' DEFICIT:		
Common stock, no par value, 2,500 shares authorized		
1333.34 shares issued and outstanding	588	588
Accumulated deficit	(603,897)	(47,184)
	-----	-----
Total stockholders' deficit	(603,309)	(46,596)
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDER'S DEFICIT	\$ 2,359,873	\$ 2,821,155
	=====	=====

See accompanying notes to financial statements.

12

MINNESOTA DIGITAL UNIVERSE, INC.
STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003

	2004 (UNAUDITED)	2003 (UNAUDITED)
	-----	-----
REVENUES	\$ 1,616,537	\$ 1,431,347
COSTS AND EXPENSES		
COSTS OF PRODUCTS AND SERVICES	1,210,520	1,087,094
SELLING, GENERAL AND ADMINISTRATIVE	155,956	154,560
	-----	-----
COST OF SALES, NET	1,366,476	1,241,654
	-----	-----
INCOME FROM OPERATIONS	250,061	189,693
	-----	-----
OTHER INCOME		
Interest income and other	2,267	4,884
	-----	-----
Total other income (expense)	2,267	4,884
	-----	-----
NET INCOME	\$ 252,328	\$ 194,577
	=====	=====

See accompanying notes to financial statements.

13

MINNESOTA DIGITAL UNIVERSE, INC.
STATEMENTS OF CASH FLOWS
FOR THREE MONTHS ENDED MARCH 31

Edgar Filing: MULTIBAND CORP - Form 8-K/A

(UNAUDITED)

	2004	2003
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 252,328	\$ 194,577
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	10,048	8,782
Changes in operating assets and liabilities:		
Accounts receivable	45,238	(55,802)
Accounts payable	(72,934)	(91,893)
Accrued commissions	168,365	84,493
	-----	-----
Net cash flows from operating activities	403,045	140,157
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Advances on note receivable - related party stockholder	0	5,000
Payments received on note receivable	(216,400)	60,384
	-----	-----
Net cash flows from investing activities	(216,400)	65,384
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Distributions to stockholders	(809,041)	(431,660)
	-----	-----
Net cash flows from financing activities	(809,041)	(431,660)
	-----	-----
NET DECREASE IN CASH	(622,396)	(226,119)
CASH, BEGINNING OF PERIOD	1,626,942	1,329,932
	-----	-----
CASH, END OF PERIOD	\$ 1,004,546	\$ 1,103,813
	=====	=====

See accompanying notes to financial statements.

14

MINNESOTA DIGITAL UNIVERSE, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2004 AND 2003
(UNAUDITED)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION - In the opinion of management, the accompanying condensed unaudited financials statements include all adjustments (which consist only of normal recurring adjustments) necessary for a fair presentation of its financial position at December 31, 2003 and results of operations and cash flows for the periods presented. Although Multiband Corporation (fka Vicom Incorporated) believes that the disclosures in these financial statements are adequate to make

Edgar Filing: MULTIBAND CORP - Form 8-K/A

the information presented not misleading, certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted and should be read in conjunction with the Minnesota Digital Universe, Inc.'s audited financial statements for the years ended December 31, 2003 and 2002. Results of operations for the three months ended March 31, 2004 are not necessarily indicative of results for the full year.

NATURE OF BUSINESS - Minnesota Digital Universe, Inc. (the "Company") was incorporated on July 1, 1997 in the state of Minnesota. The Company is located in Rochester, Minnesota, and markets its services throughout the Midwest region of the United States. The Company distributes television programming and services and acts as a commissioned sales representative for DIRECTV to solicit and take orders for DirecTV commissionable programming packages. Distribution markets include residential multiple dwelling units (MDUs), hotels and hospitals via satellite master antenna television (SMATV), and commercial businesses.

ACCOUNTS RECEIVABLE - At March 31, 2004 and December 31, 2003, the Company did not have an allowance for doubtful accounts. The Company believes all accounts receivable are fully collectible. Accounts receivable over 60 days are considered past due. The Company does not accrue interest on past due accounts. If accounts receivable are determined uncollectible, they are charged to expense in the year that determination is made. The Company extends unsecured credit to customers in the normal course of business.

