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VICOM INC
Form 10-Q
August 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
[X] SECURITIES AND EXCHANGE ACT OF 1934
FOR THE PERIOD ENDING JUNE 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 [X] No []

On August 6, 2002 there were 11,994,060 shares outstanding of the registrant's common stock, par value \$.01 per share, and 165,641 outstanding shares of the registrant's convertible preferred stock.

PART I. FINANCIAL INFORMATION

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ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

VICOM, INCORPORATED AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Six
	June 30, 2002	June 30, 2001	June 30,
	(unaudited)	(unaudited)	(unaudi
REVENUES	\$ 5,944,424	\$ 7,830,229	\$ 12,206
COSTS AND EXPENSES			
Cost of products and services	4,354,714	6,048,399	9,143
Selling, general and administrative	2,240,223	2,738,537	4,496
	6,594,937	8,786,936	13,640
Total Costs and Expenses			
LOSS FROM OPERATIONS	(650,513)	(956,707)	(1,434
OTHER EXPENSE			
Interest expense.	(426,869)	(373,771)	(772
Income (expense).	25,281	307	44
	(401,588)	(373,464)	(727
Total Other Expense			
LOSS BEFORE INCOME TAXES	(1,052,101)	(1,330,171)	(2,162
PROVISION FOR INCOME TAXES	0	0	
NET LOSS	\$ (1,052,101)	\$ (1,330,171)	\$ (2,162
Preferred Stock Dividends	(8,427)	(123,147)	(60
LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ (1,060,528)	\$ (1,453,318)	\$ (2,222
LOSS PER SHARE - BASIC AND DILUTED	\$ (.09)	\$ (.18)	\$
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED.	11,505,838	7,989,569	11,078

See notes to condensed consolidated financial statements

VICOM, INCORPORATED AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2002	Decembe
	(unaudited)	(au
ASSETS		

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CURRENT ASSETS		
Cash	\$ 600,250	\$ 6
Accounts receivable, net	2,537,931	2,5
Inventories, net	1,593,384	1,6
Other Current Assets	233,898	2
	-----	-----
TOTAL CURRENT ASSETS	4,965,463	5,1
PROPERTY AND EQUIPMENT, NET	3,801,736	4,0
OTHER ASSETS		
Goodwill, net	2,748,879	2,7
Other	246,015	2
	-----	-----
TOTAL OTHER ASSETS	2,994,894	3,0
	-----	-----
TOTAL ASSETS	\$ 11,762,093	\$ 12,2
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Wholesale line of credit	\$ 1,182,146	\$ 1,3
Current portion of long term debt	1,226,890	
Current portion of capital lease obligations	407,749	3
Accounts payable	1,785,359	1,8
Accrued liabilities	802,680	7
Deferred service obligations and revenue	377,312	4
	-----	-----
TOTAL CURRENT LIABILITIES	5,782,136	4,7
LONG TERM DEBT, NET	2,212,376	2,6
CAPITAL LEASE OBLIGATIONS, NET OF CURRENT PORTION	393,377	6
	-----	-----
TOTAL LIABILITIES	8,387,899	8,0
STOCKHOLDERS' EQUITY		
Cumulative convertible preferred stock, no par value:		
8% Class A (27,931 and 28,872 shares issued and outstanding)	419,752	4
10% Class B (6,200 and 8,700 shares issued and outstanding)	62,000	
10% Class C (131,510 and 139,510 shares issued and outstanding)	1,699,407	1,8
14% Class D (0 and 40,000 shares issued and outstanding)	0	4
Common stock, no par value (11,953,965 and 10,679,450 shares issued; 11,912,402 and 10,604,113 shares outstanding)	4,461,089	3,4
Stock subscriptions receivable	(578,740)	(6
Options and warrants	25,559,402	24,9
Unamortized compensation	(911,584)	(1,2
Accumulated deficit	(27,337,122)	(25,1
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	3,374,204	4,2
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 11,762,093	\$ 12,2
	=====	=====

See notes to condensed consolidated financial statements.

