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VICOM INC
Form 10-Q
August 18, 2003

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 JUNE 30, 2003

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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On August 7, 2003 there were 16,846,563 shares outstanding of the registrant's common stock, par value \$.01 per share, and 246,181 outstanding shares of the registrant's convertible preferred stock.

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

VICOM, INCORPORATED AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended	
	June 30, 2003 (unaudited)	June 30, 2002 (unaudited)
	-----	-----
REVENUES	\$ 5,688,381	\$ 5,944,424
COSTS AND EXPENSES		
Cost of products and services	3,914,420	4,354,714
Selling, general and administrative	2,502,741	2,240,223
	-----	-----
Total Costs and Expenses	\$ 6,417,161	6,594,937
LOSS FROM OPERATIONS	(728,780)	(650,513)
OTHER EXPENSE		
Interest expense	(219,723)	(426,869)
Other Income (expense)	15,232	25,281
	-----	-----
Total Other Expense	(204,491)	(401,588)
MINORITY INTEREST IN JOINT VENTURE	(1,393)	0
LOSS BEFORE INCOME TAXES	(934,664)	(1,052,101)
PROVISION FOR INCOME TAXES	0	0
	-----	-----
NET LOSS	(934,664)	\$ (1,052,101)
Preferred Stock Dividends	(38,580)	(8,427)
LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS		
	\$ (973,244)	\$ (1,060,528)
	=====	=====
LOSS PER SHARE - BASIC AND DILUTED	\$ (.06)	\$ (.09)
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED	15,068,424	11,505,838

See notes to condensed consolidated financial statements

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ASSETS

CURRENT ASSETS

Cash and cash equivalents \$
 Accounts receivable
 Inventories, net of reserve of \$364,500 and \$341,000
 Other Current Assets

TOTAL CURRENT ASSETS

PROPERTY AND EQUIPMENT, NET

OTHER ASSETS

Goodwill
 Other

TOTAL OTHER ASSETS

TOTAL ASSETS \$ 1
 ===

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Wholesale line of credit \$
 Current portion of note payable - stockholder
 Current portion of long term debt
 Current portion of capital lease obligations
 Accounts payable
 Accrued liabilities
 Deferred service obligations and revenue

TOTAL CURRENT LIABILITIES

LONG TERM DEBT, NET

NOTE PAYABLE - STOCKHOLDER, NET OF CURRENT PORTION

CAPITAL LEASE OBLIGATIONS, NET OF CURRENT PORTION

TOTAL LIABILITIES

STOCKHOLDERS' EQUITY

Cumulative convertible preferred stock, no par value:

8% Class A (27,831 shares issued and outstanding)
 10% Class B (6,200 shares issued and outstanding)
 10% Class C (134,500 and 131,510 shares issued and outstanding)
 15% Class E (77,650 and 70,000 shares issued and outstanding)
 Common stock, no par value (16,738,194 and 13,110,477 shares issued;
 16,711,189 and 13,065,410 shares outstanding)
 Stock subscriptions receivable
 Options and warrants 2
 Unamortized compensation
 Minority Interest
 Accumulated deficit (3)

TOTAL STOCKHOLDERS' EQUITY

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY \$ 1
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See notes to condensed consolidated financial statements.

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VICOM, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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OPERATING ACTIVITIES	
Net loss	\$ (1,900)
Adjustments to reconcile net loss to net cash flows from operating activities	
Depreciation and amortization	449
Amortization of deferred compensation	240
Amortization of original issue discount	199
Common stock issued for services	321
Warrants issued for services	
Loss on sales of property and equipment	76
Interest receivable on stock subscription receivable	(10)
Discount on preferred stock related to warrants	
Minority interest in joint venture	1
Changes in operating assets and liabilities:	
Accounts receivable, net	(241)
Inventories, net	(541)
Other current assets	(107)
Other assets	
Wholesale line of credit	(31)
Accounts payable and accrued liabilities	283
Deferred service obligations and revenue	(11)
Net cash flows from operating activities	(1,270)
INVESTING ACTIVITIES	
Purchases of property and equipment	(307)
Proceeds from sale of property and equipment	6
Payment for investment in joint venture	(64)
Collections on notes receivable	5
Net cash flows from investing activities	(361)
FINANCING ACTIVITIES	
Proceeds from long-term debt and warrants issued with long term debt	
Payments on long term debt	(97)
Payments on capital lease obligations	(47)
Proceeds from issuance of long term debt	133
Proceeds from issuance of stock and warrants	1,917
Exercise of warrants	199
Redemption of preferred stock	(2)
Preferred stock dividends	(40)
Net cash flows from financing activities	2,063
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	431
CASH AND CASH EQUIVALENTS	
Beginning of period	540