DEPRECIATION - Property and equipment are recorded at cost. Depreciation is provided for using the straight-line method over the estimated useful life ranging from three to five years. Maintenance, repairs and minor renewals are expensed when incurred. Depreciation expense was \$4,900 and \$2,940 for the three months ended March 31, 2004 and 2003, respectively.

AMORTIZATION - The Company records video subscriber lists purchased at cost. Amortization is provided using the straight-line method over a five year estimated useful life. Amortization expense was \$5,148 and \$5,842 for the three months ended March 31, 2004 and 2003, respectively. Amortization expense was \$20,834 and \$17,648 for the years ended December 31, 2003 and 2002, respectively. Estimated amortization expense of video subscriber lists for the years ending December 31, 2004, 2005, 2006 and 2007 is \$20,589, \$20,589, \$20,589 and \$3,433, respectively.

ACCRUED COMMISSIONS - Based on the Company's agreement with DirecTV, a portion of the commissions received from activation fees may be charged back to the Company if a customer does not maintain video programming services for 12 months upon activation. The Company also has the right to charge back an appropriate percentage of the commissions paid to system operators related to these charged back activation fees. The Company has estimated the potential charge back of commissions paid on activation fees during the past 12 months based on historical percentages of customer cancellations and has included that amount in accrued commissions.

ACCRUED LIABILITY - The Company has recorded an accrued liability for amounts received from DirecTV in excess of the contract agreement.

Edgar Filing: MULTIBAND CORP - Form 8-K/A

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION - The Company earns revenue primarily through the activation of and residual fees on video programming services.

Revenue generated from activation is earned in the month of activation. According to the Company's agreement with DirecTV, in the event that a customer cancels within the first 12 months of service, DirecTV has the right to charge back the Company for a portion of the activation fees received. In accordance with Securities Exchange Commission Staff Accounting Bulletin No. 101, "Revenue Recognition", the Company has estimated the potential charge back of commissions received on activation fees during the past 12 months based on historical percentages of customer cancellations and has included that amount as a reduction of revenue.

Residual income is earned as services are provided by DirecTV through the system operators. As a commissioned sales agent for DirecTV, the Company earns a fixed percentage based on net cash received from DirecTV.

MANAGEMENT'S 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) SIGNIFICANT RELATIONSHIP

The Company is a master agent for DirecTV pursuant to a system operator agreement with DirecTV dated May 22, 2003. The initial term of the agreement is for three years and provides for two additional two-year renewals if the Company has a minimum number of paying video subscribers in its system operator network. Termination of the Company's DirecTV agreement would have a material adverse impact on the Company's on-going operations.

16

MINNESOTA DIGITAL UNIVERSE, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2004 AND 2003
(UNAUDITED)

(3) RELATED PARTIES

Note Receivable Stockholder

The Company advanced funds to a stockholder, who is also an officer of the Company, during 2003. These unsecured advances are due upon demand and bear no interest. The balance at March 31, 2004 and December 31, 2003 was \$300,000 and \$20,599, respectively.

Note Receivable Related Party

In October 2001, the Company loaned \$792,520 to a company related through common ownership. The loan was originally payable in 36 monthly installments of \$23,931 including interest at 5.5%. In December 2002, the balance of \$499,718 was refinanced. The loan is unsecured, payable in 24 monthly installments of \$21,756 including interest at 4.25%. The balance at March 31, 2004 and December 31, 2003 was \$171,305 and \$234,306. Interest income totaled \$2,267 and \$4,884 for the

Edgar Filing: MULTIBAND CORP - Form 8-K/A

three months ended March 31, 2004 and 2003, respectively.

The Company also paid office sharing expenses and commissions to this related company. The total amount paid during the three months ended March 31, 2004 and March 31, 2003 was \$330,420 and \$240,500, respectively. The unsecured amount due to the company at March 31, 2004 and December 31, 2003 was \$0 and \$83,115, respectively, and is included in accounts payable.

During the three months ended March 31, 2003, the Company paid one of its stockholders \$33,657 for consulting services which was included in Selling, General and Administrative Expenses on the Statement of Operations for the three months ended March 31, 2003. No consulting services were provided for the three months ended March 31, 2004.

4. SUBSEQUENT EVENT

On April 2, 2004, certain assets of the Company were purchased and certain liabilities assumed by Vicom, Incorporated. The purchase price was \$7.7 million, half of which was paid for in Vicom, Incorporated common stock, valued at \$1.75 per share, \$1 million paid in cash and the balance in unsecured promissory notes due by January 2005. Promissory notes bear no interest and are to be paid in three installments, the final one to be January 2, 2005.

=====
MULTIBAND CORPORATION
UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

On April 2, 2004, certain assets of Minnesota Digital Universe, Inc. (MDU) were purchased and certain liabilities assumed by Multiband Corporation, (f/k/a Vicom, Incorporated). The purchase price was 7.7 million dollars, half of which was paid for in Multiband Corporation common stock, valued at \$1.75 per share, \$1.1 million paid in cash and the balance in promissory notes due by January 2005. Promissory notes bear no interest and are to be paid in three installments, the final one to be January 2, 2005.

The unaudited pro forma balance sheet set forth as attached gives effect to the purchase as if it had been consummated on March 31, 2004 and the unaudited pro forma statements of operations set forth below gives effect to the purchase as if it had been consummated on January 1, 2003. The pro forma adjustments reflecting the consummation of the purchase are based upon the purchase method of accounting and upon the assumptions set forth in the notes hereto. This pro forma information should be read in conjunction with the audited and unaudited financial statements and notes thereto of MDU.

The unaudited pro forma financial information is presented in accordance with Article 11 of the Securities and Exchange Commission's regulation S-X.

The historical operating results may not be indicative of the future results of MDU should it be operated as a stand alone entity. The pro forma adjustments do not reflect any operating efficiencies and cost savings which may be achievable with respect to the combined companies. In addition, the pro forma adjustments do not reflect any operating inefficiencies or extra expenses which might occur with respect to the combined companies.

These pro forma financial statements do not purport to present results, which would actually have been obtained if the transaction had been in effect during

Edgar Filing: MULTIBAND CORP - Form 8-K/A

the period covered, or any future results which may in fact be realized.

For purposes of preparing the Company's consolidated financial statements, the Company will establish a new basis for the business's acquired assets and assumed liabilities based upon the fair values thereof. A final determination of the required purchase accounting adjustments, including the allocation of the purchase price to the assets acquired and liabilities assumed based on their respective fair values, has not yet been made. Accordingly, the purchase accounting adjustments made in connection with the development of the pro forma combined financial information are preliminary and have been made solely for purposes of developing such pro forma combined financial information. The Company will undertake a study to determine the fair value of the assets acquired and liabilities assumed and will make appropriate purchase accounting adjustments upon completion of that study. The actual financial position may differ from the pro forma amounts reflected herein because of a variety of factors, including access to additional information and changes in value.

18

PROFORMA FINANCIAL STATEMENTS

MULTIBAND CORPORATION AND SUBSIDIARIES PRO FORMA COMBINED BALANCE SHEETS MARCH 31, 2004

	Multiband Corporation March 31, 2004 ----- (unaudited)	Minnesota Digital Universe, Inc. March 31, 2004 ----- (unaudited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,602,593	\$ 1,004,546
Certificate of deposit	250,000	
Accounts receivable, net	2,039,841	779,868
Inventories, net	1,951,218	
Other current assets	103,152	471,305
	-----	-----
TOTAL CURRENT ASSETS	5,946,804	2,255,719
	-----	-----
PROPERTY AND EQUIPMENT, NET	3,369,071	44,102
	-----	-----
OTHER ASSETS		
Intangible asset		
Goodwill	2,761,245	
Other	1,039,508	60,052
	-----	-----
TOTAL OTHER ASSETS	3,800,753	60,052
	-----	-----
TOTAL ASSETS	\$ 13,116,625	\$ 2,359,873
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		