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	SIX MONTHS E	
	JUNE 30, (UNAUD	
	2002	2
OPERATING ACTIVITIES		
Net loss.	\$ (2,162,024)	\$ (2,
Adjustments to reconcile net loss to net cash flows from operating activities		
Depreciation.	510,438	
Amortization of deferred compensation	261,030	
Amortization of original issue discount	471,757	
Common stock issued for services.	14,700	
Loss on sales of property and equipment	(7,359)	
Discount on preferred stock related to warrants	(52,541)	
Changes in operating assets and liabilities:		
Accounts receivable, net.	57,437	1,
Inventories, net.	53,057	
Costs, estimated earnings and billings.	0	
Other current assets.	31,424	
Other assets.	14,598	
Wholesale line of credit	(142,661)	
Accounts payable and accrued liabilities.	91,461	(
Deferred service obligations and revenue.	(39,294)	
Net cash flows from operating activities.	(897,977)	(
INVESTING ACTIVITIES		
Purchases of property and equipment	(255,261)	(1,
Purchase acquisition.	0	
Proceeds from sale of property and equipment.	10,277	
Collections on notes receivable	28,572	
Net cash flows from investing activities.	(216,412)	(1,
FINANCING ACTIVITIES		
Proceeds from notes and installment obligations payable	0	
Proceeds from long-term debt and warrants issued with long term debt.	750,000	1,
Payments on long term debt.	(53,110)	(
Payments on capital lease obligations	(151,139)	
Proceeds from issuance of stock and warrants.	687,779	
Stock issuance costs.	0	
Redemption of preferred stock	(93,000)	(
Preferred stock dividends	(50,736)	(
Net cash flows from financing activities.	1,089,794	1,
INCREASE (DECREASE) IN CASH	(24,595)	(
CASH		
Beginning of period	624,845	1,
End of period	\$ 600,250	\$
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest, net of amortization of original issue discount.	291,995	\$
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Stock options issued below fair market value	400	1,
Issuance of preferred stock for acquisition of assets	18,590	
Warrants issued with debt	8,529	
Notes payable converted to preferred stock.	227,868	

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Accounts payable converted to common stock	7,255
Conversion of preferred stock to common stock	150,000
Subscriptions receivable on common stock	0
Conversion of note receivable to common stock	32,688
Conversion of preferred stock to note payable	290,000
Purchase acquisition	
Assets acquired	0
Liabilities assumed	0
Equity securities consideration	0

See notes to condensed consolidated financial statements

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VICOM, INCORPORATED AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2002 and 2001

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 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.

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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

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cash flows. The Company did not record any impairment charges related to goodwill and property and equipment during the six months ended June 30, 2002 and 2001. Amortization was \$0 and \$83,769 for the three months ended June 30, 2002 and 2001. Amortization was \$0 and \$175,120 for the six months ended June 30, 2002 and 2001. (See Note 3).

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 and six months ended June 30, 2002 and 2001 were anti-dilutive.

NOTE 3 - ADOPTION OF NEW ACCOUNTING STANDARDS

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 SFAS 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. The Company adopted the new rules effective January 1, 2002. The Company will perform the required goodwill impairment test at the close of the quarter ended September 30, 2002 based on the carrying amount as of January 1, 2002. If it is determined there is an impairment of goodwill, we will record an adjustment at that time.

Components of intangible assets are as follows:

June 30, 2002		December 31, 2001	
Gross		Gross	
Carrying	Accumulated	Carrying	Accumulated

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	Amount	Amortization	Amount	Amortization
Intangible assets subject to amortization				
Domain name	\$ 83,750	\$ 13,958	\$ 83,750	\$ 5,588
Intangible assets not subject to amortization				
Goodwill	\$3,531,157	\$782,278	\$3,531,157	\$782,278

There was no change in reported goodwill during the six months ended June 30, 2002.

Amortization of intangible assets was \$4,185 and \$0 for the three months ended June 30, 2002 and 2001, respectively, and \$8,370 and \$0 for the six months ended June 30, 2002 and 2001, respectively. Amortization expense is expected to be approximately \$8,370 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 six months ended June 30, 2001 would have been as follows had we adopted SFAS No. 142 on January 1, 2001:

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	Three Months Ended June 30, 2001	Six Months Ended June 30, 2001
Net loss-as reported	\$ (1,330,171)	\$ (2,458,295)
SFAS No. 142 amortization adjustment	86,776	175,120
Net loss-as adjusted	\$ (1,243,395)	\$ (2,283,175)
Basic and diluted net loss per share-as reported	\$ (0.18)	\$ (0.33)
Basic and diluted net loss per share-adjusted	\$ (0.16)	\$ (0.29)

NOTE 4 - 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, 2002 and 2001, the Company incurred net losses of \$2,162,024 and \$2,458,295, respectively. At June 30, 2002, the Company had an accumulated deficit of \$27,337,122. 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.

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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 - NOTES PAYABLE

During April 2002, the Company expanded its credit facility with Convergent Capital Partners I, L.P. to \$2,400,000. In addition, the principal repayment was extended to begin in August 2005. The credit facility is secured by Company assets and the facility agreement requires the Company to maintain collateral requirements and minimum quarterly earnings before income taxes, depreciation and amortization requirements, the latter requirement beginning in the Company's fourth fiscal quarter of 2002. All other terms remain the same. In connection with this note, the Company issued 500,000 (seven year) warrants to purchase common stock at a price of \$1.10 per share. The proceeds of the credit facility were allocated between the loan and the warrants based on the relative fair value of the securities at the time of issuance. The warrants were valued using the Black Scholes calculation. The resulting original issue discount, the fair value of the warrant, is being amortized over the life of the debenture using the straight-line method, which approximates the interest method.

