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VICOM INC  
Form 10-K  
March 31, 2003

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

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FORM 10-K

(Mark One)

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

FOR THE PERIOD ENDED DECEMBER 31, 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

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(Exact name of registrant as specified in its charter)

MINNESOTA

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(State or other jurisdiction of incorporation or organization)

41 - 1255001

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(IRS Employer Identification No.)

9449 Science Center Drive, New Hope, Minnesota 55428

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(Address of principal executive offices)

Telephone (763) 504-3000 Fax (763) 504-3060

The Company's Internet Address: [www.vicominc.net](http://www.vicominc.net)

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

Securities registered pursuant to Section 12 (b) of the Act: None

Securities registered pursuant to Section 12 (g) of the Act:

Common Stock (\$0.01 par value per share)

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

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by references in Part III of this Form 10-K or any amendment to this Form 10-K / /

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

Yes  No

As of June 30, 2002, the aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the average high and low prices on such date as reported by the Nasdaq Smallcap was approximately \$9,393,037.

As of March 17, 2003, there were 13,642,405 outstanding shares of the registrant's common stock, par value \$0.01 per share.

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### Documents Incorporated By Reference

Portions of the registrant's definitive proxy statement to be filed within 120 days after the end of the fiscal year covered by this report are incorporated by reference into Part III hereof.

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### Item 1

#### Business

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](http://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 March 17, 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. Telecommunications systems distributed by CTU are intended to provide users with flexible, cost-effective alternatives as compared to systems available from major telephone companies, including those formerly comprising the Bell System and from other interconnect telephone companies.

CTU provides a full range voice, data and video communications systems and service, system integration, training and related communication sales and support activities for commercial, professional and institutional customers, most of which are located in Minnesota 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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The products sold by CTU include Private Branch Exchange (PBX), telephone systems, hubs and routers used as interconnection devices in computer networks, personal computers, desktop video-conferencing units, and the wire and cable products required to make all the other aforementioned products integrate and operate as necessary. CTU has trained staff that install, maintain and repair the products we sell. Repair of products is performed under either a time and materials basis or an extended service contract basis, at the customer's election, once the manufacturer's original warranty on a product has expired.

Extended service contracts offered by CTU generally range in length from 12 to 36 months. The contracts provide for repair or replacement of all broken or non-working materials and the labor necessary to make such repairs or replacements, subject to exceptions for customer abuse or negligence and problems due to fire, flood or other causes beyond CTU's control.

In February 2003, the Company formed a 50% owned subsidiary, Multiband USA, Inc. This subsidiary will provide the digital satellite signal to private cable operations to multiple dwelling units.

See Page 23 for financial information for each segment.

### Industry Overview

Vicom recently expanded its efforts to establish itself within the rapidly evolving telecommunications and computer industries.

In the current climate of intense global competition and accelerating technological change, businesses increasingly depend upon technology-based solutions to enhance their competitive position, and to improve their productivity and the quality of their products and services. Today's business environment mandates the availability of efficient voice and video communication channels and information in formats suited to a wide variety of users. Businesses are looking to a variety of new technologies to enhance the performance of their communication systems and to allow Information Technology (IT) systems to collect, analyze and communicate information within the enterprise and among customers and suppliers. An organization's ability to integrate and deploy new communication and IT technologies in a unified and cost-effective manner has become critical to competing successfully in today's rapidly changing business environment.

The markets and technologies for communication equipment and IT applications and systems continues to converge as communication equipment migrates from proprietary switches to software-driven systems operating on standardized computer platforms. As a result, businesses are integrating their communication and IT systems. As previously separate communication and IT technologies converge and their interoperability increases, more organizations will seek a unified technology solution. Vicom believes that these organizations will attempt to reduce costs and management complexity by establishing relationships with a small number of providers that offer a broad range of both communication and IT products and services throughout the full life-cycle of a project. Vicom believes it has positioned itself to be one of those providers.

While customers continue to rely heavily on technology to reduce transaction costs by increasing operational efficiencies, the bias toward software-centric solutions in lieu of hardware continues. Notwithstanding the slow economic conditions, growth continues to occur in areas such as customer contact solutions, CTI (computer telephony integration), unified media, convergence (IP telephony), and mobility.

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Current financial pressures also are making it increasingly difficult for communications equipment manufacturers to support a direct distribution model. Most independent distribution channels lack an adequate geographic footprint, infrastructure, processes, and resources to effectively fulfill the manufacturer's need to deploy complex high-end technology solutions. This has resulted in the need for systems integration and support services through third party providers. A key competency being driven by the market is the ability to effectively integrate disparate technology platforms into enterprise-wide applications solutions.

As a result of these factors, demand for communication services and products has been relatively flat. Phillips InfoTech (InfoTech), a market research firm specializing in telecommunications market information, estimates that the U.S. market for traditional voice PBX systems will continue to decline over the next five year as enterprises shift to converged solutions, a combined form of voice and data, also referred to as IP Telephony. In 2001, total PBX line shipments declined 12.2% from the same period in 2000. In contrast, IP line shipments grew nearly 230.0% to 1.6 million lines during the same period.

Purchases associated with converged solutions are forecasted to grow approximately 29.0% between 2001 and 2002, increasing to 47.8% growth from 2002 to 2003. Recent slowdowns in technology spending may delay this development, however. Overall revenues in the U.S. marketplace for voice and convergence are projected to reach \$5.6 billion by 2005. Field maintenance and repair is the largest, but slowest growing segment in services associated with the voice marketplace. This includes the maintenance and repair of PBX, Key/Hybrid, Voice Processing: IVR, CTI, ACD and fax. Growth in 2001 was estimated by Phillips InfoTech at 2.8% to \$4.2 billion, with expected growth to \$4.8 billion by 2005. Spending in video conferencing totaled an estimated \$600.0 million in 2001, and is projected to grow to \$1.4 billion by 2006, while the audio and data conferencing market is projected to grow to \$2.4 billion in 2004 from \$1.7 billion in 2001, according to Wainhouse Research and Frost & Sullivan, market research firms specializing in collaboration and telecommunications data.

### Products and Services

#### Corporate Technologies, USA (CTU)

CTU provides other technical and customer services as described hereafter.

### Pricing and Availability

We use our volume and purchasing power to achieve competitive pricing of goods for our clients. We have the ability to provide a web-based client site that allows clients to see availability and costs of hardware and software in real time through the Internet by accessing current pricing and availability from our manufacturers' Internet websites. This Internet-based model allows us to extend product procurement services beyond the traditional 8 a.m. to 5 p.m. schedule and into a 7 days a week, 24 hours a day service, providing a high level of client flexibility.

### Warranty Policy

We strongly believe in the philosophy of "Service what you sell." We do not knowingly sell any hardware product that we do not have authorized service personnel to facilitate any warranty work that needs to be done. We are committed to fulfill all warranty service calls in accordance with the manufacturer's warranty, which range in length from 30 days to one year from the date of sale.

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### On Site and Depot Repair

CTU is authorized for depot and on site warranty repair for many manufacturers, including Apple Computers, Nortel, Inc., Cisco, Hewlett Packard Co., International Business Machines Corp. (IBM), Sun Microsystems, Inc., Compaq Computer Corp., Xerox Corp., and Okidata Corp. With over \$500,000 in spare parts inventory, we have made a conscious effort to have the part clients need, when they need it.

### Wide Area Network Connectivity

Our staff of Cisco and Nortel Wide Area Network (WAN) trained engineers assist organizations with integrating their multiple sites, allowing the exchange of information between geographically separated sites. Our association with local Internet Service Providers (ISPs) gives us the opportunity to offer organizations with multiple locations a single source provider providing a cost-effective solution to WAN needs.

### Technical Support for Networking

We are committed to obtaining the highest vendor authorizations available to indicate our knowledge and expertise to today's complex technological environment. Becoming the only Microsoft Solution Partner, Novell Platinum Reseller and Sun Microsystems Competency 2000 Certified reseller in North Dakota is an indication of this commitment. Our staff of Certified Novell Engineers (CNEs), Microsoft Certified System Engineers (MCSEs), Sun Microsystems System Engineers, as well as certified personnel in products such as Nortel and Cisco routers, gives CTU an advantage over other resellers in North Dakota. The knowledge and skills of our system engineers helps organizations meet today's challenges and maintain a market advantage. Our close relationships and certification levels with our vendors gives our staff access to resources that few other value added resellers can provide.

### Training

CTU is both a Novell Authorized Education Center (NAEC) and a Microsoft Certified Technical Education Center (CTEC). We also provide A+ Certification training and end-user training on most of today's most popular business productivity software, either on site or at our Training Center. These facilities allow CTU and our clients to stay current in today's ever-changing technology environment. We will be evaluating opportunities to expand our training center revenues to the other markets we serve.

### Consulting

As a multi-service, multi-vendor, multi-site integrator, CTU has the extensive infrastructure to offer solutions to complex technical challenges through our consulting service. With years of experience in Local Area Networks (LAN) and WAN technology, our consultants are dedicated to finding the solution that will solve our customers' needs now and in the future. We specialize in providing an integrated cost-effective, single source solution.

### Sales and Marketing

As of March 17, 2003, we had 30 sales and marketing personnel with expertise in telecommunications, computers and network services. CTU has a consultative approach to selling, in which the salesperson analyzes the customer's operations and then designs an application-oriented technical

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solution to make the customer more efficient and profitable. CTU uses several techniques to pursue new customer opportunities, including advertising, participation in trade shows, seminars and telemarketing.

### Customers

CTU provides its products and services to commercial, professional and government users within the states of Minnesota and North Dakota. CTU's customers are diverse and represent various industries such as financial services, hospitality, legal, manufacturing, and education. In its year ended December 31, 2002 CTU received approximately 22.8% of its revenues from two customers, Merit Care and Microsoft Great Plains. In its year ended December 31, 2001, CTU received approximately 21.7 % of all revenues from two customers. Those two customers are Microsoft Great Plains and the State of North Dakota. CTU received approximately 27% of all revenues from two customers in the year 2000. These two customers are Great Plains Software and the State of North Dakota.

### Customer Service

CTU has 18 full-time customer service and related support personnel who assist in project management duties, post-sale communications (which include site surveys), coordinated network services,

and end-user training. Each key account is assigned its own individual customer service representative to ensure efficient implementation. The customer service representative works closely with the sales representative and main technician assigned to the project to facilitate the utmost in customer satisfaction.

### Back Office

Back office refers to the hardware and software systems that support the primary functions of our operations, including sales support, order entry and provisioning, and billing.

Order entry involves the initial loading of customer data into our information system. Currently our sales representatives take orders and our customer service and purchasing representatives load the initial customer information into our ILS (Integrated Logistic System) billing and accounting system. We use the ILS to manage and track the timely completion of each step in the provisioning and installation process. Our system is designed to enable the sales or customer service representative to keep an installation on schedule and notify the customer of any potential delays. Once an order has been completed, we update our billing system to initiate billing of installed products or services.

### Suppliers

As previously mentioned, CTU purchases products and equipment from NEC, Siemens, Tadiran, Cisco, Nortel, and other manufacturers of communications and computer products. The telecommunication products are purchased directly from the manufacturers. The computer products are purchased both directly from the manufacturer and also indirectly from major wholesalers such as Ingram Micro and Tech Data Corporation.

In 2002, Ingram Micro supplied 57.7% and Dell Computer 11.8% of total products purchased. In 2001, Ingram Micro supplied 37.8% and Tech Data provided 18.9% of total products purchased. In 2000, Ingram Micro supplied 24% and Tech Data provided 18% of total products purchased.

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The products CTU purchase are off-the-shelf products. CTU has several alternate suppliers of computer products and could substitute any one of these suppliers with an alternate supplier fairly quickly on the same or similar terms.

CTU has a distribution agreement with NEC, its main supplier of telecommunication products, which expires June 30, 2003. CTU could replace NEC with an alternate supplier fairly quickly, but with a less competitive product. However, CTU's replacement of NEC could have a material adverse effect on Vicom's business, operating results and financial condition.

### MultiBand

We have expanded our strategy to include the vast potential of the multi dwelling unit (MDU) market. Our experience in this market suggests that property owners and managers are currently looking for a solution that will satisfy two pressing concerns. The first problem that they are dealing with is how to satisfy the residents who desire to bring satellite television service to the unit without creating an eyesore or a structural/maintenance problem. The second is how to allow competitive access for local and long distance telephone cable television and Internet services. Our MultiBandsm offering addresses these problems and provides the consumer several benefits, including:

- o Lower Cost Per Service
- o Blended Satellite and Cable Television Package
  
- o Multiple Feature Local Phone Services (features such as call waiting, call forwarding and three-way calling)
- o Better than Industry Average Response Times
- o One Number for Billing and Service Needs
- o One Bill for Local, Long Distance Cable Television and Internet
- o "Instant On" Service Availability

As we develop and market this package, we will keep a marketing focus on two levels of customer for this product. The primary decision-makers are the property owners/managers. Their concerns are focused on delivering their residents reliability, quality of service, short response times, minimized disruptions on the property, minimized alterations to the property and value added services. Each of these concerns is addressed in our contracts with the property owner, which include annual reviews and 10 to 15 year terms as service providers on the property. The secondary customer is the end-user. We will provide the property with on-going marketing support for their leasing agents to deliver clear, concise and timely information on our services. This will include simple sign up options that should maximize our penetration of the property.

When taken as a whole, and based on Vicom's interpretations of U.S. Census Bureau statistics, cable television, telephone and internet services generate over \$170 billion of revenues annually in the U.S. These statistics indicate stable growing markets with demand that is likely to deliver significant values to businesses that can obtain a subscriber base of any meaningful size.

### Multiband Industry Analysis



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### Strategy

For the near future, the services described below will be offered primarily in Midwestern states.

#### Local Telephone Service

Our primary competition will come from the local incumbent providers of telephone and cable television services. In Minnesota, we expect to compete with Qwest (Qwest) for local telephone services and with Comcast for PAY-TV customers. Although Qwest has become the standard for local telephone service, we believe we have the ability to underprice their service while maintaining high levels of customer satisfaction.

#### Cable Television Service

Comcast is the cable television service provider that has resulted from the merger and acquisition of two competitive cable providers. This actually has improved the overall continuity of service. However, we have a significant consumer benefit in that we are establishing private rather than public television systems, which allows us to deliver a package that is not laden with local "public access" stations that clog the basic service package. In essence, we will be able to deliver a customized service offering to each property based upon pre-installation market research that we perform.

#### Long Distance Telephone Service

AT&T Corp., MCI WorldCom Inc., and Sprint Corp. are our principal competitors in providing long distance telephone service. They offer new products almost weekly. Our primary concern in this

marketplace is to assure that we are competitive with the most recent advertised offerings in the "long distance wars." We will meet this challenge by staying within a penny of the most current offering, while still maintaining a high gross margin on our product. We accomplish this through various carrier agency associations. We expect to generate a high penetration in our long distance services amongst our local service subscribers because private property owners in the shared tenant environment (similar to a hotel environment) are not required to offer multiple long distance carriers to their tenants.

#### Internet Access Service

The clear frontrunners in this highly unregulated market are America Online, Inc. and CompuServe Corp. They compete with local exchange carriers, long distance carriers, Internet backbone companies and many local ISPs (Internet Service Providers). Competition has driven this to a flat rate unlimited access dial-up service market. The general concern among consumers is the quality of the connection and the speed of the download. Our design provides the highest connection speeds that are currently available. The approach that we will market is "blocks of service." Essentially, we deliver the same high bit rate service in small, medium and large packages, with an appropriate per unit cost reduction for those customers that will commit to a higher monthly expenditure.