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End of period	\$ 971
=====	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid for interest, net of amortization of original issue discount	259
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES	
Stock options issued below fair market value	
Issuance of preferred stock for acquisition of assets	76
Warrants issued with debt	208
Conversion of preferred stock into common stock	40
Conversion of current liabilities into stock	173
Conversion of notes payable into common stock	522
Conversion of dividend into common stock	54
Reduction of preferred stock to note payable	
Stock subscription receivable for issuance of common stock	40
Conversion of notes payable to preferred stock	
Reduction of stock subscription receivable	17

See notes to condensed consolidated financial statements

VICOM, INCORPORATED AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2003 and 2002

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 five 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, 4) MultiBand user charges to multiple dwelling units, 5) Multiband USA user charges to timeshares.

Revenues from video and computer technology products, which are sold but not installed, are recognized when delivered and the customer has accepted the terms and has the ability to fulfill the terms.

Customers contract 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

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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

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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 three or six months ended June 30, 2003 and 2002.

The changes in the carrying value of goodwill for the six months ended June 30, 2003 are as follows:

Balance of goodwill as of December 31, 2002	\$2,748,879
Goodwill recorded related to the investments into MB USA joint venture (see Note 8)	217,362

Balance as of June 30, 2003	2,966,241
	=====

Stock-Based Compensation

In accordance with Accounting Principles Board (APB) Opinion No. 25 and related interpretations, the Company uses the intrinsic value-based method for measuring stock-based compensation cost which measures compensation cost as the excess, if any, of the quoted market price of the Company's common stock at the grant date over the amount the employee must pay for the stock. The Company's general policy is to grant stock options at fair value at the date of grant.

Pursuant to APB No. 25 and related interpretations, \$120,191 and \$130,602 of compensation cost has been recognized in the accompanying consolidated statements of operations for the three months ended June 30, 2003 and 2002, respectively. For the six months ended June 30, 2003 and 2002, \$240,381 and \$261,030 of compensation cost has been recognized. Had compensation cost been recognized based on the fair values of options at the grant dates consistent with the provisions of Statements of Financial Accounting Standards (SFAS) No. 123 "Accounting for Stock-Based Compensation", the Company's net loss and loss

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attributable to common stockholders and basic and diluted loss per common share would have been increased to the additional pro forma amounts:

	Three Months Ended June 30	
	2003	2002
Loss attributable to common stockholders	\$ (973,244)	\$ (1,060,528)
Pro forma loss attributable to common shares	\$ (1,138,822)	\$ (1,111,690)
Basic and diluted net loss per share:		
As reported	\$ (0.06)	\$ (0.09)
Pro forma loss attributable to common shares	\$ (0.08)	\$ (0.10)
Stock-based compensation:		
As reported	\$ 120,191	\$ 130,602
Proforma	\$ 165,578	\$ 51,162

In determining the compensation cost of the options granted during the three and six months ended June 30, 2003 and 2002, as specified by SFAS No. 123, the fair value of each option grant has been estimated on the date of grant using the Black-Scholes option pricing model and the weighted average assumptions used in these calculations are summarized as follows for June 30:

	Three Months Ended June 30	
	2003	2002
Risk-free interest rate	3.62%	4.40%
Expected life of options granted	10 years	10 years
Expected volatility range	170%	170%
Expected dividend yield	0%	0%

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

issued but not outstanding restricted stock during the three months ended June 30, 2003 and 2002 were anti-dilutive.

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NOTE 3 - LIQUIDITY

The accompanying 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 six months ended June 30, 2003 and 2002, the Company incurred net losses of \$1,900,783 and \$2,162,024, respectively. At June 30, 2003, the Company had an accumulated deficit of \$31,711,833. 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 4 - NOTES PAYABLE

During the three months ended June 30, 2003, the Company borrowed \$124,000 on an unsecured basis from a shareholder under a two year note payable with 7.85% interest, payable monthly.

A note payable was also issued to Western State Bank for \$9,726 for a period of four years, with 5.25% interest, payable monthly, secured by certain property.

