VICOM INC
Form 10-Q
November 14, 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
|X| AND EXCHANGE ACT OF 1934
FOR THE PERIOD ENDING SEPTEMBER 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 |X| No |_|

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

Yes |_| No |X|

On November 10, 2003 there were 18,910,986 shares outstanding of the registrant's common stock, par value $.01 per share, and 248,681 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		
	Sept 30, 2003	Sept 30, 2002	Sept 30
	(unaudited)	(unaudited)	(unaud
REVENUES	$ 6,283,365	$ 6,382,633	$ 17,84
COSTS AND EXPENSES			
Cost of products and services	4,493,829	4,680,582	12,71
Selling, general and administrative	2,409,227	2,256,745	7,14
Impairment on property & equipment	0	119,480	
Total Costs and Expenses	6,903,056	7,056,807	19,86
LOSS FROM OPERATIONS	(619,691)	(674,174)	(2,02
OTHER EXPENSE			
Interest expense	(202,958)	(349,388)	(64
Other Income (expense)	(6,513)	(93,171)	(5
Total Other Expense	(209,471)	(442,559)	(70
MINORITY INTEREST IN JOINT VENTURE	(3,460)	0	(
LOSS BEFORE INCOME TAXES	(832,622)	(1,116,733)	(2,73
PROVISION FOR INCOME TAXES	0	0	
NET LOSS	$ (832,622)	$ (1,116,733)	$ (2,73
Preferred Stock Dividends	(43,301)	(39,494)	(13
LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (875,923)	$ (1,156,227)	$ (2,86
LOSS PER SHARE - BASIC AND DILUTED	$ (.05)	$ (.09)	$
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED	16,981,266	12,028,501	15,16

See notes to condensed consolidated financial statements

VICOM, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	Sept 30,2003	December
	(unaudited)	(aud
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,846,743	$ 5
Accounts receivable, net	2,268,117	1,9
Inventories, net of reserve of $387,000 and $341,000	1,875,147	1,4
Other Current Assets	277,084	2
TOTAL CURRENT ASSETS	6,267,091	4,1
PROPERTY AND EQUIPMENT, NET	3,484,141	3,2
OTHER ASSETS		
Goodwill	2,966,241	2,7
Other	231,291	1
TOTAL OTHER ASSETS	3,197,532	2,9
TOTAL ASSETS	$ 12,948,764	$ 10,3
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Wholesale line of credit	$ 1,323,767	$ 1,2
Current portion of note payable - stockholder	60,756	
Current portion of long term debt	474,215	3
Current portion of capital lease obligations	45,200	
Accounts payable	1,639,757	1,7
Accrued liabilities	807,454	7
Deferred service obligations and revenue	335,975	3
TOTAL CURRENT LIABILITIES	4,687,124	4,4
LONG TERM DEBT, NET	2,245,535	3,1
NOTE PAYABLE - STOCKHOLDER, NET OF CURRENT PORTION	48,784	
CAPITAL LEASE OBLIGATIONS, NET OF CURRENT PORTION	176,461	1
MINORITY INTEREST	64,853	
TOTAL LIABILITIES	7,222,757	7,7
STOCKHOLDERS' EQUITY		
Cumulative convertible preferred stock, no par value:		
8% Class A (27,831 shares issued and outstanding)	418,252	4
10% Class B (8,700 and 6,200 shares issued and outstanding)	74,663	
10% Class C (134,500 and 131,510 shares issued and outstanding)	1,720,493	1,6
15% Class E (77,650 and 70,000 shares issued and outstanding)	438,964	3
Common stock, no par value (18,574,405 and 13,110,477 shares issued; 18,533,799 and 13,065,410 shares outstanding)	8,330,093	4,4
Stock subscriptions receivable	(531,768)	(6
Options and warrants	28,188,007	26,6

Unamortized compensation	(327,939)	(6
Accumulated deficit	(32,584,758)	(29,7
TOTAL STOCKHOLDERS' EQUITY	5,726,007	2,6
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 12,948,764	$ 10,3

See notes to condensed consolidated financial statements.

