VICOM INC
Form 10-Q
May 15, 2001

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

FORM 10-Q

(MARK ONE) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
|X| AND EXCHANGE ACT OF 1934
FOR THE PERIOD ENDING MARCH 31, 2001
OR
|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
AND EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM ____________ TO ___________________

COMMISSION FILE NUMBER 0 - 1325

VICOM, INCORPORATED

(Exact name of registrant as specified in its charter)

MINNESOTA

(State or other jurisdiction of incorporation or organization)

41 - 1255001

(IRS Employer Identification No.)

9449 SCIENCE CENTER DRIVE, NEW HOPE, MINNESOTA 55428

(Address of principal executive offices)

TELEPHONE (763) 504-3000 FAX (763) 504-3060

www.vicominc.net Internet

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes |X| No |_|

On April 17, 2001 there were 7,996,193 shares outstanding of the registrant's common stock, par value $.01 per share, and 200,146 outstanding shares of the registrant's convertible preferred stock.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VICOM, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended	
	March 31, 2001	March 31, 2000
	(UNAUDITED)	(unaudited)
Revenues	$ 10,682,819	$ 9,718,297
COSTS AND EXPENSES		
Cost of products and services	8,555,049	7,806,508
Selling, general and administrative	3,008,546	2,798,681
	11,563,595	10,605,0189
LOSS FROM OPERATIONS	(880,776)	(886,892)
OTHER EXPENSE		
Interest expense	(232,068)	(166,647)
Miscellaneous income (expense)	(45,090)	133,688
	(186,978)	(300,335)
LOSS BEFORE INCOME TAXES	(1,067,754)	(1,187,227)
INCOME TAX PROVISION	0	0
NET LOSS	$ (1,067,754)	$ (1,187,227)
LOSS PER SHARE - BASIC AND DILUTED	$ (.14)	$ (0.29)
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED	8,024,447	4,182,776

See notes to condensed consolidated financial statements

VICOM, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	MARCH 31,
	(UNAUDIT
ASSETS	
CURRENT ASSETS	
Cash	$ 908,
Accounts receivable, net of allowance of $149,000 and $159,000	6,785,
Inventories, net of allowance of $215,000 and $200,000	2,160,
Other	405,
Costs and estimated earnings in excess of billings	
TOTAL CURRENT ASSETS	10,260,
PROPERTY AND EQUIPMENT, net of accumulated depreciation of $1,369,173 and $1,179,422	4,230,
NONCURRENT ASSETS	
Goodwill, net of accumulated amortization of $520,447 and $436,678	2,828,
Other	166,
	2,995,
	$ 17,485,
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Wholesale financing arrangement	$ 1,975,
Notes and installment obligations payable-current maturities	463,
Accounts payable	4,708,
Other liabilities	966,
Deferred service obligations and revenue	288,
TOTAL CURRENT LIABILITIES	8,403,
NOTES AND INSTALLMENT OBLIGATIONS PAYABLE	3,877,
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY	
Cumulative preferred stock-no par value	
10% Class B (issued and outstanding-22,836 and 22,836 shares)	218,
10% Class C (issued and outstanding-147,310 and 150,810 shares)	1,909,
14% Class D (issued and outstanding 30,000 and 72,500 shares)	317,
Common stock-no par value (issued 8,113,108 and 8,137,181 shares; outstanding 8,068,352 and 8,023,352 shares)	1,529,
Options and warrants	15,200,
Unamortized compensation	(410,
Accumulated deficit	(13,560,
	5,204,
	$ 17,485,

See notes to condensed consolidated financial statements.

VICOM, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	THREE 2 (UNAUD
OPERATING ACTIVITIES	
Net loss	$(1,0
Adjustments to reconcile net loss to net cash provided (used) by operating activities	
Depreciation	2
Amortization	2
Changes in operating assets and liabilities:	
Accounts receivable	(1,1
Inventories	(
Costs, estimated earnings, and billings	
Other assets	(
Accounts payable and other liabilities	2,0
Wholesale line of credit	(
Deferred service obligations and revenue	(
Net cash provided (used) by operating activities	2
INVESTING ACTIVITIES	
Purchases of property and equipment	(1,1
Issuance of note receivable	
Collections on notes receivable	
Net cash used by investing activities	(1,1
FINANCING ACTIVITIES	
Increase in checks issued in excess of deposits	
Net borrowings under credit arrangements	
Proceeds from long-term debt and warrants	1,5
Payments on notes and installment obligations payable	(2
Deferred finance costs	(1
Proceeds from issuance of stock and warrants	
Stock issuance costs	
Redemption of preferred stock	(4
Preferred stock dividends	(
Net cash provided by financing activities	7
INCREASE (DECREASE) IN CASH	(2
CASH	
Beginning of period	1,1
End of period	$ 9
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Interest paid	$ 1
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES	
Notes payable converted to stock and warrants issued	

See notes to condensed consolidated financial statements

VICOM, INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The information furnished in this report is unaudited and reflects all adjustments which are normal recurring adjustments and, which in the opinion of management, are necessary to fairly present the operating results for the interim periods. The operating results for the interim periods presented are not necessarily indicative of the operating results to be expected for the full fiscal year.