NOTE 5 - RELATED PARTY

Commissions of \$4,729 were paid to Rangecap, LLC for the three and six months ended June 30, 2003 for profits recorded to Multiband equipment purchased by Rangecap. David Weiss, Rangecap's principal, is a Vicom director. There were no payments during fiscal year 2002.

NOTE 6 - STOCK WARRANTS

Stock warrants activity is as follows for the six months ended June 30, 2003:

	Number of Warrants	Weighted Average Exercise Price
	-----	-----
Warrants outstanding - December 31, 2002	4,327,396	2.05
Granted	2,425,173	1.26
Canceled or expired	0	0
Exercised	(346,290)	1.79
	-----	----
Warrants outstanding - JUNE 30, 2003	6,406,279	1.77
	=====	=====

The warrants granted during the six months ended June 30, 2003 were awarded for common stock, preferred stock, for services rendered, and in connection with

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notes payable.

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NOTE 7 - BUSINESS SEGMENTS

Following is Company business segment information for the three months ended June 30, 2003 and 2002:

	Vicom -----	CTU -----	MultiBand -----
Three months ended June 30, 2003			
Revenues	\$ 0	\$ 5,330,420	\$ 357,961
Income (Loss) from operations	(502,859)	28,463	(254,384)
Identifiable assets	3,627,690	5,711,347	2,955,839
Depreciation and amortization	11,726	111,722	112,149
Capital expenditures	0	194,123	21,574
Three months ended June 30, 2002			
Revenues	\$ 0	\$ 5,815,531	\$ 128,893
Income (Loss) from operations	(424,970)	30,832	(256,375)
Identifiable assets	3,081,046	5,509,679	3,171,368
Depreciation and amortization	136,795	112,823	137,310
Capital expenditures	0	44,619	105,109

Following is Company business segment information for the six months ended June 30, 2003 and 2002:

	Vicom -----	CTU -----	MultiBand -----
Six Months ended June 30, 2003			
Revenues	\$ 0	\$ 10,967,062	\$ 593,081
Loss from operations	(909,280)	(26,431)	(468,005)
Identifiable assets	3,627,690	5,711,347	2,955,839
Depreciation and amortization	23,451	218,666	207,612
Capital expenditures	0	230,768	77,214
Six Months ended June 30, 2002			
Revenues	\$ 0	\$ 11,977,112	\$ 229,500
Loss from operations	(869,252)	(56,443)	(508,382)
Identifiable assets	3,081,046	5,509,679	3,171,368
Depreciation and amortization	265,454	232,740	273,276
Capital expenditures	0	84,439	170,822

NOTE 8- MULTIBAND USA JOINT VENTURE

During February 2003, the Company incorporated a new subsidiary, Multiband USA, Incorporated (MB USA). This subsidiary was set up as part of a 50% owned joint venture agreement with PACE Electronics, Inc (PACE) with the Company having the right to elect two of the three board of directors. As part of the joint venture agreement, the Company, at its sole option and discretion, shall have the right, but not the obligation to convert one Vicom common share for every ten shares of MB USA issued to PACE.

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On April 25, 2003, the Company, through MB USA, purchased certain video equipment assets from Suncoast Automation, Inc for \$450,000. The Company also purchased related rights to video subscribers and rights of access agreements.

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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.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

GENERAL

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

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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). Multiband USA, Inc. was formed in February, 2003 in partnership with Pace Electronics, a video wholesaler, and provides the same services as Multiband, Inc.

As of June 30, 2003, CTU was providing telephone equipment and service to approximately 800 customers, with approximately 10,000 telephones in service. In addition, CTU provides computer products and services to approximately 2,100 customers. MultiBand, as of June 30, 2003, had approximately 4,100 customers. Telecommunications systems distributed by Vicom are intended to provide users with flexible, cost-effective alternatives as compared to systems available from

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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 and North Dakota. CTU purchases products and equipment from NEC America, Inc. (NEC), Siemens Enterprise Networks (Siemens), Cisco Systems, Inc. (Cisco), Nortel Networks Corp. (Nortel), Tadiran Telecommunications, 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		DOLAR AMOUNTS AS A PERCENTAGE OF REVENUES
	THREE MONTHS ENDED		
	June 30, 2003 (unaudited)	June 30, 2002 (unaudited)	
REVENUES	100%	100%	100%
COST OF PRODUCTS & SERVICES	68.8%	73.3%	71.2%
GROSS MARGIN	31.2%	26.7%	28.8%
SELLING, GENERAL & ADMINISTRATIVE	44.0%	37.7%	41.0%
OPERATING LOSS	-12.8%	-11.0%	-12.1%
INTEREST EXPENSE & OTHER, NET	-3.6%	-6.7%	-4.3%
LOSS BEFORE TAXES	-16.4%	-17.7%	-16.4%
MINORITY INTEREST IN JOINT VENTURE	0%	0	0%
INCOME TAX	0	0	0
NET LOSS	-16.4%	-17.7%	-16.4%

The following table sets forth, for the period indicated, the gross margin

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percentages for Corporate Technologies USA, Inc., MultiBand, Inc. and Multiband USA, Inc.