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VICOM, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	NINE
	SEPT
	2003
OPERATING ACTIVITIES	
Net loss	$(2,733,4
Adjustments to reconcile net loss to net cash flows from operating activities	
Depreciation and amortization	709,4
Amortization of deferred compensation	340,5
Amortization of original issue discount	285,3
Impairment on property and equipment	
Common stock issued for services	321,9
Loss on sales of property and equipment	76,2
Interest receivable on stock subscription receivable	13,4
Discount on preferred stock related to warrants	
Minority interest in joint venture	4,8
Changes in operating assets and liabilities:	
Accounts receivable, net	(329,1
Inventories, net	(411,0
Other current assets	(6,0
Other assets	(21,5
Wholesale line of credit	33,3
Accounts payable and accrued liabilities	(388,2
Deferred service obligations and revenue	26,2
Net cash flows from operating activities	(2,078,0
INVESTING ACTIVITIES	
Purchases of property and equipment	(356,2
Proceeds from sale of property and equipment	6,1
Payment for investment in joint venture	(64,8
Collections on notes receivable	5,8
Net cash flows from investing activities	(409,2
FINANCING ACTIVITIES	

Proceeds from long-term debt and warrants issued with long term debt	
Payments on long term debt	(183,9
Payments on capital lease obligations	(69,2
Proceeds from issuance of long term debt	133,7
Proceeds from issuance of stock and warrants	3,654,3
Exercise of warrants	312,0
Redemption of preferred stock	(2,1
Preferred stock dividends	(51,2
Net cash flows from financing activities	3,793,5
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,306,3
CASH AND CASH EQUIVALENTS	
Beginning of period	540,3
End of period	$ 1,846,7
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid for interest, net of amortization of original issue discount	$ 280,1
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES	
Stock options issued below fair market value	
Issuance of preferred stock for acquisition of assets	76,5
Warrants issued with debt	208,4
Conversion of preferred stock into common stock	40,0
Conversion of notes payable in to preferred stock	
Conversion of current liabilities into stock	248,6
Conversion of notes payable into common stock	642,0
Conversion of note receivable into common stock	
Conversion of dividend into common stock	84,0
Reduction of preferred stock to note payable	
Stock subscription receivable for issuance of common stock	40,0
Stock issued for guarantee of debt	
Reduction of stock subscription receivable	26,6

See notes to condensed consolidated financial statements

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VICOM, INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
SEPTEMBER 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 current assets; billings in excess of costs and estimated earnings are classified as current liabilities.

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

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

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

Goodwill

Goodwill represents the excess of acquisition costs over the fair value of identifiable net assets acquired and was amortized using the straight-line method over ten years. The carrying value of goodwill is reviewed if the facts and circumstances suggest that it may be impaired. If the review indicates that goodwill will not be recoverable, as determined based on the undiscounted cash flows of the assets acquired over the remaining amortization period, the Company's carrying value of goodwill is reduced by the estimated shortfall of cash flows. The Company performed an independent assessment of the goodwill carrying amount during the quarters ended September 30, 2003 and 2002. The Company did not record any impairment charges related to goodwill during the three or nine months ended September 30, 2003 and 2002.

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

Balance of goodwill as of December 31, 2002	$ 2,748,879
Goodwill recorded related to the investment into MBUSA Joint venture (see Note 7)	217,362
Balance as of September 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, $100,191 and $130,602 of compensation cost has been recognized in the accompanying consolidated statements of operations for the three months ended September 30, 2003 and 2002, respectively. For the nine months ended September 30, 2003 and 2002, $340,572 and $391,632 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 Statement of Financial Accounting Standards (SFAS) No. 123 "Accounting for Stock-Based Compensation", the Company's net loss and loss attributable to common stockholders and basic and diluted loss per common share would have been increased to the pro forma amounts:

	Three Months Ended Sept 30		Nine Months Sept 30	
	2003	2002	2003	
Loss attributable to common stockholders	$ (875,923)	$(1,156,227)	$(2,868,759)	$(
Pro forma loss attributable to common shares	$(1,013,109)	$(1,206,160)	$(3,582,520)	$(
Basic and diluted net loss per share:				
As reported	$ (0.05)	$ (0.09)	$ (0.18)	$
Pro forma loss attributable to common shares	$ (0.06)	$ (0.10)	$ (0.24)	$
Stock-based compensation:				
As reported	$ 100,191	$ 130,602	$ 340,572	$
Proforma	$ 137,186	$ 49,933	$ 713,761	$

In determining the compensation cost of the options granted during the three and nine months ended September 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 September 30:

	Three Months Ended Sept 30		Nine Months Sept 30	
	2003	2002	2003	
Risk-free interest rate	3.62%	4.40%	3.41%	
Expected life of options granted	10 years	10 years	10 years	
Expected volatility range	170%	170%	170%	
Expected dividend yield	0%	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 September 30, 2003 and 2002 were anti-dilutive.