#### Market Description

We are currently marketing MultiBandsm to MDU properties primarily throughout Minnesota. We are focusing on properties that consist of 50 or more units. We will target properties that range from 50 to 150 units on a contiguous MDU property for television and Internet access only. We will survey properties

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that exceed 150 units for the feasibility of local and long distance telephone services.

We are initially concentrating on middle to high-end rental complexes. We are also pursuing selected college campus apartment buildings and resort area condominiums. A recent U.S. Census Bureau table indicates that there are more than 65,000 properties in the United States that fit this profile. Assuming an average of 100 units per complex, our focus is on a potential subscriber base of 6,500,000.

A recent Property Owners and Manager Survey, published by the U.S. Census Bureau and dated March 28, 2000, shows that the rental properties are focusing on improving services and amenities that are available to their tenants. These improvements are being undertaken to reduce tenant turnover, relieve pricing pressures on rents and attract tenants from competing properties. We believe that most of these owners or managers are not interested in being "in the technology business" and will use the services that we are offering. Various iterations of this package will allow the owners to share in the residual income stream from the subscriber base.

### Number of Units/Customers

At December 31, 2002, MultiBand had 2,870 units wired for service and 1,125 customers using its services.

### Backlog

At December 31, 2002, MultiBand was projecting that in 2003, it would wire for its services in excess of 6,000 multi-dwelling units. The Company's timetable for completing and its ability to complete these installations is contingent on its ability to raise additional debt and/or equity financing necessary to fund the installations.

### Employees

As of March 15, 2003, Vicom employed four full-time management employees. As of that same date, CTU had 111 full-time employees, consisting of 30 in sales and marketing, 45 in technical positions, 18 in customer service and related support, 10 in management and 8 in administration and finance. As of March 15, 2003, MultiBand, Inc. has 2 full-time employees, one in sales and the rest in operations.

### Risk Factors

Our operations and our securities are subject to a number of risks, including but not limited to those described below. If any of the following risks actually occur, the business, financial condition or operating results of Vicom and the trading price or value of our common stock could be materially adversely affected.

### General

Vicom, since 1998, has taken several significant steps to reinvent and reposition itself to take advantage of opportunities presented by a shifting economy and industry environment.

Recognizing that voice, data and video technologies in the late twentieth

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century were beginning to systematically integrate as industry manufacturers were evolving technological standards from "closed" proprietary networking architectures to a more "open" flexible and integrated approach, Vicom, between 1998 and 2001, purchased three competitors which, in the aggregate, possessed expertise in data networking, voice and data cabling and video distribution technologies.

In early 2000, Vicom created its Multiband subsidiary, employing the aforementioned expertise, to provide communications and entertainment services (local dial tone, long distance, high-speed internet and expanded satellite television services) to residents in Multi-Dwelling-Unit properties (MDUs) on one billing platform. Although Multiband related revenues (installations and recurring subscriber fees) should account for less than 10% of overall Vicom revenues in 2002, Vicom expects Multiband related revenues to increase significantly in 2003 as a percentage of overall revenues. These revenues are expected to provide higher gross margins than the company's more traditional sales to commercial enterprises.

The specific risk factors, as detailed below, should be analyzed in the context of the Company's anticipated Multiband related growth.

### Net Losses

The Company had net losses of \$4,438,059 for the fiscal year ended December 31, 2002, \$5,325,552 for the fiscal year ended December 31, 2001, and \$4,235,831 for the fiscal year ended December 31, 2000. Vicom may never be profitable.

The prolonged effects of generating losses without additional funding may restrict our ability to pursue our business strategy. Unless our business plan is successful, an investment in our common stock may result in a complete loss of an investor's capital.

If we cannot achieve profitability from operating activities, we may not be able to meet:

- o our capital expenditure objectives;
- o our debt service obligations; or
- o our working capital needs.

### Dependence on Asset-Based Financing

Vicom currently depends on asset-based financing to purchase product, and we cannot guarantee that such financing will be available in the future. Furthermore, we need additional financing to support the anticipated growth of our Multiband subsidiary. We cannot guarantee that we will be able to obtain this additional financing.

However, the Company recently introduced a program where it can control capital expenditures by contracting Multiband services and equipment through a landlord or third party investor owned equipment program. This program both significantly reduces any Company expenditures in a Multi-dwelling-unit installation and permits the Company to record revenues from the third party sale of said equipment.

### Goodwill

In June 2001, the Financial Accounting Standards Board (FASB) adopted

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Statement of Financial Accounting Standards (SFAS) 142, "Goodwill and Other Intangible Assets" which changes the amortization rules on recorded goodwill from a monthly amortization to a periodic "impairment" analysis for fiscal years beginning after December 15, 2001. In 2002, the Company retained an independent outside expert to evaluate the impact of this new Accounting standard and the expert concluded there was no impairment to goodwill. However, the Company could be subject to a determination that its goodwill is impaired in the future. As of December 31, 2002, the Company had recorded goodwill of approximately \$2.7 million.

### Deregulation

Several regulatory and judicial proceedings have recently concluded, are underway or may soon be commenced that address issues affecting operations and those of our competitors, which may cause significant changes to our industry. We cannot predict the outcome of these developments, nor can we assure you that these changes will not have a material adverse effect on us. Historically, we have been a reseller of products and services, not a manufacturer or carrier requiring regulation of its activities. Pursuant to Minnesota statutes, our Multiband activity is specifically exempt from the need to tariff our services in multiple dwelling units (MDUs). However, the Telecommunications Act of 1996 provides for significant deregulation of the telecommunications industry, including the local telecommunications and long-distance industries. This federal statute and the related regulations remain subject to judicial review and additional rule-makings of the Federal Communications Commission, making it difficult to predict what effect the legislation will have on us, our operations, and our competitors.

### Dependence on Strategic Alliances

Vicom has a distribution agreement with NEC, its main supplier of telecommunication products, which expires June 30, 2003. An interruption or substantial modification of Vicom's distribution relationship with NEC could have a material adverse effect on Vicom's business, operating results and financial condition.

In addition, several suppliers, or potential suppliers of Vicom, such as McLeod, WorldCom, WS Net, XO Communications and others have filed for bankruptcy in recent years. While the financial distress of its suppliers or potential suppliers could have a material adverse effect on Vicom's business, Vicom believes that enough alternate suppliers exist to allow the Company to execute its business plans.

### Changes in Technology

A portion of our projected future revenue is dependent on public acceptance of broadband, and

expanded satellite television services. Acceptance of these services is partially dependent on the infrastructure of the internet and satellite television which is beyond Vicom's control. In addition, newer technologies, such as video-on-demand, are being developed which could have a material adverse effect on the Company's competitiveness in the marketplace if Vicom is unable to adopt or deploy such technologies.

### Attraction and Retention of Employees

Vicom's success depends on the continued employment of certain key personnel, including executive officers. If Vicom were unable to continue to attract and retain a sufficient number of qualified key personnel, its business,

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operating results and financial condition could be materially and adversely affected. In addition, Vicom's success depends on its ability to attract, develop, motivate and retain highly skilled and educated professionals with a wide variety of management, marketing, selling and technical capabilities. Competition for such personnel is intense and is expected to increase in the future.

### Business Growth and Scalability

Vicom's Multiband subsidiary, as of December 31, 2002, was providing communications and entertainment services to ten MDUs located in Minnesota and North Dakota. Vicom needs to provide products and services to additional MDUs if it is to become profitable. Vicom may need to go beyond its current geographic territory to increase its MDU customers and attract additional financing.

In expanding the provision of its services to MDUs in its current territories and beyond, Vicom needs to successfully overcome a number of the factors listed above such as attracting the capital to finance expanded installations, obtaining additional technical staff for installation and support in its present markets and beyond; and extending its key vendor relationships into other markets.

### Intellectual Property Rights

Vicom relies on a combination of trade secret, copyright, and trademark laws, license agreements, and contractual arrangements with certain key employees to protect its proprietary rights and the proprietary rights of third parties from which Vicom licenses intellectual property. If it was determined that Vicom infringed the intellectual property rights of others, it could be required to pay substantial damages or stop selling products and services that contain the infringing intellectual property, which could have a material adverse effect on Vicom's business, financial condition and results of operations. Also, there can be no assurance that Vicom would be able to develop non-infringing technology or that it could obtain a license on commercially reasonable terms, or at all. Vicom's success depends in part on its ability to protect the proprietary and confidential aspects of its technology and the products and services it sells. There can be no assurance that the legal protections afforded to Vicom or the steps taken by Vicom will be adequate to prevent misappropriation of Vicom's intellectual property.

### Variability of Quarterly Operating Results; Seasonality

Variations in Vicom's revenues and operating results occur from quarter to quarter as a result of a number of factors, including customer engagements commenced and completed during a quarter, the number of business days in a quarter, employee hiring and utilization rates, the ability of customers to terminate engagements without penalty, the size and scope of assignments and general economic conditions. Because a significant portion of Vicom's expenses are relatively fixed, a variation in the number of customer projects or the timing of the initiation or completion of projects could cause significant fluctuations in operating results from quarter to quarter. Further, Vicom has historically experienced a seasonal fluctuation in its operating results, with a larger proportion of its revenues and operating income occurring during the third quarter of the fiscal year.

### Certain Anti-Takeover Effects

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Vicom is subject to Minnesota statutes regulating business combinations and restricting voting rights of certain persons acquiring shares of Vicom. These anti-takeover statutes may render more difficult or tend to discourage a merger, tender offer or proxy contest, the assumption of control by a holder of a large block of Vicom's securities, or the removal of incumbent management.

### Volatility of Vicom's Common Stock

The trading price of our common stock has been and is likely to be volatile. The stock market has experienced extreme volatility, and this volatility has often been unrelated to the operating performance of particular companies. We cannot be sure that an active public market for our common stock will continue after this offering. Investors may not be able to sell the common stock at or above the price they paid for their common stock, or at all. Prices for the common stock will be determined in the marketplace and may be influenced by many factors, including variations in our financial results, changes in earnings estimates by industry research analysts, investors' perceptions of us and general economic, industry and market conditions.

### Future Sales of Our Common Stock May Lower Our Stock Price

If our existing shareholders sell a large number of shares of our common stock, the market price of the common stock could decline significantly. The perception in the public market that our existing shareholders might sell shares of common stock could depress our market price.

### FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of federal securities law. Terminology such as "may," "will," "expect," "anticipate," "believe," "estimate," "continue," "predict," or other similar words, identify forward-looking statements. These statements discuss future expectations, contain projections of results of operations or of financial condition or state other forward-looking information. Forward-looking statements appear in a number of places in this prospectus and include statements regarding our intent, belief or current expectation about, among other things, trends affecting the industries in which we operate, as well as the industries we service, and our business and growth strategies. Although we believe that the expectations reflected in these forward-looking statements are based on reasonable assumptions, forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those predicted in the forward-looking statements as a result of various factors, including those set forth in "Risk Factors."

### Item 2:

#### Properties

Vicom and its subsidiaries lease principal offices located at 2000 44th Street SW, Fargo, ND 58103 and 9449 Science Center Drive, New Hope, Minnesota 55428. We have no foreign operations. The main Fargo office lease expires in 2017 and covers approximately 22,500 square feet. The Fargo base rent ranges from \$21,577 to \$24,360 per month. The New Hope office lease expires in 2006 and covers approximately 47,000 square feet. The New Hope base rent ranges from \$16,640 to \$17,653 per month. Both the New Hope and Fargo leases have provisions that call for the tenants to pay net operating expenses, including property taxes, related to the facilities. Both offices have office, warehouse and training facilities.

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Vicom considers its current facilities adequate for its current needs and believes that suitable additional space would be available as needed.

### Item 3:

#### Legal Proceedings

The Company is involved in legal actions in the ordinary course of business. However, as of December 31, 2002, Vicom was not engaged in any pending legal proceedings where, in the opinion of the Company and its counsel, the outcome is likely to have a material adverse effect upon the business, operating results and financial condition of the Company.

### Item 4:

#### Submission of Matters to a vote of Security Holders

The Company did not submit matters to a vote of security holders during the last quarter of the fiscal year covered by this report.

### Item 5:

#### Market for the Registrant's Common Stock and Related Shareholder Matters

Through May 17, 2000, Vicom's common stock was traded and quoted on the OTC Bulletin Board(R) ("OTCBB") under the symbol "VICM." From May 18, 2000 until August 21, 2000, the common stock was quoted under the VICM symbol on the Pink Sheets(R) operated by Pink Sheets LLC. From August 21, 2000, to December 12, 2000, Vicom's common stock was traded and quoted on the OTCBB under the VICM symbol. Since then, the stock has been traded and quoted on the Nasdaq Smallcap market system. The table below sets forth the high and low bid prices for the common stock during each quarter in the two years ended December 31, 2001 and December 31, 2002 and as provided by Nasdaq, the OTCBB or the Pink Sheets. Market quotations provided herein represent inter-dealer prices without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

Quarter Ended	High Bid	Low Bid
-----	-----	-----
March 31, 2001 .....	5.25	3.00
June 30, 2001 .....	4.38	2.38
September 30, 2001 .....	3.00	1.01
December 31, 2001 .....	2.14	.91
March 31, 2002 .....	1.90	1.37
June 30, 2002 .....	1.75	.80
September 30, 2002 .....	.92	.52
December 31, 2002 .....	1.12	.50

As of March 17, 2003, Vicom had 518 shareholders of record of its common stock and 13,642,405 shares of common stock outstanding. As of that date, eight shareholders held a total of 27,831 of Class A Preferred, one shareholder held 6,200 shares of Class B Preferred, five shareholders held a total of 127,510 shares of Class C Preferred, and seven shareholders held a total of 70,000 shares of Class E Preferred.

#### Recent Sales of Unregistered Securities

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The Company in 2002 issued \$460,000 worth of its common stock to Pyramid Trading LP. The common stock was issued at various prices pursuant to a formula tied to the trading price of the Company's common stock.

The Company, in the fourth quarter of 2002, issued \$700,000 worth of Class E Preferred Stock to various accredited investors.

At various other times in 2002, the Company, via conversions of preferred stock or investor purchases of common stock, issued common shares at various prices.

In connection with these sales, we relied on the exemption from registration provided by Sections 4(2) and 4(6) of the Securities Act of 1933, as well as Rule 506 of Regulation D based on (i) our belief that the issuances did not involve a public offering, (ii) the transactions involved fewer than 35 purchasers, and (iii) because we had a reasonable basis to believe that each of the shareholders were either accredited or otherwise had sufficient knowledge and sophistication, either alone or with a purchaser representative, to appreciate and evaluate the risks and merits associated with their investment decision.

### Common Stock

Holders of common stock are entitled to one vote per share in all matters to be voted upon by shareholders. There is no cumulative voting for the election of directors, which means that the holders of shares entitled to exercise more than 50% of the voting rights in the election of directors are able to elect all of the directors. Vicom's Articles of Incorporation provide that holders of the Company's common stock do not have preemptive rights to subscribe for and to purchase additional shares of common stock or other obligations convertible into shares of common stock which may be issued by the Company.