	THREE MONTHS ENDED		JUNE 30, 2003
	JUNE 30, 2003	JUNE 30, 2002	
GROSS MARGIN PERCENTAGES:			
CORPORATE TECHNOLOGIES USA, INC.	30.4%	26.7%	28.
MULTIBAND, INC.	43.6%	34.1%	55.

RESULTS OF OPERATIONS

Revenues

Revenues decreased 4.3% to \$5,688,381 in the quarter ended June 30, 2003, as compared to \$5,944,424 for the quarter ended June 30, 2002.

Revenues for (CTU) decreased 8.3% in the second quarter of fiscal 2002 to \$5,330,420 as compared to \$5,815,531 in the second quarter of fiscal 2002. This decrease in CTU's revenues resulted primarily from CTU's desire to increase gross margins versus maintaining top line revenues.

Revenues for MultiBand, Inc. increased 117.7% to \$357,961 as compared to \$128,893 in the second quarter of fiscal 2002. This increase is due to continued expansion of MultiBand services to additional properties.

Revenues for the six month period ended June 30, 2003 decreased 5.3% to \$11,560,143 from \$12,206,612 for the same period in 2002. For the second half of fiscal year 2003, the Company anticipates revenues to remain stable as both subscriber revenues and Multiband project installation revenues are expected to increase.

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Gross Margin

The Company's gross margin increased 11.6% or \$184,251 to \$1,773,961 for the quarter ended June 30, 2003, as compared to \$1,589,710 for the similar quarter last year. This increase in gross margin is due to an increase in service sales and recurring subscriber revenues which have better margins than product sales. For the quarter ended June 30, 2003, as a percent of total revenues, gross margin was 31.2% as compared to 26.7% for the similar period last year. This increase in gross margin percentage is primarily due to an increase in service sales and recurring subscriber revenues which have better margins than equipment sales.

Gross margin for Corporate Technologies USA, Inc. increased by 4.3% to \$1,618,065 for the quarter ended June 30, 2003, as compared to \$1,551,763 in the second quarter of fiscal 2002. This increase is due to the above mentioned service and subscriber sales.

Gross margin for MultiBand, Inc. for the quarter ended June 30, 2003 increased 354.7% to \$155,896 as compared to \$43,947 in the second quarter of fiscal 2002 reflecting on the increase of revenue being billed.

For the six month period ended June 30, 2003, as a percent of total revenues, gross margin was 28.8% as compared to 25.1% for the same period in

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2002. For the second half of fiscal year 2003, gross margin percentages are expected to remain higher than gross margin percentages in the prior year as the Company continues to shift its emphasis to consumer oriented services from business related equipment sales.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 11.7% to \$2,502,741 in the quarter ended June 30, 2003, compared to \$2,240,223 in the prior year quarter. Selling, general and administrative expenses were, as a percentage of revenues, 44.0% for the quarter ended June 30, 2003 and 37.7% for the similar period a year ago. This increase is primarily attributable to higher payroll and occupancy costs and the start-up of Multiband USA.

For the six month period ended June 30, 2003 these expenses increased 5.4% to \$4,738,737 as compared to \$4,496,761 for the six months ended June 30, 2002. As a percentage of revenues, selling, general and administrative expenses are 41.0% for the period ended June 30, 2003 as compared to 36.8% for the same period 2002.

Interest Expense

Interest expense was \$219,723 for the quarter ended June 30, 2003, versus \$426,869 for the similar period a year ago, reflecting a decrease in the Company's long term debt that resulted in a considerable decrease in the amortization of original discount expense. Amortization of original issue discount was \$85,364 and \$260,774 for the three months ended June 30, 2003 and 2002.

Interest expense was \$445,410 for the six months ended June 30, 2003 and \$772,904 for the same period last year. For the six months ended June 30, 2003 amortization of original discount was \$199,980 and \$471,757 in same period as last year.