Edgar Filing: MULTIBAND CORP - Form 8-K/A

CURRENT LIABILITIES

Checks issued in excess of cash in bank	\$ 142,775	
Wholesale line of credit	1,453,725	
Current portion of long term debt	919,032	
Current portion of note payable, stockholder	88,080	
Current portion of capital lease obligations	56,143	
Short-term notes payable - MDU purchase		
Accounts payable	1,663,419	10,181
Accrued commissions		1,051,029
Accrued liabilities	1,101,155	1,901,972
Deferred service obligations and revenue	332,255	

TOTAL CURRENT LIABILITIES	5,756,584	2,963,182
LONG TERM DEBT, NET	2,127,691	
OTHER LONG TERM DEBT	222,700	
NOTE PAYABLE, STOCKHOLDER, NET OF CURRENT PORTION	16,576	
CAPITAL LEASE OBLIGATIONS, NET OF CURRENT PORTION	128,329	

TOTAL LIABILITIES	8,251,880	2,963,182
	-----	-----
STOCKHOLDERS' EQUITY		
Cumulative convertible preferred stock, no par value:		
8% Class A (27,931 shares issued and outstanding, \$293,276 liquidation preference)	419,752	
10% Class B (8,700 shares issued and outstanding, \$91,350 liquidation preference)	62,000	
10% Class C (125,400 shares issued and outstanding, \$1,254,000 liquidation preference)	1,611,105	
15% Class E (77,650 shares issued and outstanding, \$776,500 liquidation preference)	438,964	
Common stock, no par value (19,450,294 shares issued; 19,440,150 shares outstanding)	8,230,982	
Minnesota Digital Universe net investment deficit		(603,309)
Stock subscriptions receivable	(415,085)	
Options and warrants	30,514,872	
Unamortized compensation	(88,136)	
Accumulated deficit	(35,909,709)	

TOTAL STOCKHOLDERS' EQUITY	4,864,745	

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 13,116,625	\$ 2,359,873
	=====	=====
	Record Revised Purchase Accounting for MDU ---	Pro Forma Combined March 31, 20 ----- (audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ (1,069,730) (A)	\$ 532,863
Certificate of deposit		250,000

Edgar Filing: MULTIBAND CORP - Form 8-K/A

Accounts receivable, net		2,039,841
Inventories, net		1,951,218
Other current assets		103,149

TOTAL CURRENT ASSETS	(1,069,730)	4,877,071

PROPERTY AND EQUIPMENT, NET		3,369,071

OTHER ASSETS		
Intangible asset	9,551,831 (A)	9,551,831
Goodwill		2,761,245
Other	60,052 (A)	1,099,560

TOTAL OTHER ASSETS.	9,611,883	13,412,636

TOTAL ASSETS	\$ 8,542,153	\$ 21,658,778
		=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Checks issued in excess of cash in bank		\$ 142,775
Wholesale line of credit		1,453,725
Current portion of long term debt		919,032
Current portion of note payable, stockholder		88,080
Current portion of capital lease obligations		56,143
Short-term notes payable - MDU purchase	2,750,000 (A)	2,750,000
Accounts payable	40,181 (A)	1,703,600
Accrued commissions		-
Accrued liabilities	1,901,972 (A)	3,003,127
Deferred service obligations and revenue		332,255

TOTAL CURRENT LIABILITIES	4,692,153	10,448,737
LONG TERM DEBT, NET		2,127,691
OTHER LONG TERM DEBT		222,700
NOTE PAYABLE, STOCKHOLDER, NET OF CURRENT PORTION		16,576
CAPITAL LEASE OBLIGATIONS, NET OF CURRENT PORTION		128,329

TOTAL LIABILITIES	4,692,153	12,944,033

STOCKHOLDERS' EQUITY		
Cumulative convertible preferred stock, no par value:		
8% Class A (27,931 shares issued and outstanding, \$293,276 liquidation preference)		419,752
10% Class B (8,700 shares issued and outstanding, \$91,350 liquidation preference)		62,000
10% Class C (125,400 shares issued and outstanding, \$1,254,000 liquidation preference)		1,611,105
15% Class E (77,650 shares issued and outstanding, \$776,500 liquidation preference)		438,964
Common stock, no par value (19,450,294 shares issued; 19,440,150 shares outstanding)	3,850,000 (A)	12,080,982
Minnesota Digital Universe net investment deficit		--

Edgar Filing: MULTIBAND CORP - Form 8-K/A

Stock subscriptions receivable		(415,085)
Options and warrants		30,514,872
Unamortized compensation		(88,136)
Accumulated deficit		(35,909,709)

TOTAL STOCKHOLDERS' EQUITY	3,850,000	8,714,745

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 8,542,153	\$ 21,658,778
	=====	=====

See notes to condensed consolidated financial statements.