In April 2002, the Company converted 10,000 shares of 14% Class D convertible preferred stock into a demand note for \$100,000. The note expires in May 2007 and bears 14% interest.

In the second quarter of 2002, the Company amended its agreement with Pyramid Trading, L.P. to convert approximately one-third of the principal balance of the Pyramid note to Vicom common stock. As part of the amendment, the conversion rate of the note was changed to 0.92 of a thirty day prior rolling average of the Company's closing stock price. This change has been reflected in a revised original issue discount.

NOTE 6 - STOCK WARRANTS

Stock warrants activity is as follows for the six months ended June 30, 2002:

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	NUMBER OF WARRANTS	WEIGHTED AVERAGE EXERCISE PRICE
	-----	-----
WARRANTS OUTSTANDING - DECEMBER 31, 2001	9,565,450	\$2.37
GRANTED	1,293,690	1.68
CANCELED OR EXPIRED	0	0
EXERCISED	0	0
	-----	-----
WARRANTS OUTSTANDING - JUNE 30, 2002	10,858,140	\$2.29
	=====	=====

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

NOTE 7 - BUSINESS SEGMENTS

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

	Vicom	CTU	MultiBand	Total
Quarter ended June 30, 2002				
Revenues	0	5,815,531	128,893	5,944,424
Income/(Loss) from operations	(424,970)	30,832	(256,375)	(650,513)
Identifiable assets	3,081,046	5,509,679	3,171,368	11,762,093
Depreciation and amortization	136,795	112,823	137,310	386,928
Capital expenditures	0	44,619	105,109	149,728
Quarter ended June 30, 2001				
Revenues	0	7,794,443	35,786	7,830,229
Income/(Loss) from operations	(395,167)	(77,809)	(483,731)	(956,707)
Identifiable assets	3,283,754	8,423,440	3,277,087	14,984,281
Depreciation and amortization	194,659	114,757	128,468	437,884
Capital expenditures	0	138,255	122,768	261,023

Following is Company business segment information for six months ended June 30, 2002 and 2001:

	Vicom	CTU	MultiBand	Total
Six months ended June 30, 2002				
Revenues	0	11,977,112	229,500	12,206,612
Income/(Loss) from operations	(869,252)	(56,443)	(508,382)	(1,434,077)
Identifiable assets	3,081,046	5,509,679	3,171,368	11,762,093
Depreciation and amortization	265,454	232,740	273,276	771,468
Capital expenditures	0	84,439	170,822	255,261
Six months ended June 30, 2001				
Revenues	0	18,412,184	100,864	18,513,048
Income/(Loss) from operations	(849,200)	58,552	(1,046,835)	(1,837,483)
Identifiable assets	3,283,754	8,423,440	3,277,087	14,984,281
Depreciation and amortization	194,659	114,757	128,468	437,884
Capital expenditures	0	199,460	1,204,493	1,403,953

NOTE 8- SUBSEQUENT EVENT

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 requirement of \$1.00 per share for the last 30 consecutive trading days. Under the

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notice, the Company has until January 21, 2003 to come back into compliance or be subject to removal from the Nasdaq SmallCap Market.

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

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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

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 June 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 June 30, 2002, had approximately 806 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

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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 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 THREE MONTHS ENDED		DOLLAR AMOUNTS AS A PERCENTAGE OF REVENUES SIX MONTHS ENDED	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
REVENUES	100%	100%	100%	100%
COST OF PRODUCTS & SERVICES	73.3%	77.2%	74.9%	78.2%
GROSS MARGIN	26.7%	22.8%	25.1%	21.8%
SELLING, GENERAL & ADMINISTRATIVE	37.7%	35.0%	36.8%	31.5%
OPERATING LOSS	-11.0%	-12.2%	-11.7%	-9.9%
INTEREST EXPENSE & OTHER, NET	-6.7%	-4.8%	-6.0%	-3.3%
LOSS BEFORE TAXES	-17.7%	-17.0%	-17.7%	-13.2%
INCOME TAX	0	0	0	0
NET LOSS	-17.7%	-17.0%	-17.7%	-13.2%

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
GROSS MARGIN PERCENTAGES:				
CORPORATE TECHNOLOGIES USA, INC.	26.7%	23.7%	25.0%	21.4%
MULTIBAND, INC.	34.1%	-63.6%	35.5%	-35.1%

RESULTS OF OPERATIONS

Revenues

Revenues decreased 24.1% to \$5,944,424 in the quarter ended June 30, 2002, as compared to \$7,830,229 for the quarter ended June 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. (CTU).