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Net Loss

In the second quarter of fiscal 2003, the Company incurred a net loss of \$934,664 compared to a net loss of \$1,052,101 for the second fiscal quarter of 2002. A decline in operating losses for the second quarter of 2003 versus the similar period a year ago was primarily due to the above mentioned increase in gross margin.

For the six months ended June 30, 2003, the Company recorded a net loss of \$1,900,783, as compared to \$2,162,024 for the six months ended June 30, 2002.

Liquidity and Capital Resources

Available working capital at June 30, 2003 increased over the similar period last year primarily due to a significant decrease in the current portion of long term debt and capital lease obligations.

Inventories decreased over last year's prior period inventories due to the aforementioned revenue decreases. Net borrowings under notes and installment obligations payable decreased for the period ended June 30, 2003 compared to the prior year's period due to the reduction in capital 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

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meet the anticipated liquidity and capital resource requirements of its Corporate Technologies USA, Inc. business for the next twelve months provided Company operating 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 \$307,982 for capital expenditures during the six months ended June 30, 2003, as compared to \$255,261 in the similar period last year. Capital expenditures consisted of equipment acquired for internal use and for completion of a Multiband build out.

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 six months ended June 30, 2003 and 2002, the Company did not record any impairment losses related to long-lived assets.

Impairment of Goodwill

We periodically evaluate acquired businesses for potential impairment indicators. Our judgements 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 six months ended June 30, 2003 and 2002, the Company did not record any impairment losses related to goodwill.

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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 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 April 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," effective for contracts entered into or modified after June 30, 2003. This amendment clarifies when a contract meets the characteristics of a derivative, clarifies when a derivative contains a financing component and amends certain other existing pronouncements. The Company believes the adoption of SFAS No. 149 will not have a material effect on

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the Company's consolidated statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. SFAS No. 150 requires the classification as a liability of any financial instruments with a mandatory redemption feature, an obligation to repurchase equity shares, or a conditional obligation based on the issuance of a variable number of its equity shares. The Company does not have any financial instruments as defined by SFAS No. 150. The Company believes the adoption of SFAS No. 150 will not have a material effect on the Company's consolidated statements.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 clarifies the requirements for a guarantor's accounting for and disclosure of certain guarantees issued and outstanding. The initial recognition and initial measurement provisions of FIN 45 are applicable to guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN 45 are effective for financial statements for periods ending after December 15, 2002. The adoption of FIN 45 did not impact the Company's consolidated financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). FIN 46 states that companies that have exposure to the economic risks and potential rewards from another entity's assets and activities have a controlling financial interest in a variable interest entity and should consolidate the entity, despite the absence of clear control through a voting equity interest. The consolidation requirements apply to all variable interest entities created after January 31, 2003. For variable interest entities that existed prior to February 1, 2003, the consolidation requirements are effective for annual or interim periods beginning after June 15, 2003. Disclosure of significant variable interest entities is required in all financial statements issued after January 31, 2003, regardless of when the variable interest was created. The Company does not expect the adoption of FIN 46 to have a material impact the Company's consolidated financial statements.

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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

The Company has carried out an evaluation, with the participation of its chief executive/chief financial officer, of the effectiveness, as of the end of the most recent fiscal quarter, of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934), and the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934). Based upon that evaluation, the chief executive/chief financial officer concluded that the Company's disclosure controls and procedures are effective in alerting him, on a timely basis, to material information required to be disclosed in the Company's periodic reports to the Securities and Exchange Commission and that

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there has been no significant change in the Company's internal control over financial reporting that occurred over the most recently ended fiscal quarter, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

During the second quarter of fiscal year 2003, the Company raised approximately \$1,917,998 due to sales of common stock via private placements to accredited investors and investor exercises of warrants. The proceeds from the aforementioned were used primarily for working capital and to retire debt.

ITEM 5. LEGAL PROCEEDINGS

As of June 30, 2003, Vicom was not engaged in any legal proceedings whose anticipated results would have a material adverse impact on the Company.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

10.16
31.1
31.2
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(b) Reports on Form 8-K.

None

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SIGNATURES

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

VICOM, INC.
Registrant

Date: August 14, 2003

By:

/s/ James L. Mandel
Chief Executive Officer

Date: August 14, 2003

By:

/s/ Steven M. Bell
Chief Financial Officer
(Principal Financial and Accounting Officer)

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