Holders of common stock are entitled to receive such dividends as are declared by Vicom's Board of Directors out of funds legally available for the payment of dividends. Vicom presently intends not to pay any dividends on the common stock for the foreseeable future. Any future determination as to the declaration and payment of dividends will be made at the discretion of the Board of Directors. In the event of any liquidation, dissolution or winding up of Vicom, and subject to the preferential rights of the holders of the Class A Preferred, Class B Preferred, Class C Preferred, Class D Preferred and Class E Preferred, the holders of common stock will be entitled to receive a pro rata share of the net assets of Vicom remaining after payment or provision for payment of the debts and other liabilities of Vicom.

All of the outstanding shares of common stock are fully paid and non-assessable. Holders of common stock of Vicom are not liable for further calls or assessments.

### Preferred Stock

In December 1998, Vicom issued 2,550 shares of Class A Preferred for \$23,638 and 37,550 shares of Class B Preferred for \$359,893. The Class B Preferred was offered to certain note holders at a conversion rate of \$10.00 per share of Class B Preferred. Each share of Class A Preferred and Class B Preferred is non-voting (except as otherwise required by law) and convertible into five shares of common stock, subject to adjustment in certain circumstances. Each holder of a share of Class A Preferred or Class B Preferred



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has a five-year warrant to purchase one share of common stock at \$3.00 per share, subject to adjustment. During 2001, Vicom issued 67,655 shares of Class A Preferred for \$676,556.

In June 2000, Vicom issued 80,500 shares of Class C Preferred for \$805,000. The Class C Preferred was offered to certain note holders at a conversion rate of \$10.00 a share. In September 2000, Vicom issued an additional 72,810 shares of Class C Preferred for \$728,100. Each share of Class C Preferred is non-voting (except as otherwise required by law) and convertible into two shares of Vicom common stock, subject to adjustment in certain circumstances.

In November 2000, Vicom issued 72,500 shares of Class D Preferred for \$490,332. The Class D Preferred was sold to eight accredited investors at \$10.00 per share. Each share of Class D Preferred is non-voting (except as otherwise required by law) and convertible into two and one-half shares of Vicom Common Stock, subject to adjustment in certain circumstances.

In the second quarter of 2002, Preferred Class D stocks were redeemed; \$100,000 converted to Common Stock, and \$300,000 converted to a Note Payable.

In the fourth quarter of 2002, Vicom issued 70,000 shares of Class E Preferred for \$700,000, with \$600,000 related to conversion of a note payable from a director of the Company into Preferred Stock.

The holders of the Class A Preferred, Class B Preferred, Class C Preferred, Class D Preferred and Class E Preferred (collectively, "Preferred Stock") are entitled to receive, as and when declared by the Board, out of the assets of the Company legally available for payment thereof, cumulative cash dividends calculated based on the \$10.00 per share stated value of the Preferred Stock. The per annum dividend rate is

eight percent (8%) for the Class A Preferred and ten percent (10%) for the Class B Preferred and Class C Preferred, fourteen percent (14%) for the Class D Preferred and fifteen percent (15%) in the Class E Preferred, to be paid in kind. Dividends on the Class A Preferred, Class C Preferred and Class D Preferred are payable quarterly on March 31, June 30, September 30, and December 31 of each year. Dividends on the Class B Preferred are payable monthly on the first day of each calendar month. Dividends on the Preferred Stock accrue cumulatively on a daily basis until the Preferred Stock is redeemed or converted.

In the event of any liquidation, dissolution or winding up of Vicom, the holders of the Class A Preferred and Class B Preferred will be entitled to receive a liquidation preference of \$10.50 per share, and the holders of the Class C Preferred, Class D Preferred and Class E Preferred will be entitled to receive a liquidation preference of \$10.00 per share, each subject to adjustment. Any liquidation preference shall be payable out of any net assets of Vicom remaining after payment or provision for payment of the debts and other liabilities of Vicom.

Vicom may redeem the Preferred Stock, in whole or in part, at a redemption price of \$10.50 per share for the Class A Preferred and the Class B Preferred and \$10.00 per share for the Class C Preferred, Class D Preferred and Class E Preferred (subject to adjustment, plus any earned and unpaid dividends) on not less than thirty days' notice to the holders of the Preferred Stock, provided that the closing bid price of the common stock exceeds \$4.00 per share (subject to adjustment) for any ten consecutive trading days prior to such notice. Upon Vicom's call for redemption, the holders of the Preferred Stock called for redemption will have the option to convert each share of Preferred Stock into shares of common stock until the close of business on the date fixed for

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redemption, unless extended by Vicom in its sole discretion. Preferred Stock not so converted will be redeemed. No holder of Preferred Stock can require Vicom to redeem his or her shares.

### Equity Compensation

The following table sets forth certain information regarding equity compensation plan information as of December 31, 2002.

#### Equity Compensation Plan Information

	Number of Securities to be issued upon exercise of outstanding options, warrants and restricted stock ----- (a)	Weighted-average exercise price of outstanding options, warrants and restricted stock ----- (b)
Equity compensation plans approved by		
security holders	1,093,157	2.45
Equity compensation plans not approved by		
security holders	4,372,462	2.05
	-----	
Total	5,465,619	

### Item 6:

#### Selected Consolidated Financial Data

The following selected financial data should be read in conjunction with our consolidated financial statements including the accompanying notes and with "Management's Discussion and Analysis of Financial Condition and Results of Operations". The data for each of the fiscal years in the three year period ended December 31, 2002, have been derived from our consolidated financial statements and accompanying notes contained in this prospectus. The Statement of Operations Data for the years ended December 31, 1999 and 1998 and the Balance Sheet data at December 31, 2000, 1999 and 1998 has been derived from our audited consolidated financial statements which are not contained in this filing.

Statement of Operations Data	2002	2001	2000	1999
-----	-----	-----	-----	-----
Revenues .....	\$ 24,540,969	\$ 32,260,777	\$ 39,781,846	\$ 20,388,87
Cost of products and services .....	\$ 18,036,750	\$ 25,245,186	\$ 31,698,569	\$ 16,247,89
Gross profit .....	\$ 6,504,219	\$ 6,965,591	\$ 8,083,277	\$ 4,140,97
% of revenues .....	26.5%	21.6%	20.3%	20.
Selling, general and				

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administrative expenses ...	\$ 9,337,292	\$ 10,962,739	\$ 11,852,041	\$ 5,823,94
% of revenues .....	38.0%	34.0%	29.8%	28.
Loss from Operations .....	\$ (2,833,073)	\$ (3,997,148)	\$ (3,768,764)	\$ (1,682,97
Other expense net .....	\$ (1,604,986)	\$ (1,328,404)	\$ (458,067)	\$ (139,46
Loss before income taxes	\$ (4,438,059)	\$ (5,325,552)	\$ (4,226,831)	\$ (1,822,43
Income tax provision .....	\$ 0	\$ 0	\$ 9,000	\$ 241,20
Net Loss .....	\$ (4,438,059)	\$ (5,325,552)	\$ (4,235,831)	\$ (2,063,63
Loss attributable to common stockholders .....	\$ (4,591,637)	\$ (5,758,221)	\$ (5,082,011)	\$ (2,101,60
Loss per common share-basic and diluted .....	\$ (.39)	\$ (.66)	\$ (0.72)	\$ (0.5
Weighted average shares outstanding .....	11,735,095	8,762,814	7,009,751	3,821,97

Balance Sheet Data	2002	2001	2000	1999
-----	-----	-----	-----	-----
Working capital (deficiency) .....	\$ (252,870)	\$ 426,549	\$ 2,870,114	\$ (2,882,90
Total assets .....	\$ 10,347,316	\$ 12,209,681	\$ 15,614,573	\$ 12,598,74
Long-term debt .....	\$ 3,273,350	\$ 3,311,870	\$ 3,362,083	\$ 926,82
Stockholders' equity .....	\$ 2,642,285	\$ 4,184,001	\$ 5,876,352	\$ 1,026,34

Item 7:

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

The following discussion of the financial condition and results of operations of Vicom, Incorporated should be read in conjunction with the Condensed Consolidated Financial Statements and the Notes thereto included elsewhere in this report.

Years Ended December 31, 2002 and December 31, 2001

Results of Operations

The following table sets forth certain items from the Company's consolidated statements of operations expressed as a percentage of total revenue.

	2002	2001
	-----	-----
Revenues		
Vicom	.0%	.0%
CTU	97.65%	99.22%
MultiBand, Inc.	2.35%	.78%
	-----	-----
Total Revenues	100.0%	100.0%
	=====	=====
Cost of Sales		
Vicom	.0%	.02%
CTU	71.89%	77.39%
MultiBand, Inc.	1.61%	.69%
	-----	-----
Total Cost of Sales	73.50%	78.10%

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	=====	=====
Gross Margin	26.5%	21.88%
Selling, General and Administrative expenses	37.39%	34.45%
Operating Loss	(11.34%)	(12.56%)
Net Loss	(17.78%)	(16.73%)

### Revenues

Total revenues decreased 23.9% to \$24,540,969 in 2002 from \$32,260,777 in 2001.

Revenues from the CTU segment which traditionally sells computer technologies products and services decreased 25.1% to \$23,963,748 in 2002 from \$31,994,781 in 2001. This decrease in CTU segment revenues resulted primarily from weaker economic conditions in 2002 and from CTU's desire to increase gross margins versus maintaining top line revenues.

Vicom segment had no revenues.

Revenues from MultiBand increased 131% to \$577,221 in 2002 from \$249,590 in 2001. This increase is due to the expansion of Multiband services to ten properties.

### Gross Margin

The Company's gross margin was \$6,504,219 for 2002, as compared to \$6,965,591 for 2001. The decrease of 6.6% in 2002 was due to reduced revenues. For 2002, gross margin, as a percentage of total revenues, was 26.50% versus 21.5% for 2001. This increase in gross margin revenues is primarily due to an increase in sale of services constituting a greater percentage of overall revenues than in the prior year. As the Company continues to strive for bundled sales of services, and bundled sales of equipment and services, the Company anticipates that it will maintain its gross margin percentages in fiscal 2003.

### Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased 14.83% to \$9,337,292 in 2002, compared to \$10,962,739 in 2001. This decrease in expenses is primarily related to reductions in payroll, benefits and vehicle expenses. Selling, general and administrative expenses were, as a percentage of revenues, 38.0% for 2002 and 33.9% for 2001.

### Interest Expense

Interest expense was \$1,604,512 for 2002, versus \$1,446,868 for 2001 reflecting an increase in debt due to capital raising efforts, valuation of warrants issued with Preferred Stock and convertible notes, and additional borrowings.

### Net Loss

In 2002, the Company incurred a net loss of \$4,438,059 compared to a net loss of \$5,325,552 for 2001. The decrease in net loss is primarily due to a significant reduction in payroll and benefit related expenses from the prior year.

Years Ended December 31, 2001 and December 31, 2000

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### Results of Operations

The following table sets forth certain items from the Company's consolidated statements of operations expressed as a percentage of total revenue.

	2001 -----	2000 -----
Revenues		
Vicom and VMTS	0%	8.2%
CTU	99.2%	91.6%
MultiBand, Inc.	.78%	0.2%
	-----	-----
Total Revenues	100.0%	100.0%
	=====	=====
Cost of Sales		
Vicom and VMTS	.02%	6.2%
CTU	77.39%	73.2%
MultiBand, Inc.	.69%	0.3%
	-----	-----
Total Cost of Sales	78.10%	79.7%
	=====	=====
Gross Margin	21.88%	20.3%
Selling, General and Administrative expenses	34.45%	29.8%
Operating Loss	(12.56%)	(9.5%)
Net Income Loss	(16.73%)	(10.6%)

#### Revenues

Total revenues decreased 18.9% to \$32,260,777 in 2001 from \$39,781,846 in 2000.

Revenues from the CTU segment which traditionally sells computer technologies products and services decreased 12.2% to \$31,994,781 in 2001 from \$36,460,217 in 2000. This decrease in CTU segment revenues resulted primarily from weaker economic conditions in 2001 and from CTU's desire to increase gross margins versus maintaining top line revenues.

Revenues from the Vicom segment were minimal as Vicom had no active operations in 2001.

Revenues from Multiband increased 240% to \$249,591 in 2001 from \$73,219 in 2000. The year 2001 was the first full year of operations for Multiband. Revenues for 2000 reflected only six months of operations.

#### Gross Margins

The Company's gross margin was \$6,965,591 for 2001, as compared to \$8,083,277 for 2000. The decrease of 13.8% in 2001 was due to reduced revenues. For 2001, gross margin, as a percentage of total revenues, was 21.88% versus 20.3% for 2000. This increase in gross margin percentage is primarily due to an increase in service sales which have better margins than equipment sales.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased 7.5% to \$10,962,739

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in 2001, compared to \$11,852,041 in 2000. This decrease in expenses is primarily related to reductions in payroll. Selling, general and administrative expenses were, as a percentage of revenues, 33.9% for 2001 and 29.8% for 2000.

### Interest Expense

Interest expense was \$1,446,868 for 2001, versus \$607,418 for 2000 reflecting an increase in debt due to capital raising efforts, valuation of warrants issued with Preferred Class a stock and convertible notes, and additional borrowings.

### Net Loss

In 2001, the Company incurred a net loss of \$5,325,552 compared to a net loss of \$4,235,831 for 2000. The increase in losses relates to additional depreciation and amortization related to Multiband units, additional interest expense and 20% decrease in revenues.

### Unaudited Quarterly Results

The following table sets forth certain unaudited quarterly operating information for each of the eight quarters in the two-year period ending December 31, 2002. This data includes, in the opinion of management, all normal recurring adjustments necessary for the fair presentation of the information for the periods presented when read in conjunction with the Company's consolidated financial statements and related notes thereto. Results for any previous fiscal quarter are not necessarily indicative of results for the full year or for any future quarter. The Company has historically experienced a seasonal fluctuation in its operating results, with a larger proportion of its revenues in the third quarter of the fiscal year.

	Dec. 31, 2002	Sept. 30, 2002	June 30, 2002	March 31, 2002	Dec. 31, 2001	S
Revenues:						
Vicom	0	0	0	0	0	
CTU	5,758,953	6,227,683	5,815,531	6,161,581	5,980,561	7,
MultiBand	192,771	154,950	128,893	100,607	88,634	
Total Revenues	5,951,724	6,382,633	5,944,424	6,262,188	6,069,195	7,
Cost of Sales	4,212,240	4,680,582	4,354,714	4,789,214	4,580,877	6,
Gross Margin	1,739,484	1,702,051	1,589,710	1,472,974	1,488,318	1,
SG&A Expense	2,484,108	2,376,225	2,240,223	2,236,736	3,175,613	2,
Operating Loss	(744,624)	(674,174)	(650,513)	(763,762)	(1,687,295)	(4
Interest Expense	(462,420)	(349,388)	(426,869)	(365,835)	(427,924)	(3

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Other Income (Expenses)	47,740	(93,171)	25,281	19,676	554,022	(4
Net Loss Before Taxes	(1,159,304)	(1,116,733)	(1,052,101)	(1,109,921)	(1,561,197)	(1,3
Income Tax (Benefit) Provision	0	0	0	0	0	
Net Loss	(1,159,304)	(1,116,733)	(1,052,101)	(1,109,921)	(1,561,197)	(1,3
Loss Per Common Share Basic and Diluted	(.11)	(.09)	(.09)	(.10)	(.19)	

### Liquidity and Capital Resources

Year Ended December 31, 2002

Available working capital, for 2002, decreased \$679,419 due to Vicom's net operating loss and net cash used in operating activities of \$869,721. Proceeds from issuance of long term debt, stock and warrants totaling \$2,121,597 helped offset Vicom's net operating loss. Vicom had a decrease of \$38,344 in accounts payable and other current liabilities for 2002 versus last year's period, primarily due to significant reductions in accounts receivables which were used to reduce payables.