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 nine months ended September 30, 2003 and 2002, the Company incurred net losses of $2,733,406 and $3,278,757, respectively. At September 30, 2003, the Company had an accumulated deficit of $32,584,758. 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 - RELATED PARTY

Commissions of $5,932 and $18,781 were paid to Rangecap, LLC for the three and nine months, respectively, ended September 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 5 - STOCK WARRANTS

Stock warrants activity is as follows for the nine months ended September 30, 2003:

	Number of Warrants	Weighted Average Exercise Price
Warrants outstanding - December 31, 2002	4,327,396	2.05
Granted	3,056,018	1.39
Canceled or expired	0	0
Exercised	(594,381)	1.38
Warrants outstanding - SEPTEMBER 30, 2003	6,789,033	1.82

The warrants granted during the nine months ended September 30, 2003 were awarded for common stock, preferred stock, for services rendered, and in connection with notes payable.

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NOTE 6 - BUSINESS SEGMENTS

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

	Vicom	CTU	MultiBand	Total
Three months ended Sept 30, 2003				
Revenues	$ 0	$ 5,864,468	$ 418,897	$ 6,283,
Income (Loss) from operations	(370,645)	72,428	(321,474)	(619,
Identifiable assets	4,543,772	5,601,468	2,803,524	12,948,
Depreciation and amortization	9,640	100,173	149,862	259,
Capital expenditures	0	41,698	6,611	48,
Three months ended Sept 30, 2002				
Revenues	$ 0	$ 6,227,683	$ 154,950	$ 6,382,
Income (Loss) from operations	(437,013)	164,881	(402,042)	(674,
Identifiable assets	3,020,620	5,020,048	1,969,577	10,010,
Depreciation and amortization	140,871	107,966	110,101	358,
Capital expenditures	2,126	195,421	130,744	328,

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

	Vicom	CTU	MultiBand	Total
Nine Months ended Sept 30, 2003				
Revenues	$ 0	$ 16,831,531	$ 1,011,977	$ 17,843
Income/(Loss) from operations	(1,279,925)	45,997	(789,480)	(2,023
Identifiable assets	4,543,772	5,601,468	2,803,524	12,948
Depreciation and amortization	33,090	318,839	357,475	709
Capital expenditures	0	272,466	83,825	356
Nine Months ended Sept 30, 2002				

Revenues	$ 0	$ 18,204,795	$ 384,450	$ 18,589
Income/(Loss) from operations	(1,286,465)	88,638	(910,424)	(2,108
Identifiable assets	3,020,620	5,020,048	1,969,577	10,010
Depreciation and amortization	414,699	340,706	383,377	1,138
Capital expenditures	2,126	279,860	301,566	583

NOTE 7- 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.

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.

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 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 September 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 September 30, 2003, had approximately 5,000 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.

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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), 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 REVENU NINE MONTH
	Sept 30, 2003 (unaudited)	Sept 30, 2002 (unaudited)	Sept 30, 2003 (unaudited)
REVENUES	100%	100%	100%
COST OF PRODUCTS & SERVICES	71.5%	73.3%	71.3%
GROSS MARGIN	28.5%	26.7%	28.7%

SELLING, GENERAL & ADMINISTRATIVE	38.4%	35.4%	40.0%
IMPAIRMENT ON PROPERTY & EQUIP	0	1.9%	0
OPERATING LOSS	-9.9%	-10.6%	-11.3%
INTEREST EXPENSE & OTHER, NET	3.4%	6.9%	4.0%
LOSS BEFORE TAXES	-13.3%	-17.5%	-15.3%
MINORITY INTEREST IN JOINT VENTURE	-.0%	0	-.0%
INCOME TAX	0	0	0
NET LOSS	-13.3%	-17.5%	-15.3%

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

	THREE MONTHS ENDED		NINE MON
	SEPT 30, 2003	SEPT 30, 2002	SEPT 30, 2003
GROSS MARGIN PERCENTAGES:			
CORPORATE TECHNOLOGIES USA, INC.	27.4%	26.8%	28.0%
MULTIBAND, INC.	43.1%	24.0%	41.3%

RESULTS OF OPERATIONS

Revenues

Revenues decreased 1.5% to $6,283,365 in the quarter ended September 30, 2003, as compared to $6,382,633 for the quarter ended September 30, 2002.

Revenues for (CTU) decreased 5.8% in the third quarter of fiscal 2003 to $5,864,468 as compared to $6,227,683 in the third 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 170.3% to $418,897 in the third quarter 2003 as compared to $154,950 in the third quarter of fiscal 2002. This increase is due to continued expansion of MultiBand including services provided to resort locations.

Revenues for the nine month period ended September 30, 2003 decreased 4.0% to $17,843,508 from $18,589,245 for the same period in 2002. For the remainder of fiscal year 2003, the Company anticipates revenues to increase as new Multiband subscribers are added.

Gross Margin

The Company's gross margin increased 5.1% or $87,485 to $1,789,536 for the quarter ended September 30, 2003, as compared to $1,702,051 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 September 30, 2003, as a percent of total revenues, gross margin was 28.5% 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. decreased by 3.7% to $1,608,975 for the quarter ended September 30, 2003, as compared to $1,670,806 in the second quarter of fiscal 2002.

Gross margin for MultiBand, Inc. for the quarter ended September 30, 2003 increased 384.8% to $180,561 as compared to $37,245 in the third quarter of fiscal 2002 reflecting on the increase of revenue being billed.

For the nine month period ended September 30, 2003, as a percent of total revenues, gross margin was 28.7% as compared to 25.6% for the same period in 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 6.8% to $2,409,227 in the quarter ended September 30, 2003, compared to $2,256,745 in the prior year quarter. Selling, general and administrative expenses were, as a percentage of revenues, 38.3% for the quarter ended September 30, 2003 and 35.4% 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 nine month period ended September 30, 2003 these expenses increased 5.4% to $7,147,965 as compared to $6,753,506 for the nine months ended September 30, 2002. As a percentage of revenues, selling, general and administrative expenses are 40.1% for the period ended September 30, 2003 as compared to 36.3% for the same period 2002.

Interest Expense

Interest expense was $202,958 for the quarter ended September 30, 2003, versus $349,388 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 $85,365 and $296,402 for the three months ended September 30, 2003 and 2002.

Interest expense was $648,368 for the nine months ended September 30, 2003 and $1,122,292 for the same period last year. For the nine months ended September 30, 2003 amortization of original discount was $285,345 and $768,159 in same period as last year.

Net Loss

In the third quarter of fiscal 2003, the Company incurred a net loss of $832,622 compared to a net loss of $1,116,733 for the third fiscal quarter of 2002. A decline in operating losses for the third quarter of 2003 versus the similar period a year ago was primarily due to the above mentioned increase in gross margin and reduction in non-cash amortization expense.

For the nine months ended September 30, 2003, the Company recorded a net loss of $2,733,406, as compared to $3,278,757 for the nine months ended September 30, 2002.

Liquidity and Capital Resources

Available working capital at September 30, 2003 increased over the similar period last year primarily due to an increase in cash from equity sales. The equity sales primarily involved sales of common stock to institutional investors with certain warrant rights attached.

Inventories increased over last year's prior period inventories reflecting an increase in the Wholesale Line of Credit . Net borrowings under notes and installment obligations payable decreased for the period ended September 30, 2003 compared to the prior year's period in that payments on debt exceeded new borrowings.

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 $356,291 for capital expenditures during the nine months ended September 30, 2003, as compared to $583,552 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 nine months ended September 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. The Company performed an independent assessment of the goodwill carrying amount during the quarters ended September 30, 2003 and 2002. During the nine months ended September 30, 2003 and 2002, 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 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.

ITEM 3. QUANTITIVE AND QUALITIVE 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/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 Rules 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 13a-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 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 matrially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES

During the third quarter of fiscal year 2003, the Company raised approximately $2,210,850 in gross proceeds of sales of common stock via private placements to accredited investors and investor exercises of warrants. The majority of these sales occurred during the period of September 23 through September 30, 2003. The proceeds from the aforementioned were used primarily for working capital and to retire debt.

ITEM 4. ANNUAL SHAREHOLDERS' MEETING

The Company's annual shareholder meeting was held on July 10, 2003. Eight Directors were elected for a term of one year with the following votes per Director as indicated below.

Name	Votes in Favor
Jonathan Dodge	7,677,782
Donald Miller	7,677,782
Marvin Frieman	7,676,616
James Mandel	7,677,782
Dave Ekman	7,677,782
Steve Bell	7,676,949
Frank Bennett	7,677,782

David Weiss	7,677,782

In addition, at the meeting, Virchow Krause and Company, LLP were ratified as the Company's Independent Auditors for Fiscal Year 2002. The votes were as follows: For 7,672,034, Against, 0, Abstain, 5,748.

ITEM 5. LEGAL PROCEEDINGS

As of September 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

31.1
31.2
32

(b) Reports on Form 8-K.

The Company filed a report on Form 8-K on September 24, 2003 related to recent equity activity.

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: November 14, 2003 By:

/s/ James L. Mandel

Chief Executive Officer

Date: November 14, 2003 By:

/s/ Steven M. Bell

Chief Financial Officer
(Principal Financial and
Accounting Officer)