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Revenues for (CTU) decreased 25.3% in the second quarter of fiscal 2002 to \$5,815,531 as compared to \$7,794,443 in the second 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.

Revenues for MultiBand, Inc. increased 260% to \$128,893 as compared to \$35,786 in the second quarter of fiscal 2001. This increase is due to expansion of MultiBand services to three additional properties as well as increased sales to existing properties.

Revenues for the six month period ended June 30, 2002 decreased 34.1% to \$12,206,612 from \$18,513,048 for the same period in 2001.

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Gross Margin

The Company's gross margin decreased 10.8% or \$192,120 to \$1,589,710 for the quarter ended June 30, 2002, as compared to \$1,781,830 for the similar quarter last year. This decrease in gross margin is due to the substantial decrease in revenues prompted by the Company's increased focus on sales of services. For the quarter ended June 30, 2002, as a percent of total revenues, gross margin was 26.7% as compared to 22.8% 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 Corporate Technologies USA, Inc. decreased by 14.1% to \$1,551,763 for the quarter ended June 30, 2002, as compared to \$1,806,855 in the second quarter of fiscal 2001. This decrease is due to the aforementioned decrease in revenues.

Gross margin for MultiBand, Inc. for the quarter ended June 30, 2002 increased 293% to \$43,947 as compared to (\$22,747) in the second quarter of fiscal 2001 reflecting on the increase of revenue being billed.

For the six month period ended June 30, 2002, as a percent of total revenues, gross margin was 25.1% as compared to 21.1% for the same period in 2001.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased 18.2% to \$2,240,223 in the quarter ended June 30, 2002, compared to \$2,738,537 in the prior year quarter. Selling, general and administrative expenses were, as a percentage of revenues, 37.7% for the quarter ended June 30, 2002 and 35.0% for the similar period a year ago. This increase is primarily attributable to lower top line revenues.

For the six month period ended June 30, 2002 these expenses decreased 21.8% to \$4,496,761 as compared to \$5,747,083 for the six months ended June 30, 2001. As a percentage of revenues, selling, general and administrative expenses are 36.8% for the period ended June 30, 2002 as compared to 31.0% for the same period 2001.

Interest Expense

Interest expense was \$426,869 for the quarter ended June 30, 2002, versus \$373,771 for the similar period a year ago, reflecting an increased Company debt load due to acquisition related debt, warrant valuation and increased

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borrowings. Amortization of original issue discount was \$260,774 and \$0 for the three months ended June 30, 2002 and 2001.

Interest expense was \$772,904 for the six months ended June 30, 2002 and \$666,209 for the same period last year. For the six months ended June 30, 2002 amortization of original discount was \$471,757 and \$89,984 in same period as last year.

Net Loss

In the second quarter of fiscal 2002, the Company incurred a net loss of \$1,052,101 compared to a net loss of \$1,330,171 for the second fiscal quarter of 2001. A decline in operating losses for the second quarter of 2002 versus the similar period a year ago was offset by an increase in interest expense primarily due to amortization of original issue discount.

For the six months ended June 30, 2002, the Company recorded a net loss of \$2,162,024, as compared to \$2,458,295 for the six months ended June 30, 2001.

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Liquidity and Capital Resources

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

Inventories decreased over last year's prior period inventories due to the aforementioned revenue decreases. Net borrowings under notes and installment obligations payable increased materially for the period ended June 30, 2002 compared to the prior year's period due to financing with an investor, the proceeds of which were used in part to finance MultiBand, Inc.'s project build-out.

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 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 \$255,261 for capital expenditures during the six months ended June 30, 2002, as compared to \$1,403,953 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 \$1,081,725. 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

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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, 2002 and 2001, 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, 2002 and 2001, the Company did not record any impairment losses 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

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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 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." The Company believes the adoption of SFAS No. 145 will not have a material effect on the Company's consolidated financial position or results of operations.

In June 2002, FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires the recognition of a liability for a cost associated with an exit or disposal activity when the liability is incurred versus the date the Company commits to an exit plan. In addition, SFAS No. 146 states the liability should be initially measured at fair value. The requirements of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The Company believes the adoption of SFAS No. 146 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.

PART II. OTHER INFORMATION

ITEM 4. LEGAL PROCEEDINGS

As of June 30, 2002, Vicom was not engaged in any legal proceedings whose anticipated results would have a material adverse impact on the

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Company.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

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(b) Reports on Form 8-K.

1) On June 4, 2002, Vicom filed a report on Form 8-K relating to a solicitation from The Amara Group, Inc.

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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, 2002

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

Date: August 14, 2002

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

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