Inventories year to date decreased net of reserves \$182,783 over last year's prior period inventories due to a decrease in revenues. The aforementioned decrease in revenues also led to a decrease in accounts receivable net of reserves of \$576,509.

Total long term debt and capital lease obligation decreased by \$102,631 during the year ended December 31, 2002. The Company paid out \$937,828 related to capital lease obligations and \$131,605 related to long term debt during the year ended December 31, 2002 versus \$777,578 paid out in 2001.

In 2001, the Company entered into a long-term debt agreement, expiring in 2003, with an investment fund. The fund, in exchange for its \$1.5 million investment, also received 375,000 warrants and the right to convert its investment into Vicom common stock at a predetermined price. The effect of recording the beneficial conversion feature and warrants associated with the convertible loan resulted in a \$1,500,000 discount attributable to the warrants in accordance with the Black-Scholes pricing model. The Company is expensing the aforementioned warrant discount in eight quarterly installments over the two year term of the loan. \$460,000 of the debt was converted to stock in 2002 pursuant to a formula tied to the trading price of the Company's Common Stock.

In 2002, the Company borrowed \$600,000 from a Director. This investment was later converted into Class E Preferred Stock. Also in 2002, the Company restructured its debenture with Convergent Capital, resetting the date of principal repayment to begin in August 2005.

The Company used \$1,275,434 for capital expenditures during 2002, as compared to \$1,884,945 in 2001. The decrease was primarily attributed to a reduction in self-financed Multiband construction.

In 2002, the Company extinguished \$937,828 worth of capital lease obligations, reduced its principal indebtedness \$460,000 to a note holder, and

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converted another \$600,000 worth of debt to Preferred Stock. All these events, combined, with the aforementioned refinancing and delayed principal repayment to its largest debt holder, should materially improve projected cash flows throughout 2003 provided Company operating losses continue to diminish.

Net cash used by operations was approximately \$869,721 in 2002 versus net cash used by operations of \$502,110 in 2001. The cash used by operations in 2002 is due primarily to net operating losses, and reductions in accounts payable and wholesale line of credit balances in that year. During the years ended December 31, 2002 and December 31, 2001, the Company incurred significant net losses. Although the majority of these losses were due to non-cash expenses, the Company still continued to incur cash losses as well due to general corporate expense and continuing expenses related to the building out of its Multiband network. The Company in 2002 significantly cut its selling, general and administrative expenses which led to a material decrease in cash losses. The on-going addition of Multiband properties in the Company's portfolio also generated additional cash flows in 2002 and these Multiband cash flows are projected to improve meaningfully in 2003. Management of Vicom believes that, for the near future, cash generated from new investments combined with existing credit facilities are adequate to meet the anticipated liquidity in capital resource requirements of its business, contingent upon Company operating results for the next twelve months.

Year Ended December 31, 2001

Available working capital, for 2001, decreased \$2,443,565 due to Vicom's net operating loss and net cash used in operating activities of \$502,110. Proceeds from issuance of long term debt, stock and warrants totaling \$3,190,262 helped offset Vicom's net operating loss. Vicom had a decrease of \$1,114,332 in accounts payable and other current liabilities for 2001 versus 2000, primarily due to significant reductions in accounts receivables which were used to reduce payables.

Inventories year to date decreased net of reserves \$705,050 over 2000 inventories due to a decrease in revenues. The aforementioned decrease in revenues also led to a decrease in accounts receivable net of reserves of \$3,087,313.

Total long term debt and capital lease obligation decreased by \$82,852 during the year ended December 31, 2001. The Company paid out \$315,770 related to capital lease obligations and \$461,808 related to long term debt during the year ended December 31, 2001 versus \$777,578 paid out in 2000.

In 2001, the Company entered into wholesale line of credit agreements totaling \$1,450,000 with two financial institutions for the purchase of resale merchandise from certain suppliers, interest generally at 0% (if paid within certain terms), and collateralized by the related inventories and accounts receivable.

In 2001, the Company entered into a long-term debt agreement, expiring in 2003, with an investment fund. The fund, in exchange for its \$1.5 million investment, also received 375,000 warrants and the right to convert its investment into Vicom common stock at a predetermined price. The effect of recording the beneficial conversion feature and warrants associated with the convertible loan resulted in a \$1,500,000 discount attributable to the warrants in accordance with the Black-Scholes Option-Pricing Model. The Company is expensing the aforementioned warrant discount in eight quarterly installments over the two year term of the loan.



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The Company used \$1,884,945 for capital expenditures during 2001, as compared to \$1,316,022 in 2000. These 2001 and 2000 expenditures were primarily for construction related to Multiband installations.

Net cash used by operations was approximately \$502,110 in 2001 versus net cash used by operations of \$3,640,226 in 2000. The cash used by operations in 2001 is due primarily to net operating losses, and reductions in accounts payable and wholesale line of credit balances in that year. During the fiscal years ended December 31, 2001 and 2000, the Company incurred significant net losses. These net losses were primarily incurred due to general corporate expense and the expense of building out its Multiband network. The Company in 2001 significantly cut its payroll expense in an effort to mitigate these losses in the future and conserve cash. In addition, the Company expects to generate additional cash flows in 2002 and beyond as Multiband building projects convert from work-in-process to completed projects capable of generating subscriber cash flows. However, there can be no assurance that the Company will be successful in achieving the aforementioned increase in cash flows. Management of Vicom believes that, for the next twelve months, cash generated from new investments combined with existing credit facilities are adequate to meet the anticipated liquidity in capital resource requirements of its business, contingent upon company operating results. Management estimates capital expenditures for the year ending December 31, 2002 will approximate \$450,000. 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 favorable terms to the Company.

### Critical Accounting Policies

#### Impairment of Long-Lived Assets

The Company's long-lived assets include property, equipment and leasehold improvement. At December 31, 2002, the Company had net property and equipment of \$3,248,973, which represents approximately 31% of the Company's total assets. 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. In 2002, the Company recorded an impairment of \$119,480 on property plant and equipment. During the years ended December 31, 2001 and 2000, 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 judgments regarding the existence of impairment indicators are based on legal factors, market conditions and

operational performance of our acquired businesses. Future events could cause us to conclude that impairment indicators exist and that goodwill associated with our acquired businesses, which amounts to \$2,748,879 (or 26% of total assets), may be impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations. During the years ended December 31, 2002, 2001 and 2000, the Company did not record any impairment losses related to goodwill.

#### Inventories

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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.

### Recent Accounting Pronouncements

In April 2002, FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," effective for fiscal years beginning after May 15, 2002. 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.

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

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS No. 148 is an amendment to SFAS No. 123 providing alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and also provides required additional disclosures about the method of accounting for stock-based employee compensation. The amendments are effective for financial statements for fiscal years ending after December 15, 2002 and for the interim periods beginning after December 15, 2002. The Company adopted the annual disclosure provisions of SFAS No. 148. The Company has currently chosen not to adopt the voluntary change to the fair value based method of accounting for stock-based employee compensation, pursuant to SFAS No. 148, which, if adopted, could have a material effect on the Company's consolidated financial position or results of operations.

### Disclosures about Contractual Obligations and Commercial Commitments

The following summarizes our contractual obligations at December 31, 2002, and the effect these contractual obligations are expected to have on our liquidity and cash flows in future periods (in thousands):

	Total	1 Year of Less	1-3 Years	Over 3 Years
	-----	-----	-----	-----
Operating Leases	\$ 4,954,000	\$ 519,000	\$ 1,382,000	\$ 3,053,000
Capital Leases	272,282	79,307	156,894	36,081
Long Term Debt	4,090,140	321,589	2,923,507	845,044

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Wholesale Line of Credit	1,290,383	1,290,383	--	--
	-----	-----	-----	-----
Total	\$10,606,805	\$ 2,210,279	\$ 4,462,401	\$ 3,934,125
	=====	=====	=====	=====

### Forward Looking Statements

From time to time, the Company may publish forward-looking statements relating to such matters as anticipated financial performance, business prospects, technological developments, new products, Year 2000 compliance and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements including those made in this document. 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 other expectations expressed in the 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 the IT and telecommunications industry; stability of foreign governments; market acceptance of 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 investors should not use historical trends to anticipate future period results.

### Item 7A

#### 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 8.

#### Consolidated Financial Statements and Supplementary Data

VICOM, INCORPORATED AND SUBSIDIARIES

New Hope, Minnesota

December 31, 2002, 2001, and 2000

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## CONSOLIDATED FINANCIAL STATEMENTS

Including Independent Auditors' Report

VICOM, INCORPORATED AND SUBSIDIARIES

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### INDEPENDENT AUDITORS' REPORT

To Stockholders, Board of Directors, and Audit Committee  
Vicom, Incorporated and subsidiaries

We have audited the accompanying consolidated balance sheets of Vicom, Incorporated and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

## Edgar Filing: VICOM INC - Form 10-K

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Vicom, Incorporated and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ VIRCHOW, KRAUSE & COMPANY, LLP

Minneapolis, Minnesota  
February 14, 2003

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### INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders  
Vicom, Incorporated and Subsidiaries  
New Hope, Minnesota

We have audited the accompanying consolidated statements of operations, stockholders' equity, and cash flows of Vicom, Incorporated and Subsidiaries for the year ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above of Vicom, Incorporated and Subsidiaries present fairly, in all material respects, the consolidated results of their operations and their cash flows for the year ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

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/s/ Lurie Besikof Lapidus & Company, LLP

Minneapolis, Minnesota  
February 15, 2001

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VICOM, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
December 31, 2002 and 2001

-----		
ASSETS	2002	2001
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents	\$ 540,375	\$ 2,000,000
Accounts receivable, net	1,948,004	2,000,000
Inventories, net	1,463,658	1,000,000
Other current assets	226,774	1,000,000
	-----	-----
Total Current Assets	4,178,811	5,000,000
	-----	-----
PROPERTY AND EQUIPMENT, NET	3,248,973	4,000,000
	-----	-----
OTHER ASSETS		
Goodwill	2,748,879	2,000,000
Other assets	170,653	1,000,000
	-----	-----
Total Other Assets	2,919,532	3,000,000
	-----	-----
TOTAL ASSETS	\$ 10,347,316	\$ 12,000,000
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Wholesale line of credit	\$ 1,290,383	\$ 1,000,000
Current portion of long-term debt	321,589	1,000,000
Current portion of capital lease obligations	59,570	1,000,000
Accounts payable	1,735,931	1,000,000
Accrued liabilities	714,479	1,000,000
Deferred service obligations and revenue	309,729	1,000,000
	-----	-----
Total Current Liabilities	4,431,681	4,000,000
	-----	-----

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LONG-TERM DEBT, NET	3,114,006	
CAPITAL LEASE OBLIGATIONS, NET OF CURRENT PORTION	159,344	
	-----	-----
Total Liabilities	7,705,031	8
	-----	-----

### COMMITMENTS AND CONTINGENCIES

### STOCKHOLDERS' EQUITY

Cumulative convertible preferred stock, no par value:		
8% Class A (27,831 and 28,872 shares issued and outstanding)	418,252	
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
14% Class D (0 and 40,000 shares issued and outstanding)	--	
15% Class E (70,000 and 0 shares issued and outstanding)	395,778	
Common stock, no par value (13,110,477 and 10,679,450 shares issued; 13,065,410 and 10,604,113 shares outstanding)	4,465,832	3
Stock subscriptions receivable	(633,195)	
Options and warrants	26,632,299	24
Unamortized compensation	(682,089)	(1
Accumulated deficit	(29,715,999)	(25
	-----	-----
Total Stockholders' Equity	2,642,285	4
	-----	-----

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 10,347,316	\$ 12
	=====	=====

See accompanying notes to consolidated financial statements.

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### VICOM, INCORPORATED AND SUBSIDIARIES

#### CONSOLIDATED STATEMENTS OF OPERATIONS Years Ended December 31, 2002, 2001 and 2000

	2002	2001	
	-----	-----	-----
REVENUES	\$ 24,540,969	\$ 32,260,777	\$ 39,
	-----	-----	-----
COST AND EXPENSES			
Cost of products and services	18,036,750	25,295,186	31,
Selling, general and administrative	9,337,292	10,962,739	11,
	-----	-----	-----
Total Costs and Expenses	27,374,042	36,257,925	43,
	-----	-----	-----

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LOSS FROM OPERATIONS	(2,833,073)	(3,997,148)	(3,
	-----	-----	-----
OTHER INCOME (EXPENSE)			
Interest expense	(1,604,512)	(1,446,868)	(
Interest income	64,083	63,717	
Other income	(64,557)	54,747	
	-----	-----	-----
Total Other Expense	(1,604,986)	(1,328,404)	(
	-----	-----	-----
Loss Before Income Taxes	(4,438,059)	(5,325,552)	(4,
PROVISION FOR INCOME TAXES	--	--	
	-----	-----	-----
NET LOSS	\$ (4,438,059)	\$ (5,325,552)	\$ (4,
Preferred stock dividends	153,578	432,669	
	-----	-----	-----
LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ (4,591,637)	\$ (5,758,221)	\$ (5,
	=====	=====	=====
LOSS PER COMMON SHARE- BASIC AND DILUTED	\$ (0.39)	\$ (0.66)	\$
	=====	=====	=====
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC AND DILUTED	11,735,095	8,762,814	7,
	=====	=====	=====

See accompanying notes to consolidated financial statements.

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VICOM, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
Years Ended December 31, 2002, 2001, and 2000  
Cumulative Convertible Preferred Stock

	8% Class A		10% Class B	
	Shares	Amount	Shares	Amount
	-----	-----	-----	-----
BALANCES, December 31, 1999	2,550	\$ 23,638	37,550	\$ 359
Stock issued:				
Options and warrants exercised	--	--	--	--
Other cash	--	--	--	--
Conversion of notes payable	--	--	--	--
Conversion of preferred stock	(2,550)	(23,638)	(9,000)	(86
Redemption of preferred stock	--	--	(5,714)	(54
Issuance costs	--	--	--	--



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Warrants issued:	--	--		
Warrant dividend	--	--	--	
Common stock	--	--	--	
Preferred stock	--	--	--	
Services	--	--	--	
Cash	--	--	--	
Restricted stock:	--	--		
Issued	--	--	--	
Forfeited	--	--	--	
Amortization expense	--	--	--	
Preferred stock dividends	--	--	--	
Net loss	--	--	--	

BALANCES, December 31, 2000	--	--	22,836	218
Stock issued:				
Cash	32,050	320,500	--	
Stock subscriptions receivable	--	--	--	
Acquisition of assets	10,640	106,400	--	
Purchase of intangible asset	--	--	--	
Guarantee of debt financing	--	--	--	
Conversion of accounts payable	3,500	35,000	--	
Conversion of accrued liabilities	9,631	96,306	--	
Conversion of notes payable	5,804	58,044	--	
Conversion of preferred stock	(31,000)	(310,000)	(13,150)	(131)
Conversion of dividends payable	6,030	60,300	--	
Redemption of preferred stock	(7,783)	(77,830)	(986)	
Discount on preferred stock related to warrants	--	145,147	--	
Interest receivable on stock subscription receivable	--	--	--	
Warrants issued:	--	--		
Preferred stock	--	--	--	
Common stock	--	--	--	
Debt	--	--	--	
Deferred compensation expense related to stock options issued below fair market value	--	--	--	
Deferred compensation expense	--	--	--	
Restricted stock:	--	--		
Issued	--	--	--	

	14% Class D		15% Class E	
	Shares	Amount	Shares	Amount
BALANCES, December 31, 1999	--	\$ --	--	\$--
Stock issued:				
Options and warrants exercised	--	--	--	--
Other cash	72,500	490,332	--	--
Conversion of notes payable	--	--	--	--
Conversion of preferred stock	--	--	--	--
Redemption of preferred stock	--	--	--	--
Issuance costs	--	--	--	--
Warrants issued:				
Warrant dividend	--	--	--	--
Common stock	--	--	--	--
Preferred stock	--	--	--	--

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Services	--	--	--	--
Cash	--	--	--	--
Restricted stock:				
Issued	--	--	--	--
Forfeited	--	--	--	--
Amortization expense	--	--	--	--
Preferred stock dividends	--	312,481	--	--
Net loss	--	--	--	--
	-----	-----	-----	-----
BALANCES, December 31, 2000	72,500	802,813	--	--
Stock issued:				
Cash	--	--	--	--
Stock subscriptions receivable	--	--	--	--
Acquisition of assets	--	--	--	--
Purchase of intangible asset	--	--	--	--
Guarantee of debt financing	--	--	--	--
Conversion of accounts payable	--	--	--	--
Conversion of accrued liabilities	--	--	--	--
Conversion of notes payable	10,000	100,000	--	--
Conversion of preferred stock	--	--	--	--
Conversion of dividends payable	--	--	--	--
Redemption of preferred stock	(42,500)	(425,000)	--	--
Discount on preferred stock related to warrants	--	(60,313)	--	--
Interest receivable on stock subscription receivable	--	--	--	--
Warrants issued:				
Preferred stock	--	--	--	--
Common stock	--	--	--	--
Debt	--	--	--	--
Deferred compensation expense related to stock options issued below fair market value	--	--	--	--
Deferred compensation expense	--	--	--	--
Restricted stock:				
Issued	--	--	--	--

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Forfeited	--	--	--	--
Amortization expense	--	--	--	--
Repricing of warrants	--	--	--	--
Embedded value with Pyramid Trading warrants	--	--	--	--
Preferred stock dividends	--	--	--	--
Net loss	--	--	--	--
	-----	-----	-----	-----
BALANCES, December 31, 2001	28,872	433,867	8,700	87
Stock issued:				
Cash	--	--	--	--
Notes receivable	--	--	--	--
Acquisition of assets	1,859	18,590	--	--
Guarantee of debt financing	--	--	--	--
Services rendered	--	--	--	--

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Conversion of accounts payable	--	--	--	
Conversion of notes payable and accrued interest	--	--	--	
Conversion of accrued interest	--	--	--	
Conversion of preferred stock	--	--	(2,500)	(25)
Redemption of preferred stock	(2,900)	(29,000)	--	
Discount on preferred stock related to warrants issued	--	(5,205)	--	
Interest receivable on stock subscription receivable	--	--	--	
Warrants issued:				
Preferred stock	--	--	--	
Common stock	--	--	--	
Debt	--	--	--	
Deferred compensation expense related to stock options issued below fair market value	--	--	--	
Deferred compensation expense	--	--	--	
Restricted stock:				
Issued and outstanding	--	--	--	
Forfeited	--	--	--	
Amortization expense	--	--	--	
Embedded value with Pyramid Trading warrants	--	--	--	
Preferred stock dividends	--	--	--	
Net loss	--	--	--	
	-----	-----	-----	-----
BALANCES, December 31, 2002	27,831	\$ 418,252	6,200	\$ 62
	=====	=====	=====	=====
Forfeited	--	--	--	
Amortization expense	--	--	--	
Repricing of warrants	--	--	--	
Embedded value with Pyramid Trading warrants	--	--	--	
Preferred stock dividends	--	--	--	
Net loss	--	--	--	
	-----	-----	-----	-----
BALANCES, December 31, 2001	40,000	417,500	--	
Stock issued:				
Cash	--	--	10,000	1
Notes receivable	--	--	--	
Acquisition of assets	--	--	--	
Guarantee of debt financing	--	--	--	
Services rendered	--	--	--	
Conversion of accounts payable	--	--	--	
Conversion of notes payable and accrued interest	(30,000)	(300,000)	60,000	6
Conversion of accrued interest	--	--	--	
Conversion of preferred stock	(10,000)	(100,000)	--	
Redemption of preferred stock	--	--	--	
Discount on preferred stock related to warrants issued	--	(17,500)	--	(3)
Interest receivable on stock subscription receivable	--	--	--	
Warrants issued:				
Preferred stock	--	--	--	
Common stock	--	--	--	

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Debt	--	--	--	--
Deferred compensation expense related to stock options issued below fair market value	--	--	--	--
Deferred compensation expense	--	--	--	--
Restricted stock:				
Issued and outstanding	--	--	--	--
Forfeited	--	--	--	--
Amortization expense	--	--	--	--
Embedded value with Pyramid Trading warrants	--	--	--	--
Preferred stock dividends	--	--	--	--
Net loss	--	--	--	--
	-----	-----	-----	-----
BALANCES, December 31, 2002	--	\$ --	70,000	\$ 3
	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

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VICOM, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
Years Ended December 31, 2002, 2001, and 2000

	Common Stock		Stock Subscriptions Receivable	
	Shares	Amount		
BALANCES, December 31, 1999	4,984,845	\$ 4,551,745	\$ --	\$ --
Stock issued:				
Options and warrants exercised	1,427,217	3,953,471	--	--
Other cash	860,828	1,804,921	--	--
Conversion of notes payable	580,100	1,185,054	--	--
Conversion of preferred stock	57,500	109,897	--	--
Redemption of preferred stock	--	--	--	--
Issuance costs	249,959	(679,110)	--	--
Warrants issued:				
Warrant dividend	--	(9,699,079)	--	--
Common stock	--	--	--	--
Preferred stock	--	--	--	--
Services	--	--	--	--
Cash	--	--	--	--
Restricted Stock:				
Issued	35,000	200,185	--	--
Forfeited	(58,268)	(87,010)	--	--
Amortization expense	--	--	--	--
Preferred stock dividends	--	--	--	--
Net loss	--	--	--	--
	-----	-----	-----	-----
BALANCES, December 31, 2000	8,137,181	1,340,074	--	--
Stock issued:				
Cash	1,092,953	421,566	--	--

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Stock subscriptions receivable	800,000	610,000	(610,000)
Acquisition of assets	87,000	261,000	--
Purchase of intangible asset	50,000	83,750	--
Guarantee of debt financing	100,000	120,000	--
Conversion of accounts payable	--	--	--
Conversion of accrued liabilities	10,000	9,007	--
Conversion of notes payable	20,000	50,000	--
Conversion of preferred stock	382,027	528,742	--
Conversion of dividends payable	--	--	--
Redemption of preferred stock	--	--	--
Discount on preferred stock related to warrants	--	--	--
Interest receivable on stock subscription receivable	--	--	(21,619)
Warrants issued:			
Preferred stock	--	--	--
Common stock	--	--	--
Debt	--	--	--
Deferred compensation expense related to stock options issued below fair market value	--	--	--
Deferred compensation expense	--	--	--
Restricted stock:			
Issued	83,000	308,145	--
Forfeited	(82,711)	(289,180)	--
Amortization expense	--	--	--
Repricing of warrants	--	--	--

	Accumulated Deficit	Total
	-----	-----
BALANCES, December 31, 1999	\$ (3,867,301)	\$ 1,026,344
Stock issued:		
Options and warrants exercised	--	3,789,768
Other cash	--	3,828,353
Conversion of notes payable	--	1,185,054
Conversion of preferred stock	--	--
Redemption of preferred stock	--	(79,765)
Issuance costs	--	(679,110)
Warrants issued:		
Warrant dividend	(3,556,790)	--
Common stock	--	495,971
Preferred stock	--	234,668
Services	--	208,000
Cash	--	100,000
Restricted Stock:		
Issued	--	--
Forfeited	--	--
Amortization expense	--	93,696
Preferred stock dividends	(846,180)	(90,796)
Net loss	(4,235,831)	(4,235,831)
	-----	-----
BALANCES, December 31, 2000	(12,506,102)	5,876,352
Stock issued:		
Cash	--	742,066
Stock subscriptions receivable	--	--
Acquisition of assets	--	367,400
Purchase of intangible asset	--	83,750
Guarantee of debt financing	--	120,000

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Conversion of accounts payable	--	35,000
Conversion of accrued liabilities	--	105,313
Conversion of notes payable	--	208,044
Conversion of preferred stock	--	9,242
Conversion of dividends payable	--	60,300
Redemption of preferred stock	--	(538,199)
Discount on preferred stock related to warrants	68,948	116,226
Interest receivable on stock subscription receivable	--	(21,619)
Warrants issued:		
Preferred stock	--	87,403
Common stock	--	544,683
Debt	--	1,382,126
Deferred compensation expense related to stock options issued below fair market value	--	--
Deferred compensation expense	--	239,461
Restricted stock:		
Issued	--	--
Forfeited	--	--
Amortization expense	--	92,749
Repricing of warrants	(6,919,692)	--

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Embedded value with Pyramid Trading warrants	--	--	--
Preferred stock dividends	--	--	--
Net loss	--	--	--
-----			
BALANCES, December 31, 2001	10,679,450	3,443,104	(631,619)
Stock issued:			
Cash	1,571,334	287,414	7,850
Notes receivable	--	(40,563)	40,563
Acquisition of assets	--	--	--
Guarantee of debt financing	25,000	14,750	--
Services rendered	12,000	14,700	--
Conversion of accounts payable	7,500	7,255	--
Conversion of notes payable and accrued interest	554,569	460,001	--
Conversion of accrued interest	117,787	119,881	--
Conversion of preferred stock	140,000	150,000	--
Redemption of preferred stock	--	--	--
Discount on preferred stock related to warrants issued	--	--	--
Interest receivable on stock subscription receivable	--	--	(49,989)
Warrants issued:			
Preferred stock	--	--	--
Common stock	--	--	--
Debt	--	--	--
Deferred compensation expense related to stock options issued below fair market value	--	53,745	--

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Deferred compensation expense	--	--	--
Restricted stock:			
Issued and outstanding	22,434	21,255	--
Forfeited	(19,597)	(65,710)	--
Amortization expense	--	--	--
Embedded value with Pyramid Trading warrants	--	--	--
Preferred stock dividends	--	--	--
Net loss	--	--	--
	-----	-----	-----
BALANCES, December 31, 2002	13,110,477	\$ 4,465,832	\$ (633,195) \$
	=====	=====	=====
Embedded value with Pyramid Trading warrants	--	431,925	
Preferred stock dividends	(432,669)	(432,669)	
Net loss	(5,325,552)	(5,325,552)	
	-----	-----	
BALANCES, December 31, 2001	(25,115,067)	4,184,001	
Stock issued:			
Cash	--	395,264	
Notes receivable	--	--	
Acquisition of assets	--	--	
Guarantee of debt financing	--	14,750	
Services rendered	--	14,700	
Conversion of accounts payable	--	7,255	
Conversion of notes payable and accrued interest	--	760,001	
Conversion of accrued interest	--	119,881	
Conversion of preferred stock	--	--	
Redemption of preferred stock	--	(84,000)	
Discount on preferred stock related to warrants issued	(9,295)	(357,262)	
Interest receivable on stock subscription receivable	--	(49,989)	
Warrants issued:			
Preferred stock	--	324,324	
Common stock	--	575,119	
Debt	--	879,382	
Deferred compensation expense related to stock options issued below fair market value	--	4,707	
Deferred compensation expense	--	78,292	
Restricted stock:			
Issued and outstanding	--	--	
Forfeited	--	--	
Amortization expense	--	400,000	
Embedded value with Pyramid Trading warrants	--	(32,503)	
Preferred stock dividends	(153,578)	(153,578)	
Net loss	(4,438,059)	(4,438,059)	
	-----	-----	
BALANCES, December 31, 2002	\$ (29,715,999)	\$ 2,642,285	
	=====	=====	

See accompanying notes to consolidated financial statements.

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VICOM, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2002, 2001, and 2000

	2002	2001	
<hr/>			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	\$ (4,438,059)	\$ (5,325,552)	\$ (4,235,000)
Adjustments to reconcile net loss to cash flows from operating activities:			
Depreciation	981,985	1,019,581	673,000
Amortization	133,472	391,183	428,000
Amortization of deferred compensation	482,999	332,210	
Amortization of original issue discount	1,103,314	797,169	
Write off of notes receivable and investment	60,000	--	
Impairment reserve on property and equipment	119,480	--	
Common stock issued for services	27,700	--	
Loss on sale of property and equipment	31,412	846	
Interest receivable on stock subscription receivable	(49,989)	(21,619)	
Warrants issued for services	--	87,403	208,000
Warrants issued with debt conversion	183,903	--	
Discount on preferred stock related to warrants	--	(33,178)	
Changes in operating assets and liabilities:			
Accounts receivable, net	576,509	3,087,313	(291,000)
Inventories, net	182,783	705,050	(320,000)
Other current assets	(205,483)	47,031	225,000
Other assets	43,210	--	(2,000)
Wholesale line of credit	(34,424)	(708,533)	2,033,000
Accounts payable and accrued liabilities	38,344	(978,479)	(2,092,000)
Deferred service obligations and revenue	(106,877)	97,465	(265,000)
Net Cash Flows from Operating Activities	(869,721)	(502,110)	(3,640,000)
<hr/>			
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property and equipment	1,239,313	60,019	
Purchases of property and equipment	(1,275,434)	(1,884,945)	(1,316,000)
Payments received on notes receivable	6,786	59,084	45,000
Issuance of notes receivable	--	--	(96,000)
Net Cash Flows from Investing Activities	(29,335)	(1,765,842)	(1,367,000)
<hr/>			
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in checks issued in excess of deposits	--	--	(126,000)
Proceeds from long-term debt and warrants issued with long-term debt	1,172,064	1,919,650	2,282,000
Net payments under short-term loans	--	--	(1,307,000)
Principal payments on notes and installment obligations	--	--	(2,482,000)
Payments on long-term debt	(131,605)	(461,808)	
Payments on capital lease obligations	(937,828)	(315,770)	
Proceeds from issuance of stock and warrants	949,533	1,270,612	8,448,000



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Stock issuance costs	--	--	(679)
Redemption of preferred stock	(84,000)	(538,199)	(79)
Preferred dividends	(153,578)	(143,167)	(90)
	-----	-----	-----
Net Cash Flows from Financing Activities	814,586	1,731,318	5,964
	-----	-----	-----
Net Change in Cash and Cash Equivalents	(84,470)	957,114	(536)
	-----	-----	-----
CASH AND CASH EQUIVALENTS - Beginning of Year	624,845	1,161,479	204
	-----	-----	-----
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 540,375	\$ 624,845	\$ 1,161
	=====	=====	=====

See accompanying notes to consolidated financial statements.

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### VICOM, INCORPORATED AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2002, 2001 and 2000

-----  
NOTE 1 - Summary of Significant Accounting Policies  
=====

#### Nature of Business

Vicom, Inc. (the Company) was incorporated in Minnesota in September 1975. The Company provides voice, data and video services to business, government and multi-dwelling customers. The Company's products and services are sold to customers located throughout the midwest geographical area of the United States of America.

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 years ended December 31, 2002, 2001, and 2000, the Company incurred net losses of \$4,438,059, \$5,325,552 and \$4,235,831, respectively. At December 31, 2002, the Company had an accumulated deficit of \$29,715,999. 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.

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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.

### Principles of Consolidation

The consolidated financial statements include the accounts of Vicom, Incorporated (Vicom) and its wholly owned subsidiaries, Vicom Midwest Telecommunication Systems, Inc. (VMTS), Corporate Technologies, USA, Inc. (CTU), and Multiband, Inc. (Multiband) which provides voice, data and video services to residential multi-dwelling units. All significant inter-company transactions and balances have been eliminated in consolidation.

### Revenues and Cost Recognition

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.

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.

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VICOM, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2002, 2001 and 2000

-----  
NOTE 1 - Summary of Significant Accounting Policies (cont.)  
=====

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.

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

### Cash and Cash Equivalents

The Company includes as cash equivalents certificates of deposit and all other investments with original maturities of three months or less when purchased which are readily convertible into known amounts of cash. The Company deposits its cash in high credit quality financial institutions. The balances, at times, may exceed federally insured limits.

### Accounts Receivable

The Company reviews customers' credit history before extending unsecured credit and establishes an allowance for uncollectible accounts based upon factors surrounding the credit risk of specific customers and other information. Invoices are due 30 days after presentation. Accounts receivable over 30 days are considered past due. The Company does not accrue interest on past due accounts receivable. The Company writes off accounts receivable when they are deemed uncollectible. Accounts receivable are shown net of an allowance for uncollectible accounts of \$236,000 and \$178,000 at December 31, 2002 and 2001, respectively. Accounts receivable over 90 days were \$331,000 and \$557,000 at December 31, 2002 and 2001, respectively.

### Inventories

Inventories, consisting principally of purchased telecommunication, networking and computer equipment and parts, are stated at the lower of cost or market. Cost is determined using an average cost method for telecommunication and networking equipment and the first-in, first-out (FIFO) method for computer equipment. Nonmonetary exchanges of inventory items with third parties are recorded at the net book value of the items exchanged with no gains or losses recognized. The Company established a reserve to account for potential obsolescence of \$340,900 and \$321,000 at December 31, 2002 and 2001, respectively.

### Property and Equipment

Property, equipment and leasehold improvements are recorded at cost. Improvements are capitalized while repairs and maintenance costs are charged to operations when incurred. Property and equipment is depreciated or amortized using the straight-line method over estimated useful lives ranging from three to seven years. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the assets.

### Debt Issuance Costs

Debt issuance costs are amortized over the one year life of the loan using the straight-line method, which approximates the interest method.

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VICOM, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2002, 2001 and 2000

-----  
NOTE 1 - Summary of Significant Accounting Policies (cont.)

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### Goodwill

Goodwill represents the excess of acquisition costs over the fair value of identifiable net assets acquired and was being amortized using the straight-line method over ten years. Accumulated amortization was \$782,278 at December 31, 2002 and 2001. The Company did not record any impairment charges related to goodwill and property and equipment during the years ended December 31, 2002, 2001 and 2000.

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations", effective for acquisitions initiated on or after July 1, 2001, and No. 142, "Goodwill and Other Intangible Assets", effective for fiscal years beginning after December 15, 2001. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, and includes guidance on the initial recognition and measurement of goodwill and other intangible assets arising from business combinations. SFAS No. 142 indicates that goodwill (and intangible assets deemed to have indefinite lives) will no longer be amortized but will be subject to annual impairment tests. Other intangible assets will continue to be amortized over their useful lives. The Company adopted SFAS No. 142 effective January 1, 2002. The Company performed the required goodwill impairment test during the year ended December 31, 2002. As part of adopting this standard, the Company obtained an independent appraisal to assess the fair value of its business units to determine whether goodwill carried on its books was impaired and the extent of such impairment, if any. The independent appraisal used the income method to measure the fair value of its business units. Under the income method, value is dependent on the present value of future economic benefits to be derived from ownership. Future net cash flows available for distribution are discounted at market-based rates of return to provide indications of value. The independent appraiser used a discount factor of 18.35%. Based upon this independent appraisal, the Company determined that its current goodwill balances were not impaired as of December 31, 2002.

Components of intangible assets are as follows:

	December 31, 2002		December 31, 2001
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount
Intangible assets subject to amortization			
Domain name	\$ 83,750	\$ 22,333	\$ 83,750
Intangible assets not subject to amortization			
Goodwill	\$3,531,157	\$ 782,278	\$3,531,157

Amortization of intangible assets was \$16,750, \$5,583 and \$0 for the years ended December 31, 2002, 2001 and 2000, respectively. Estimated amortization expense of intangible assets for the years ending December 31, 2003, 2004, 2005 and 2006 is \$16,750, \$16,750, \$16,750 and \$11,167, respectively. The Company's net loss, excluding goodwill amortization expense, for the years ended December 31, 2002, 2001 and 2000 would have been as follows had we adopted SFAS No. 142 on January 1, 2000:

VICOM, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2002, 2001 and 2000

-----  
NOTE 1 - Summary of Significant Accounting Policies (cont.)  
=====

	2002	2001
	-----	-----
Loss attributable to common stockholders - as reported	\$ (4,591,637)	\$ (5,758,221)
SFAS No. 142 amortization adjustment	\$ --	\$ 345,600
Loss attributable to common stockholders - as adjusted	\$ (4,591,637)	\$ (5,412,621)
Basic and diluted net loss per share - as reported	\$ (0.39)	\$ (0.66)
Basic and diluted net loss per share - adjusted	\$ (0.39)	\$ (0.62)

Intangible Asset

The Company amortizes a domain name acquired during the year ended December 31, 2001 over its estimated useful life of five years using the straight-line method.

Credit Risk

Credit risk on accounts receivable, although concentrated in one geographic region, is minimized as a result of the large and diverse nature of the Company's customer base.

Advertising Costs

Advertising costs are charged to expense as incurred. Advertising costs were \$104,788, \$230,629 and \$188,444 for the years ended December 31, 2002, 2001 and 2000, respectively, and are included in selling, general and administrative expenses in the consolidated statements of operations.

Shipping and Handling Costs

In accordance with Emerging Issues Task Force (EITF) Issue 00-10, "Accounting for Shipping and Handling Fees and Costs," the Company is including shipping and handling revenues in revenues and shipping and handling costs in cost of products and services.

Income Taxes

The Company utilizes the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between the financial statement and income tax reporting bases of assets and liabilities. Deferred tax assets are reduced by a valuation allowance to the extent that realization is not assured.

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## 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. Options and warrants issued to nonemployees are recorded at fair value, as required by SFAS No. 123 "Accounting for Stock-Based Compensation," using the Black Scholes pricing model.

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### VICOM, INCORPORATED AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2002, 2001 and 2000

-----  
NOTE 1 - Summary of Significant Accounting Policies (cont.)  
=====

Pursuant to APB No. 25 and related interpretations, \$482,999, \$332,210 and \$0 of compensation cost has been recognized in the accompanying consolidated statements of operations for the years ended December 31, 2002, 2001 and 2000, respectively. Had compensation cost been recognized based on the fair values of options at the grant dates consistent with the provisions of SFAS No. 123, 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 following pro forma amounts:

	2002 -----	2001 -----	2000 -----
Loss attributable to common stockholders	\$(4,591,637)	\$(5,758,221)	\$(5,082,210)
Pro forma loss attributable to common shares	\$(4,915,649)	\$(6,131,692)	\$(5,415,649)
Basic and diluted net loss per share:			
As reported	\$ (0.39)	\$ (0.66)	\$ (0.66)
Pro forma loss attributable to common shares	\$ (0.42)	\$ (0.70)	\$ (0.70)
Stock-based compensation:			
As reported	\$ 482,999	\$ 332,210	\$ 332,210
Proforma	\$ 324,012	\$ 373,471	\$ 333,471

In determining the compensation cost of the options granted during fiscal 2002, 2001, and 2000, 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:

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	2002	2001
Risk-free interest rate	4.40%	5.00%
Expected life of options granted	10 years	10 years
Expected volatility range	170%	110%
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 restricted stock outstanding during the years ended December 31, 2002, 2001 and 2000 were anti-dilutive.

### Recent Accounting Pronouncements

In April 2002, FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," effective for fiscal years beginning after May 15, 2002. 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.

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## VICOM, INCORPORATED AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2002, 2001 and 2000

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#### NOTE 1 - Summary of Significant Accounting Policies (cont.)

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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.

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

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In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS No. 148 is an amendment to SFAS No. 123 providing alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and also provides required additional disclosures about the method of accounting for stock-based employee compensation. The amendments are effective for financial statements for fiscal years ending after December 15, 2002 and for the interim periods beginning after December 15, 2002. The Company adopted the annual disclosure provisions of SFAS No. 148. The Company has currently chosen not to adopt the voluntary change to the fair value based method of accounting for stock-based employee compensation, pursuant to SFAS No. 148, which, if adopted, could have a material effect on the Company's consolidated financial position or results of operations.

### Management's Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant management estimates relate to the allowances for doubtful accounts and inventory obsolescence, property and equipment estimated useful lives, goodwill carrying value and the valuation of deferred income tax assets.

### Financial Instruments

The carrying amounts for all financial instruments approximates fair value. The carrying amounts for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments. The fair value of capital lease obligations and long-term debt approximates the carrying amounts based upon the Company's expected borrowing rate for debt with similar remaining maturities and comparable risk.

### Reclassifications

Certain accounts in the prior years' consolidated financial statements have been reclassified for comparative purposes to conform with the presentation in the current year consolidated financial statements. These reclassifications had no effect on net loss or stockholders' equity.

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## VICOM, INCORPORATED AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2002, 2001 and 2000

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#### NOTE 2 - Business Acquisitions

---

On May 21, 2001, the Company purchased certain assets and assumed certain liabilities of Red River Computers, Inc. The purchase price was allocated to the acquired assets and assumed liabilities based on the estimated fair values as of the acquisition date. The purchase price was allocated to assets and liabilities acquired as follows:



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Inventories	\$ 210,895
Property and equipment	28,223
Service obligations	(2,154)
	-----
Net assets acquired	236,964
Goodwill	180,442
	-----
Total purchase price	\$ 417,406
	=====

The consideration consisted of \$50,000 in cash, 87,000 common shares of the Company with an assigned value of \$261,000, and 10,460 Class A 8% cumulative, convertible preferred shares of the Company with an assigned value of \$106,406 based on a \$10 per share stated value. The value assigned to common stock of \$3 per share was based on the approximate average of the Company's common stock ten trading days before May 21, 2001. The consolidated results of operations on an unaudited pro forma basis are not presented separately as the results do not differ significantly from historical amounts presented herein.

-----  
NOTE 3 - Property and Equipment  
=====

Property and equipment consisted of the following at December 31:

	2002	2001
	-----	-----
Leasehold improvements	\$ 732,931	\$ 130,733
Property and equipment - owned	4,230,560	3,621,407
Property and equipment under capital lease obligations	456,124	1,388,184
In process equipment (Multiband)	--	947,252
	-----	-----
	5,419,615	6,087,576
Less accumulated depreciation and amortization	(2,170,642)	(2,027,745)
	-----	-----
	\$ 3,248,973	\$ 4,059,831
	=====	=====

Depreciation and amortization expense on property and equipment was \$981,985, \$1,019,581 and \$673,074 for the years ended December 31, 2002, 2001 and 2000, respectively.

VICOM, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2002, 2001 and 2000

-----  
NOTE 4 - Other Assets  
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Other assets consisted of the following at December 31:

	2002	2001
	-----	-----
Current assets:		
Current portion of notes receivable	\$ 52,977	\$ 60,092
Prepaid expenses and other	173,797	235,232
	-----	-----
	\$226,774	\$295,324
	=====	=====
Noncurrent assets:		
Notes receivable, less current portion	\$ --	\$ 33,908
Domain name	61,417	78,167
Prepaid expenses and other	109,236	148,537
	-----	-----
	\$170,653	\$260,612
	=====	=====

At December 31, 2002 and 2001, the Company had notes receivable of \$52,977 and \$94,000. The notes are due through December 2003 with interest ranging from 12% to 16% and are secured by equipment and unsecured.

-----  
 NOTE 5 - Accrued Liabilities  
 =====

Accrued liabilities consisted of the following at December 31:

	2002	2001
	-----	-----
Payroll and related taxes	\$398,415	\$396,285
Other	316,064	380,132
	-----	-----
	\$714,479	\$776,417
	=====	=====

-----  
 NOTE 6 - Wholesale Line of Credit  
 =====

At December 31, 2002, the Company has a \$1,450,000 wholesale line of credit agreement with a financial institution, which expires with 30 day notice by either party, for the purchase of certain resale merchandise from certain suppliers. Interest is generally at 0% (if paid within certain terms, generally 30 days), and the wholesale line of credit is collateralized by the related inventories, accounts receivable and the \$1,450,000 letters of credit noted in Note 7. The wholesale line of credit agreement is an agreement between the Company, financial institution, and certain vendors of the Company. The Company receives no funds from the financial institution, but pays the financial institution rather than certain vendors. The balance outstanding was \$1,290,383 and \$1,324,807 at December 31, 2002 and 2001, respectively.

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 NOTE 7 - Long-term Debt  
 =====

Long-term debt consisted of the following at December 31:

	2002	2001
	-----	-----
Note payable - Pyramid Trading Limited Partnership, net of unamortized original issue discount and beneficial conversion of note payable into common stock of \$59,250 and \$812,500 at December 31, 2002 and 2001, respectively, quarterly interest only payments through December 2002 at 8%, due May 2004, unsecured (see Note 16).	\$ 902,971	\$ 6,000
Debenture payable - Convergent Capital Partners I, L.P., net of original issue discount of \$595,295 and \$204,382 at December 31, 2002 and 2001, respectively, monthly interest only payments through July 2005, monthly installments of \$102,273 including interest at 14% (effective interest rate 18.4%), thereafter, due May 2007, secured by substantially all of the assets of the Company.	1,804,705	2,000
Demand debenture payable - Convergent Capital Partners I, L.P., monthly interest only payments at 14% through May 2007, due on demand or May 2007, secured by substantially all of the assets of the Company.	100,000	
Note payable - Lexus Tower Limited Partnership, monthly installments of \$5,987 including interest at 8.4%, due through November 2010, secured by certain assets of the Company.	418,872	
Notes payable, interest at 6% to 14% due through March 2011, secured by certain assets of the Company.		
	209,047	
	-----	-----
Total long-term debt	3,435,595	2,700
Less: current portion	(321,589)	( )
	-----	-----
Long-term debt, net	\$ 3,114,006	\$ 2,600
	=====	=====

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VICOM, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 December 31, 2002, 2001 and 2000

-----  
 NOTE 7 - Long-term Debt (cont.)  
 =====

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Future maturities of long-term debt are as follows for the years ending December 31:

2003	\$	321,589
2004		1,022,065
2005		566,005
2006		1,335,437
2007		649,810
Thereafter		195,234
		-----
Total future minimum payments		4,090,140
Less: original issue discounts and beneficial conversion of note payable into common stock		(654,545)
		-----
Present value of future minimum payments		3,435,595
Less: current portion		(321,589)
		-----
Long-term debt, net	\$	3,114,006
		=====

In 2000, the Company entered into a \$2,250,000 debenture agreement with Convergent Capital Partners I, L.P., with interest at 14% payable monthly and monthly payments of \$102,273 from August 1, 2003 through June 1, 2005. The debenture is secured by substantially all Company assets. In connection with this debenture, the Company issued 150,000 warrants to purchase common stock at prices ranging from \$1.50 to \$5.20 per share. The proceeds of \$2,250,000 were allocated between the debenture and the warrant based on the relative fair values of the securities at the time of issuance. The warrants were valued using the Black Scholes pricing model. 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 2002, the Company amended the debenture agreement with Convergent Capital Partners I, L.P., and borrowed an additional \$150,000 with interest at 14% payable monthly and monthly principal payments from August 2005 through May 2007. In connection with this debenture, the Company issued an additional 500,000 seven-year warrants to purchase common stock at \$1.10 per share. The additional warrants were valued using the Black Scholes pricing model. 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. The Company was in violation of certain covenants of this debt agreement. A waiver was obtained from the lender. The debenture payable may be redeemed at the Company's option at a premium declining ratably thereafter to par value in April 2005.

On January 23, 2001, the Company borrowed \$1,500,000 and issued a warrant to the lender to purchase 375,000 common shares at \$4.00 per share through January 2003. The debt is also convertible into common stock of the Company at a conversion rate of \$4.75 per share through January 2003. The proceeds of \$1,500,000 were allocated between the note, and the fair value of the warrants based on using the Black Scholes pricing model. An additional 375,000 five-year warrants were issued in April 2002 and the fair value of the warrants was expensed as additional interest expense as of December 31, 2002. The resulting original issue discount, the fair value of the warrant, and the beneficial conversion of the note payable into common stock as defined in EITF 00-27

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"Application of Issue No. 98-5 to Certain Convertible Instruments"), is being amortized over the life of the note using the straight-line method, which approximates the interest method (see Note 16).

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### VICOM, INCORPORATED AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002, 2001 and 2000

-----  
 NOTE 7 - Long-term Debt (cont.)  
 =====

During 2002, the Company borrowed \$600,000 and issued a five-year warrant to one of its directors to purchase 120,000 common shares at \$1.50 per share. The proceeds of \$600,000 were allocated between the note and the fair value of the warrants using the Black Scholes pricing model. The resulting original issue discount, the fair value of the warrants, was being amortized over the life of the note using the straight-line method which approximates the interest method. In December 2002, the lender converted the note payable into 60,000 shares of Class E convertible preferred stock. The remaining unamortized original issue discount amount was expensed at the time of the conversion.

Interest expense to related parties for the years ended December 31, 2002, 2001, and 2000 was approximately \$228,000, \$3,000 and \$153,000, respectively.

The Company also had \$1,450,000 of outstanding letters of credit at December 31, 2002 and 2001 (see Note 6).

-----  
 NOTE 8 - Capital Lease Obligations  
 =====

The Company has lease financing facilities for property, equipment and leasehold improvements. Leases outstanding under these agreements bear interest at an average rate of 10.56% and expire through October 2007. The obligations are secured by the property under lease. Total cost and accumulated amortization of the leased equipment was \$456,124 and \$219,332 at December 31, 2002 and \$1,388,184 and \$492,532 at December 31, 2001.

Future minimum capital lease payments are as follows for the years ending December 31:

2003	\$	79,307
2004		52,298
2005		52,298
2006		52,298
2007		36,081
		-----
Total		272,282
Less: amounts representing interest		(53,368)
		-----
Present value of future minimum lease payments		218,914
Less: current portion		(59,570)

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Capital lease obligations, net of current portion	\$	159,344
---	----	---------

NOTE 9 - Stockholders' Equity

Capital Stock Authorized

The articles of incorporation authorize the Company to issue 50,000,000 shares of no par capital stock. Authorization to individual classes of stock are determined by a Board of Directors resolution. The authorized classes of stock at December 31, 2002 are the following: 275,000 shares of Class A cumulative convertible preferred stock, 60,000 shares of Class B cumulative convertible preferred stock, 250,000 shares of Class C cumulative convertible preferred stock, 250,000 shares of Class D cumulative convertible preferred stock, and 400,000 shares of Class E cumulative convertible preferred stock.

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NOTE 9 - Stockholders' Equity (cont.)

Cumulative Convertible Preferred Stock

Dividends on Class A, Class C, Class D, and Class E cumulative convertible preferred stock are cumulative and payable quarterly at 8%, 10%, 14%, and 15% per annum, respectively. Cumulative convertible preferred stock can be converted into common shares at any time as follows: Class A and Class B - five shares, Class C - two shares, Class D - two and one-half shares, and Class E - eight shares. The intrinsic value of any beneficial conversion option is recorded as preferred stock dividends at the time of preferred stock issuance. Dividends on Class B preferred are cumulative and payable monthly at 10% per annum. The dividends are based on \$10 per share for all preferred shares. The Class B preferred was offered to certain note payable holders at a conversion of \$10 per Class B preferred share. All preferred stock is non-voting. Warrants to purchase shares of the Company's common stock were given with the issuance of Class A, Class B, Class D, and Class E preferred stock and were valued at fair value using the Black Scholes pricing model. The Company may, but is not obligated to, redeem the preferred stock at \$10.50 per share for Class A and Class B and \$10.00 per share for Class C, Class D, and Class E, whenever the Company's common stock price exceeds certain defined criteria as defined in the preferred stock agreements. Upon the Company's call for redemption, the holders of the preferred stock called for redemption have the option to convert each preferred share into shares of the Company's common stock. Holders of preferred stock cannot require the Company to redeem their shares. The liquidation preference is the same as the redemption price for each class of preferred stock.

Stock Compensation Plans

The Company has a 1999 Stock Compensation Plan, which permits the issuance of restricted stock and stock options to key employees and agents. All outstanding incentive stock options granted under the prior 1997 Stock Options Plan continue until all agreements have expired. There are 2,500,000 shares of common stock reserved for issuance through restricted stock, non-qualified stock option awards and incentive stock option awards. The Plans also provide that the term of each award be determined by the Board of Directors. Under the Plans, the

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exercise price of incentive stock options may not be less than the fair market value of the stock on the award date, and the options are exercisable for a period not to exceed ten years from award date.

The Company also has a 2000 Non-employee Director Stock Compensation Plan, which permits the issuance of stock options for 300,000 shares of common stock to non-employee directors. The exercise price of the stock options is the fair market value of the stock on the award date, and the options are exercisable for a period not to exceed ten years from award date.

### Employee Stock Purchase Plan

The Company has a 2000 Employee Stock Purchase Plan, which allows for the sale of 400,000 shares of Company common stock to qualified employees. At December 31, 2002, no shares were issued under the Plan.

### Stock Subscriptions Receivable

The Company has stock subscriptions receivable including interest receivable totaling \$633,195 and \$631,619 due to the Company at December 31, 2002 and 2001, respectively, from the issuance of common stock. Monthly interest only payments at interest ranging from 9% to 10% are required through December 2003 at which time any unpaid stock subscription receivable is due. The receivables are secured by the common stock issued.

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## VICOM, INCORPORATED AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002, 2001 and 2000

-----  
 NOTE 9 - Stockholders' Equity (cont.)  
 =====

#### Restricted Stock

The Company awards restricted common shares to selected employees. Recipients are not required to provide any consideration other than services. Company share awards are subject to certain restrictions on transfer, and all or part of the shares awarded may be subject to forfeiture upon the occurrence of certain events, including employment termination. The intrinsic value at the date of grant related to the shares awarded is generally amortized over three years, the vesting term of the awards. Compensation expense recorded during the years ended December 31, 2002, 2001, and 2000 in connection with the amortization of the award cost was \$78,292, \$92,749 and \$93,696, respectively.

Restricted stock activity is as follows for the years ended December 31:

	2002	2001
	-----	-----
Outstanding, January 1	75,337	113,829
Issued	22,434	83,000
Vested	(33,107)	(38,781)
Forfeited	(19,598)	(82,711)
	-----	-----

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Outstanding, December 31 45,066 75,337

Stock Options

Stock option activity is as follows for the years ended December 31:

	Options			Weighted-Average	
	2002	2001	2000	2002	
Outstanding, January 1	1,050,024	1,145,507	998,591	\$ 2.55	\$
Granted	249,300	839,500	440,700	0.96	
Exercised	-	(615,933)	(221,217)	-	
Forfeited	(206,167)	(319,050)	(72,567)	1.86	
Outstanding, December 31	1,093,157	1,050,024	1,145,507	\$ 2.45	\$

The weighted-average grant-date fair value of options granted during the years ended December 31, 2002, 2001, and 2000 was \$0.86, \$2.94 and \$2.38, respectively.

Options outstanding and exercisable as of December 31, 2002, are as follows:

Range of Exercise Prices	Outstanding			Exercisable
	Options	Weighted - Average Exercise Price	Remaining Contractual Life-Years	
\$ .60 to \$1.00	319,300	\$ 0.64	7.90	240,000
\$1.50 to \$2.50	410,991	1.94	7.69	380,991
\$2.88 to \$4.40	128,333	3.48	7.52	73,083
\$4.75 to \$6.75	234,533	5.25	7.50	213,766
\$ .60 to \$6.75	1,093,157	\$ 2.45	7.69	907,840



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NOTE 9 - Stockholders' Equity (cont.)

Stock Warrants

Stock warrants activity is as follows for the years ended December 31:

	Outstanding			Weighted - Average	
	2002	2001	2000	2002	
Outstanding, January 1	9,564,450	8,093,464	836,100	\$ 2.37	\$
Granted	2,546,690	9,483,530	8,760,964	1.46	
Exercised	--	--	(1,206,000)	--	
Forfeited	(7,783,744)	(8,012,544)	(297,600)	2.25	
Outstanding, December 31	4,327,396	9,564,450	8,093,464	\$ 2.05	\$

The weighted-average grant-date fair value of warrants granted during the years ended December 31, 2002, 2001 and 2000 was \$1.00, \$1.79 and \$1.63, respectively.

Warrants outstanding and exercisable as of December 31, 2002, are as follows:

Range of Exercise Prices	Warrants	Weighted - Average	
		Exercise Price	Remaining Contractual Life-Years
\$1.00 to \$1.25	1,582,690	\$ 1.08	5.21
\$1.50 to \$2.00	1,039,373	1.76	3.92
\$2.24 to \$2.40	1,109,800	2.32	3.27
\$3.00 to \$4.00	474,613	3.92	0.62
\$4.44 to \$5.20	120,920	4.69	4.66
\$1.00 to \$5.20	4,327,396	\$ 2.05	3.89

Stock warrants were awarded for:

	2002	2001	2000
Warrant dividend	--	--	7,531,744
Warrant repricing	--	8,012,544	--
Common stock	728,357	441,642	898,300
Cash	--	--	150,000
Services rendered	103,333	455,756	--
Preferred stock	420,000	48,588	80,920
Multiband startup	--	--	50,000
Debt issuance and guarantees	1,295,000	525,000	50,000
	2,546,690	9,483,530	8,760,964

The warrant dividend was declared in April 2000. For each share of common stock

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outstanding, one warrant was issued to purchase common stock at \$8.75 per share for two years. These warrants have expired as of December 31, 2002.

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### VICOM, INCORPORATED AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2002, 2001 and 2000

-----  
NOTE 9 - Stockholders' Equity (cont.)  
=====

On August 2, 2001, the Company approved the repricing of all outstanding warrants issued at \$8.75 to \$2.25. The expiration date of these warrants was extended to October 11, 2002. The Company recorded \$6,919,692 to the accumulated deficit related to the change in warrant value using the Black Scholes pricing model.

All warrants were recorded at fair value using the Black Scholes pricing model.

The fair value of stock warrants is the estimated present value at grant date using the Black Scholes pricing model with the following weighted-average assumptions:

	2002	2001	2000
	-----	-----	-----
Risk-free interest rate	3.90%	5.30%	6.49%
Expected life	4.5 years	4.5 years	2.2 years
Expected volatility	151.3%	94.3%	28%
Expected dividend rate	0%	0%	0%

-----  
NOTE 10 - Income Taxes  
=====

The Company has generated federal and state net operating losses of approximately \$19,100,000 and \$9,100,000, respectively, which, if not used, will begin to expire in 2004. Future changes in the ownership of the Company may place limitations on the use of these net operating loss carryforwards.

The Company has recorded a full valuation allowance against its deferred tax asset due to the uncertainty of realizing the related benefits. The income tax provision is as follows for the years ended December 31:

	2002	2001	2000
	-----	-----	-----
Current	\$ --	\$ --	\$9,000
Deferred	--	--	--
	-----	-----	-----
	\$ --	\$ --	\$9,000
	=====	=====	=====

Components of net deferred income taxes are as follows at December 31:

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	2002	2001
	-----	-----
Deferred income tax assets:		
Net operating loss carryforwards	\$ 7,633,000	\$ 7,250,000
Goodwill	90,000	100,000
Asset valuation reserves	231,000	200,000
Accrued liabilities	69,000	100,000
	-----	-----
	8,023,000	7,650,000
Less valuation allowance	(7,952,000)	(7,550,000)
	-----	-----
	71,000	100,000
Deferred income tax liabilities - depreciation	(71,000)	(100,000)
	-----	-----
Net deferred income tax assets	\$ --	\$ --
	=====	=====

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VICOM, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2002, 2001 and 2000

-----  
NOTE 10 - Income Taxes  
=====

Income tax computed at the U.S. federal statutory rate reconciled to the effective tax rate is as follows for the years ended December 31:

	2002	2001	2000
	-----	-----	-----
Federal statutory tax rate benefits	(35.0)%	(35.0)%	(34.0)%
State tax, net of federal benefit	(5.0)	(5.0)	0.0
Change in valuation allowance net of net operating loss carryforward not recognized	36.1	33.0	34.4
Other	3.9	7.0	(0.2)
	-----	-----	-----
Effective tax rate	0.0%	0.0%	0.2%
	=====	=====	=====

State income tax effect for the year ended December 31, 2000 is not material and therefore not separately shown.

The Company has the following net operating loss carryforwards at December 31, 2002, for income tax purposes:

Year of Expiration	Federal Net Operating Loss	State Net Operating Loss
-----	-----	-----
2004	\$ 1,050,000	\$ 1,050,000
2005	599,000	599,000

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2007	501,000	501,000
2008	59,000	57,000
2009	22,000	22,000
2011	595,000	575,000
2012	25,000	-
2018	1,122,000	1,096,000
2019	1,585,000	992,000
2020	4,839,000	1,587,000
2021	4,726,000	1,435,000
2022	3,960,000	1,227,600
	-----	-----
\$	19,083,000	\$ 9,141,600
	=====	=====

Under Internal Revenue Code Section 382, utilization of federal losses expiring prior to 2019 are limited to approximately \$375,000 each year.

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VICOM, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2002, 2001 and 2000

-----  
NOTE 11 - Supplemental Cash Flows Information  
=====

	2002	2001	
	-----	-----	-----
Cash paid for interest	\$ 512,167	\$ 1,286,155	\$ 64
Noncash investing and financing transactions:			
Repricing of warrants	--	6,919,692	
Stock options issued below fair market value	--	1,244,250	
Stock options issued for commissions earned	53,745	1,244,250	
Stock subscriptions receivable received for stock	--	610,000	
Issuance of preferred and common stock for acquisition of assets	18,590	386,000	
Current liabilities converted to stock	59,755	225,613	
Common stock issued for guarantee of debt	14,750	120,000	
Issuance of stock for intangible asset	--	83,750	
Warrant dividend	--	--	13,25
Refinancing of debt	--	--	1,60
Notes payable and accrued interest converted to common and preferred stock	1,164,882	227,009	1,18
Capitalized lease equipment purchases	174,986	--	1,31
Preferred dividend attributable to beneficial conversion of preferred stock	--	--	75
Conversion of preferred stock to common stock	150,000	528,742	10
Conversion on preferred stock into note payable	400,000	--	
Reduction of note receivable related to commission earned on equity transactions	40,563	--	
Warrants issued related to modifications of long-term debt	528,650	--	

-----  
 NOTE 12 - Retirement Savings Plan  
 =====

The Company has 401(k) profit sharing plan covering substantially all full-time employees. Employee contributions are limited to the maximum amount allowable by the Internal Revenue Code. The Company made no discretionary contributions for any of the years presented.

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VICOM, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 December 31, 2002, 2001 and 2000

-----  
 NOTE 13 - Commitments and Contingencies  
 =====

Operating leases

Office space is leased under related party operating leases expiring through 2006. In addition to basic monthly rents ranging from \$16,640 to \$17,653, the Company pays building maintenance costs, real estate taxes and assessments. In addition, the Company leases vehicles under operating leases from an entity owned by a relative of a stockholder/officer and various equipment under other leases.

The Company has various other operating leases for its corporate office space, vehicles and various equipment with lease terms ranging from one to five years. The monthly base rents range from \$50,944 to \$53,727. The leases contain provisions for payments of real estate taxes, insurance and common area costs. Total rent expense for the years ended December 31, 2002, 2001 and 2000 including common area costs and real estate taxes was approximately \$566,000, \$689,000 and \$650,000, respectively. Rent expense with related parties for December 31, 2002, 2001, 2000 was approximately \$462,000, \$561,000 and \$619,000, respectively.

Future minimum rental payments are as follows for the years ending December 31:

Year ----	Amount -----
2003	\$ 519,000
2004	492,000
2005	472,000
2006	418,000
2007	276,000
Thereafter	2,777,000
	-----
	\$ 4,954,000
	=====

Legal proceedings

The Company is involved in legal actions in the ordinary course of its business.

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Although the outcome of any such legal actions cannot be predicted, management believes that there is no pending legal proceedings against or involving the Company for which the outcome is likely to have a material adverse effect upon the Company's consolidated financial position or results of operations.

-----  
 NOTE 14 - Significant Customers and Suppliers  
 =====

One customer represented approximately 13% of revenues for the year ended December 31, 2002. One customer represented approximately 15% of revenues for the year ended December 31, 2001. Two customers represented approximately 27% (18% and 9%) of revenues for the year ended December 31, 2000.

The Company purchased materials from major suppliers approximately as follows for the years ended December 31:

	Supplier		
	A	B	C
2002	58%	6%	12%
2001	38%	19%	12%
2000	24%	18%	-%

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-----  
 NOTE 15 - Business Segments  
 =====

Prior to November 1, 1999, Vicom and VMTS operated as one segment, for integrated voice, video, and data networking technologies products and services. With the acquisition of Ekman on November 1, 1999, the Company added the CTU segment which sold computer technologies products and services.

Since integrated voice, video and data networking technologies products and services are rapidly merging with computer technologies products and services, the Company in 2000 merged its integrated voice, video and data networking products and services operations with its computer technologies products and services operations in its CTU subsidiary. By the end of 2000, the CTU subsidiary functioned as one segment for integrated voice, video, data networking and computer technologies products and services, under one management structure, with one management financial reporting system, and having one unified marketing name.

With the start up of Multiband in February 2000, the Company added the segment providing voice, data, and video services to residential multi-dwelling units.

Segment disclosures are as follows:

	Vicom	CTU	Multiband
Year Ended December 31, 2002:			
Revenues	\$ --	\$ 23,963,748	\$ 577,221
Income (loss) from operations	(1,810,241)	172,689	(1,195,521)
Identifiable assets	3,151,891	5,282,233	1,913,192

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Depreciation and amortization	142,426	482,390	490,641
Capital expenditures	2,126	989,450	458,844

	Vicom	CTU	Multiband
	-----	-----	-----
Year Ended December 31, 2001:			
Revenues	\$ --	\$ 32,011,187	\$ 249,590
Loss from operations	(2,079,592)	(299,553)	(1,618,003)
Identifiable assets	3,171,968	5,786,796	3,250,917
Depreciation and amortization	418,655	550,075	442,034
Capital expenditures	6,900	491,532	1,386,513

	Vicom and VMTS	CTU	Multiband
	-----	-----	-----
Year Ended December 31, 2000:			
Revenues	\$ 3,248,310	\$ 36,460,217	\$ 73,319
Loss from operations	(1,558,914)	(463,762)	(1,746,088)
Identifiable assets	868,438	12,388,215	2,357,920
Depreciation and amortization	301,445	727,449	72,950
Capital expenditures	22,273	344,898	2,258,932

Segment disclosures are provided by entity to the extent practicable under the Company's accounting system.

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VICOM, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2002, 2001 and 2000

-----  
NOTE 16 - Subsequent Events (Unaudited)  
=====

In February 2003, the Company formed a 50% owned subsidiary, Multiband USA, Inc. This subsidiary will provide the digital satellite signal to private cable operations to multiple dwelling units.

In February 2003, the note payable to Pyramid Trading Limited Partnership was extended through May 2004. As part of this extension the Company issued an additional 253,000 five year warrants at and exercise price of \$1.00 per share. All of the remaining note payable balance will be converted into common stock of the Company as described by the amendment, and 100% of the outstanding balance has been reclassified to long term debt.

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

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To Stockholders, Board of Directors, and Audit Committee  
Vicom, Incorporated and subsidiaries  
New Hope, Minnesota

Our report on our audits of the basic consolidated financial statements of Vicom, Incorporated and subsidiaries for the years ended December 31, 2002 and 2001 appears on page 1. The audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information on page 30 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

/s/ VIRCHOW, KRAUSE & COMPANY, LLP

Minneapolis, Minnesota  
February 14, 2003

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INDEPENDENT AUDITOR'S REPORT - SUPPLEMENTARY INFORMATION

Board of Directors and Stockholders  
Vicom, Incorporated and Subsidiaries  
New Hope, Minnesota

Our report on our audit of the basic consolidated financial statements of Vicom, Incorporated and Subsidiary for 2000 appears on page 1. That audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information on page 30 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

/s/ Lurie Besikof Lapidus & Company, LLP

Minneapolis, Minnesota  
February 15, 2001



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VICOM, INCORPORATED AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS  
Years Ended December 31, 2002, 2001 and 2000

Column A -----	Column B -----	Column C -----
Description -----	Balance at Beginning of Yea -----	Additions Charged to Costs and Expenses -----
ALLOWANCE DEDUCTED FROM ASSET TO WHICH IT APPLIES		
Allowance for doubtful accounts receivable:		
2002	\$ 178,000	\$ 58,000
2001	159,000	141,000
2000	140,000	176,000
Allowance for inventory obsolescence:		
2002	321,000	19,900
2001	200,000	121,000
2000	330,000	245,000
Notes receivable:		
2002	-	30,000
2001	-	-
2000	105,000	-
Allowance for doubtful utilization of prepaid advertising:		
2002	-	-
2001	-	-
2000	392,000	-

- (A) Write-off uncollectible receivables
- (B) Write-off obsolete inventory
- (C) Write-off unusable prepaid advertising

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Item 9.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

On October 22, 2001 Vicom dismissed Lurie Besikof Lapidus and Company, LLP as Vicom's independent public accountants. On that same date, Vicom Inc., subject to shareholder approval, retained Virchow, Krause and Company, LLP to be Vicom's principal independent accountants. These changes were reflected on a Form 8K originally filed with the SEC on October 26, 2001 and amended on November 5, 2001.

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### Item 10. Directors and Executive Officers of the Registrant

Information with respect to the directors and executive officers of the Company set forth under "Information Concerning Directors, Nominees and Executive Officers" and under "Compliance with Section 16 (a) "in the Company's definitive proxy statement for the annual meeting of shareholders to be held on or about May 30, 2003, is incorporated herein by reference.

### Item 11. Executive Compensation

Information with respect to Executive Compensation set forth under "Executive Compensation" in the Company's definitive proxy statement for the annual meeting of shareholders to be held on or about May 30, 2003 is incorporated herein by reference (other than the subsections captioned "Report of the Compensation and Stock Option Committee" and "Performance Group").

### Item 12. Security Ownership of Certain Beneficial Owners and Management

Information with respect to security ownership of certain beneficial owners and management, set forth under "Beneficial Ownership of Principal Shareholders and Management" in the Company's definitive proxy statement for the annual meeting of shareholders to be held on or about May 30, 2003, is incorporated herein by reference.

### Item 13. Certain Relationships and Related Transactions

Information with respect to certain relationships and related transactions, set forth under "Information Concerning Directors, Nominees and Executive Officers" in the Company's definitive proxy statement for the annual meeting of shareholders to be held on or about May 30, 2003, is incorporated herein by reference. Item 14. Controls and Procedures

Within 90 days prior to the date of the Report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive and Chief Financial officers, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) of the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in alerting them on a timely basis to material information required to be disclosed in our periodic reports to the Securities and Exchange Commission. There have been no significant changes in our internal controls or in other factors which could significantly affect internal controls subsequent to such evaluation.

### Item 17. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) Financial Statements, Financial Statement Schedules and Exhibits.

#### 1. Financial Statements

See Index to Consolidated Financial Statements and Financial Statement Schedules on page 19 of this report.

#### 2. Financial Statement Schedules

All schedules to the Consolidated Financial Statements normally required by the applicable accounting regulations are included in Item 8 or are not applicable.

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### 3. Exhibits

See Index to Exhibits on page 51 of this report.

#### SIGNATURES

Pursuant to the requirements of Section 13 or Section 15(d) of Securities Exchange Act of 1934, the registrant has duly caused this amendment no. 2 to its 10-K Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 31, 2003

VICOM, INC.  
Registrant  
By:/s/ James L. Mandel  
-----  
James L. Mandel  
Chief Executive Officer

Date: March 31, 2003

By: Steven M. Bell  
-----  
Steven M. Bell  
Chief Financial Officer

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.

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

I, James Mandel, Chief Executive Officer of Vicom Incorporated, certify that:

1. I have reviewed this annual report on Form 10-K of Vicom Incorporated;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the consolidated financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that

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material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

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

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

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

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

Dated: March 31, 2003

/s/James Mandel

-----  
Chief Executive Officer

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

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

- 1. I have reviewed this annual report on Form 10-K of Vicom Incorporated;
- 2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- 3. Based on my knowledge, the consolidated financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

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

- a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
- c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

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

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

Dated: March 31, 2003

/s/ Steven Bell

-----  
Chief Financial Officer

### INDEX TO EXHIBITS

Exhibit No.	Description
-----	-----
2.1	Asset Purchase Agreement and related documents with Enstar Networking Corporation dated December 31, 1998(1)
2.2	Agreement and Plan of Merger with Ekman, Inc. dated December 29, 1999(1)
3.1	Amended and Restated Articles of Incorporation of Vicom, Inc.(1)
3.2	Restated Bylaws of Vicom, Incorporated(1)
3.3	Articles of Incorporation of Corporate Technologies, USA, Inc.(1)

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- 3.4 Bylaws of Corporate Technologies, USA, Inc.(1)
- 4.1 Certificate of Designation of the Relative Rights, Restrictions and Preferences of 8% Class A Cumulative Convertible Preferred Stock and 10% Class B Cumulative Convertible Preferred Stock dated December 9, 1998(1)
- 4.2 Form of Warrant Agreement(1)
- 4.3 Warrant Agreement with James Mandel dated December 29, 1999(1)
- 4.4 Warrant Agreement with Marvin Frieman dated December 29, 1999(1)
- 4.5 Warrant Agreement with Pierce McNally dated December 29, 1999(1)
- 4.6 Warrant Agreement with Enstar, Inc. dated December 29, 1999(1)
- 4.7 Warrant Agreement with David Ekman dated December 29, 1999(1)
- 4.8 Certificate of Designation of the Relative Rights, Restrictions and Preferences of 10% Class C Cumulative Convertible Stock(2)
- 4.9 Certificate of Designation of the Relative Rights, Restrictions and Preferences of 14% Class D Cumulative Convertible Stock(6)
- 4.10 Certificate of Designation of the Relative Rights, Restrictions and Preferences of 15% Class E Cumulative Convertible Stock(6)
- 5.1 Opinion of Steven M. Bell, Esq.(4)
- 10.1 Vicom Lease with Marbell Realty dated June 20, 1996(1)
- 10.2 Employment Agreement with Marvin Frieman dated October 1, 1996(1)
- 10.3 Employment Agreement with Steven Bell dated October 1, 1996(1)
- 10.4 Employment Agreement with James Mandel dated August 14, 1998(1)
- 10.5 Vicom Associate Agreement with NEC America, Inc. dated June 1999(1)
- 10.6 Loan Agreement with Wells Fargo dated June 17, 1999(1)
- 10.7 Employment Agreement with David Ekman dated December 29, 1999(1)
- 10.8 Debenture Loan Agreement with Convergent Capital dated March 9, 2000(1)
- 10.9 Corporate Technologies, USA, Inc. lease with David Ekman dated January 19, 2000(1)
- 10.10 Amendment dated July 11, 2000 to debenture loan agreement with Convergent Capital dated March 9, 2000.(2)
- 10.11 Corporate Technologies agreement with Siemens dated December 14, 2001(4)
- 10.12 Note with Pyramid Trading, L.P. (4)
- 10.14 Employment Agreement of Steven M. Bell dated January, 1, 2002(5)
- 10.15 Employment Agreement of James Mandel dated January 1, 2002(5)
- 19.1 2000 Non-Employee Director Stock Compensation Plan (3)
- 19.2 2000 Employee Stock Purchase Plan (3)
- 21.1 List of subsidiaries of the registrant(1)
- 23.1 Consent of Virchow, Krause & Company, LLP (6)
- 23.2 Consent of Lurie, Besikof, Lapidus & Company, LLP (6)
- 24.1 Power of Attorney (included on signature page of original registration statement)
- 99.1 Section 906 of Sarbanes-Oxley Act of 2002 - James Mandel(6)
- 99.2 Section 906 of Sarbanes-Oxley Act of 2002 - Steven Bell(6)

- (1) Previously filed as the same exhibit to the Registrant's Registration Statement on Form 10, as amended.
- (2) Previously filed as the same exhibit to the original Registration Statement on Form S-1 filed on August 11, 2000 and declared effective on August 18, 2000.
- (3) Previously filed as the same exhibit to Registrant's Proxy Statement on Form 14A, filed on July 31, 2000.
- (4) Previously filed as the same exhibit to the original Registration Statement on Form S-1 filed on August 15, 2001 and declared effective on August 20, 2001.
- (5) Previously filed as the same exhibit to Registrant's Form 10-Q filed May

15, 2002

(6) Filed herewith.