CERTAIN FINANCING ACTIVITIES

In January 2001, Vicom received a loan of $1.5 million dollars from Pyramid Trading Limited Partnership (Pyramid). The loan has a two year term, due January 2003 with annual interest payable at 8%. At the lender's election, the loan is convertible into Vicom common stock at $4.75 cents per share. The loan contained no beneficial conversion features. As further consideration for the transaction, Pyramid, was granted an attached warrant to purchase 375,000 common shares at an exercise price of $4.00 per share. Loan proceeds were used to fund operations and MultiBand construction.

LOSS PER SHARE

Loss per share-basic is determined by dividing net income loss plus the preferred stock dividends by the weighted average common shares outstanding. Loss per common share-diluted is computed by dividing net loss plus the preferred stock dividends by the weighted average common shares outstanding and the common share equivalents (stock options, stock warrants, convertible preferred shares, and issued but not outstanding restricted stock). Common share equivalents are not included in the computations as their effects were anti-dilutive.

FORWARD-LOOKING STATEMENTS

From time to time, the Company may publish forward-looking statements relating to such matters as anticipated financial performance, business prospects, product pricing, management for growth, integration of acquisitions, technological developments, new products, and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements including those made in this statement. In order to comply with the terms of the Private Securities Litigation Reform Act, the Company notes that a variety of factors could cause the Company's actual results and experience to differ materially from the anticipated results or Company's forward-looking statements.

The risks and uncertainties that may affect the operations, performance, developments and results of the Company's business include the following: national and regional economic conditions; pending and future legislation affecting IT and telecommunications industries; market acceptance of the Company's products and services; the Company's products and services; the Company's continued ability to provide integrated communication solutions for customers in a dynamic industry; and other competitive factors.

Because these and other factors could affect the Company's operating results, past financial performance should not necessarily be considered as a reliable indicator of future performance and anticipated future period results.

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

GENERAL

Vicom is the parent corporation of three wholly-owned subsidiaries, Corporate Technologies USA, Inc. (CTU), MultiBand, Inc. (MultiBand) and Vicom Midwest Telecommunications Systems, Inc. (VMTS). VMTS was not active as of March 31, 2001. Vicom incorporated MultiBand in February 2000 to provide voice, data and video services to residential multi-dwelling units (MDUs).

Vicom has provided clients with telecommunications products and services since its inception in 1975. As of March 31, 2001, we were providing telephone equipment and service to approximately 1,000 customers, with approximately 10,000 telephones in service. In addition, CTU provides computer products and services to approximately 3,500 customers. The telecommunications systems we distribute are intended to provide customers with flexible, cost-effective alternatives as compared to systems available from major telephone companies, including those formerly comprising the Bell System, and from other interconnected telephone companies. As of March 31, 2001, MultiBand provided services to approximately 320 customers.

Vicom and CTU provide a full range of 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, North Dakota, South Dakota and Nebraska. Vicom purchases products and equipment from NEC America, Inc. ("NEC"), Cisco Systems, Inc., Nortel Networks Corp., ECI Telecommunications, Inc. ("ECI"), and other manufacturers of communications and electronic products and equipment. We use these products to design telecommunications systems to fit our customers' specific needs and demands.

SELECTED CONSOLIDATED FINANCIAL DATA

	DOLLAR AMOUNTS AS A PERCENTAGE OF REVENUES	
	THREE MONTHS ENDED	
	MARCH 31, 2001 (unaudited)	MARCH 31, 2000 (unaudited)
REVENUES	100.0%	100.0%
COST OF SALES	80.1%	80.3%
GROSS MARGIN	19.9%	19.7%
SELLING, GENERAL & ADMINISTRATIVE	28.1%	28.8%
OPERATING LOSS	-8.2%	-9.1%
INTEREST EXPENSE & OTHER, NET	-1.8%	-3.1%

LOSS BEFORE TAXES	-10.0%	-12.2%
INCOME TAX	0.0%	0.0%
NET LOSS	-10.0%	-12.2%

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

	THREE MONTHS ENDED	
	MARCH 31, 2001	MARCH 31, 2000
GROSS MARGIN PERCENTAGES:		
VICOM, INC.	0.0%	5.0%
CORPORATE TECHNOLOGIES USA, INC.	20.1%	17.8%
MULTIBAND, INC.	-19.4%	0.0%

RESULTS OF OPERATIONS

REVENUES

Revenues increased 9.92% to $10,682,819 in the quarter ended March 31, 2001, as compared to $9,718,297 for the quarter ended March 31, 2000.

Revenues for Vicom, Inc. decreased 99.0% to $16,406 in the first quarter of fiscal 2001, as compared to $1,715,142 in the first quarter of fiscal 2000. This decrease is due to the fact that most sales operations substantially were transferred to Corporate Technologies USA, Inc.