19

MULTIBAND CORPORATION AND SUBSIDIARIES
PRO FORMA COMBINED STATEMENTS OF OPERATIONS

		Three Months E
	Multiband Corporation March 31, 2004 (unaudited)	Minnesota Digital Universe, Inc. March 31, 2004 (unaudited)
	-----	-----
REVENUES	\$ 5,747,474	1,616,537
COSTS AND EXPENSES		
Cost of products and services	4,348,949	1,210,520
Selling, general and administrative	2,596,853	155,956
	-----	-----
Total Costs and Expenses	6,945,802	1,366,476
INCOME/(LOSS) FROM OPERATIONS	(1,198,328)	250,061
OTHER INCOME/(EXPENSE)		
Interest Expense	(321,377)	
Interest Income		2,267
Other Income/(Expense)	2,841	

Total Other Income/(Expense)	(318,536)	2,267
NET INCOME (LOSS)	(1,516,864)	252,328
Preferred Stock Dividends	(62,653)	

LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	(1,579,517)	252,328
	=====	
LOSS PER SHARE - BASIC AND DILUTED	(.08)	N/A
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED	19,280,632	N/A

See notes to condensed consolidated financial statements

Edgar Filing: MULTIBAND CORP - Form 8-K/A

20

MULTIBAND CORPORATION
 UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION
 MAY 31, 2004

1) DESCRIPTION OF THE TRANSACTION

On April 2, 2004, Multiband Corporation (f/k/a Vicom, Incorporated (the Company) completed its acquisition of Minnesota Digital Universe, Inc. (MDU) for approximately 7.7 million dollars, half of which was paid for in Multiband Corporation common stock, valued at \$1.75 per share, \$1.1 million paid in cash and the balance in promissory notes due by January 2005. Promissory notes bear no interest and are to be paid in three installments, the final one to be January 2, 2005. The consideration paid was based on the Company's analysis of likely future net incomes to be generated over a six year period by the acquired company. The cash was provided by funds the Company had previously raised in a private placement. The assets were acquired from Pace Electronics. Prior to the transaction, there was no material relationship between the owners of MDU and the Company other than the fact that Pace Electronics previously owned a 50% interest in a Company subsidiary, Multiband USA, Inc., which interest the Company repurchased from Pace Electronics in January 2004 for 30,000 shares of the Company's common stock valued at \$39,000.

With this acquisition, the Company became a nationwide agent for DirectTV. MDU services nearly 40,000 video subscribers through a network of private cable operators located throughout the United States. The purchase also permits the Company to receive ongoing residual payments from DirectTV, during the term of the master system operator agreement with DirectTV, which initially had approximately 25 months remaining at the time of purchase.

Summary of the purchase transaction is as follows:

	PURCHASE PRICE	FINDER'S FEE	TOTAL
Cash	1,000,000	100,000	1,100,000
Notes Payable	2,500,000	250,000	2,750,000
Vicom Common Stock	3,500,000	350,000	3,850,000
	-----	-----	-----
Total contract	7,000,000	700,000	7,700,000
	=====	=====	=====

2) DESCRIPTION OF PRO FORMA ADJUSTMENTS

(A) The carrying value assigned to the DirectTV contract (\$9,551,831) intangible assets, net is based on the purchase price over the amounts assigned to the identifiable assets acquired and liabilities assumed. The allocation of the purchase price is as follows:

Total cash / stock consideration	\$ 7,000,000
Add: transaction costs	730,000
Add: liabilities assumed	1,912,153

Total consideration	\$ 9,642,153
Less: Net tangible assets acquired (**)	90,322
Less: Goodwill	0