Revenues for Corporate Technologies increased 32.5% to $10,601,335 as compared to $8,003,155 in the first quarter of fiscal 2000. This increase is the result of the added sales transferred from Vicom, Inc.

MultiBand, Inc. revenues in the quarter ended March 31, 2001 were $65,078. Revenues for MultiBand, Inc. were non-existent in the first quarter of fiscal 2000 as MultiBand, Inc. was not yet operational.

GROSS MARGIN

The Company's gross margin increased 11.29% or $215,981 to $2,127,770 for the quarter ended March 31, 2001, as compared to $1,911,789 for the similar quarter last year. For the quarter ended March 31, 2001, as a percent of total revenues, gross margin was 19.92% as compared to 19.67% for the similar period last year. This near identical gross margin is primarily due to an increase in service sales, which allowed the Company to maintain its margins.

Gross margin for Vicom, Inc. decreased 97.7% or $478,463 to $11,258 for the quarter ended March 31, 2001, as compared to $489,721 the first quarter of fiscal 2000. This decrease is a result of sales operations transferred to Corporate Technologies USA, Inc.

Gross margin for Corporate Technologies USA, Inc. increased by 40.7% to $2,129,163 for the quarter ended March 31, 2001, as compared to $1,422,068 in the first quarter of fiscal 2000. This increase is due to the aforementioned transfer of operations, which includes substantial telephone equipment sales that traditionally have higher gross margins than computer sales, which were previously the core of Corporate Technologies USA, Inc.

Gross margin for MultiBand, Inc. for the quarter ended March 31, 2001 was $(12,651). MultiBand, Inc. was not operational in the first quarter of fiscal 2000.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased 7.50% to $3,008,546 in the quarter ended March 31, 2001, compared to $2,798,681 in the prior year quarter. This increase in selling, general and administrative expenses were, as a percentage of revenues, 28.16% for the quarter ended March 31, 2001 and 28.79% for the similar period a year ago.

INTEREST EXPENSE

Interest expense was $232,068 for the quarter ended March 31, 2001, versus $166,647 for the similar period a year ago, reflecting an increased Company debt load due to acquisition related debt and increased borrowings.

NET LOSS

In the first quarter of fiscal 2001, the Company incurred a net loss of $1,067,754 compared to a net loss of $1,187,227 for the first fiscal quarter of 2000.

LIQUIDITY AND CAPITAL RESOURCES

Available working capital, for the three months ended March 31, 2001, decreased over the similar period last year due to, in part, a significant increase in purchases of property and equipment. Vicom experienced a significant increase in accounts payable for the period ended March 31, 2001 versus last year's period, primarily due to increased sales and the net operating loss for the quarter. Accounts receivable increased materially for the period ended March 31, 2001, compared to the prior year period, due to a significant increase in revenues.

Inventories year to date increased slightly over last year's prior period inventories due to the aforementioned revenue increases. Net borrowings under notes and installment obligations payable increased materially for the three months ended March 31, 2001 compared to the prior year's period due to financing with an investor, the proceeds of which were used primarily to finance MultiBand, Inc.'s project build-out.

Management of Vicom believes that, for the near future, cash generated by sales of stock, and existing credit facilities, in aggregate, are adequate to meet the anticipated liquidity and capital resource requirements of its Corporate Technologies USA, Inc. business. Significant continuation of the Company's MultiBand, Inc.'s build-out is highly dependent on securing additional financing for future projects. Management believes that while future build-out financing is available, there is no guarantee that said financing will be obtained.

CAPITAL EXPENDITURES

The Company used $1,194,657 for capital expenditures during the three months ended March 31, 2001, as compared to $192,221 in the similar period last year. These year to date 2001 expenditures were primarily for construction costs of $1,081,725 related to the continued build-out of MultiBand. For the similar period last year, substantially all capital expenditures consisted of equipment acquired for internal use.

IMPACT OF YEAR 2000

The Company has experienced no significant system problems since January 1, 2000. In addition, the Company is not aware of any material problems being experienced by its suppliers and business partners. The Company believes it has adequately addressed the Year 2000 issue related to its internal systems and that it did not and will not have a material impact on its business, financial condition or its results of operations.

ITEM 3. QUANTITIVE AND QUALITIVE DISCLOSURE ABOUT MARKET RISK

Vicom is not subject to any material interest rate risk as any current lending agreements are at a fixed rate of interest.

PART II. OTHER INFORMATION

ITEM 4. LEGAL PROCEEDINGS

As of March 31, 2001, Vicom was not engaged in any legal proceedings whose anticipated results would have a material adverse impact on the Company.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

None.

(b) Reports on Form 8-K.

None.

SIGNATURES

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

VICOM, INC.
Registrant

Date: May 15, 2001 By:

James L. Mandel
CHIEF EXECUTIVE OFFICER

Date: May 15, 2001 By:

Steven M. Bell
CHIEF EXECUTIVE OFFICER
(PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER)