VICOM INC
Form 10-Q
August 14, 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 JUNE 30, 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 June 30, 2001 there were 8,779,229 shares outstanding of the registrant's common stock, par value $.01 per share, and 279,061 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
(unaudited)

	Three Months Ended		Six Months E
	June 30, 2001	June 30, 2000	June 30, 2001
REVENUES	$ 7,830,229	$ 8,687,581	$ 18,513,048
COSTS AND EXPENSES			
Cost of products and services	6,048,399	6,506,435	14,603,448
Selling, general and administrative	2,738,537	2,853,634	5,747,083
	8,786,936	9,360,069	20,350,531
LOSS FROM OPERATIONS	(956,707)	(672,488)	(1,837,483)
OTHER EXPENSE			
Interest expense	(292,677)	(146,504)	(524,745)
Miscellaneous income (expenses)	307	(36,146)	45,397
	(292,370)	(182,650)	(479,348)
LOSS BEFORE INCOME TAXES	(1,249,077)	(855,138)	(2,316,831)
INCOME TAX PROVISION	--	--	--
NET LOSS	$ (1,249,077)	$ (855,138)	$ (2,316,831)
LOSS ATTRIBUTABLE TO COMMON STOCK			
Net loss	$ (1,249,077)	$ (855,138)	$ (2,316,831)
Preferred dividends	(123,147)	(7,484)	(175,608)
	$ (1,372,224)	$ (862,622)	$ (2,492,439)
LOSS PER COMMON SHARE-BASIC AND DILUTED	$ (.17)	$ (.12)	$ (.31)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING-BASIC AND DILUTED	7,989,569	7,335,895	7,960,727

See notes to condensed consolidated financial statements

VICOM, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	JUNE 30, 2001 (unaudited)
ASSETS	
CURRENT ASSETS	
Cash	$ 761,460
Accounts receivable, net allowance of $132,000 and $159,000	4,259,925
Inventories, net allowance of $260,000 and $200,000	2,294,084
Other	361,102
Costs and estimated earnings in excess of billings	--
TOTAL CURRENT ASSETS	7,676,570
PROPERTY AND EQUIPMENT	$ 4,212,109
NONCURRENT ASSETS	
Goodwill, net of accumulated amortization of $604,216 and $436,678	2,925,310
Other	170,291
	3,095,601
	$ 14,984,281
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Wholesale financing arrangement	$ 2,073,253
Notes and installment obligations payable-current maturities	443,678
Accounts payable	2,418,822
Other liabilities	663,400
Deferred service obligations and revenue	451,019
TOTAL CURRENT LIABILITIES	6,050,172
NOTES AND INSTALLMENT OBLIGATIONS PAYABLE	3,883,272
COMMITMENTS AND CONTINGENCIES	--
STOCKHOLDERS' EQUITY	
Preferred Stock	
10% Class A cumulative convertible-no par value (issued and outstanding - 69,515 and 0 shares)	645,876
10% Class B cumulative convertible-no par value (issued and outstanding-22,836 and 22,836 shares)	218,869
10% Class C cumulative convertible-no par value (issued and outstanding-147,310 and 150,810 shares)	1,909,003
14% Class D cumulative convertible-no par value (issued and outstanding 40,000 and 72,500 shares)	417,500
Common stock-no par value (issued 8,893,058 and 8,137,181 shares; outstanding 8,779,229 and 8,023,352 shares)	2,107,340
Subscription receivable	(300,000)
Options and warrants	16,503,661

Unamortized compensation	(1,520,185)
Accumulated deficit	(14,931,227)
	5,050,837
	$ 14,984,281

See notes to condensed consolidated financial statements.

VICOM, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	SIX M
	200
OPERATING ACTIVITIES	
Net loss	$ (2,316
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation	497
Amortization	398
Changes in operating assets and liabilities:	
Accounts receivable	1,401
Inventories	29
Costs, estimated earnings, and billings	35
Other assets	(98
Accounts payable	(221
Other liabilities	(164
Due to ENStar, Inc.	
Wholesale line of credit	39
Deferred service obligations and revenue	131
Net cash used by operating activities	(267
INVESTING ACTIVITIES	
Purchases of property and equipment	(1,403
Purchase acquisition	(50
Collections on notes receivable	38
Net cash used by investing activities	(1,415
FINANCING ACTIVITIES	
Decrease in checks issued in excess of deposits	
Net borrowings under credit arrangements	
Proceeds from long-term debt with warrants	1,545
Proceeds from notes and installment obligations payable	169
Payments on notes and installment obligations payable	(256
Proceeds from issuance of stock and warrants	483
Stock issuance costs	(23
Redemption of preferred stock	(460
Preferred stock dividends	(175
Net cash provided by financing activities	1,283

INCREASE (DECREASE) IN CASH	(400
CASH	
Beginning of period	1,161
End of period	$ 761
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Interest paid	378
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES	
Notes payable converted to preferred stock	255
Accounts payable converted to preferred stock	129
Notes payable converted to stock and warrants issued	
Subscriptions receivable on common stock	300
Warrant dividends	
Purchase acquisition	
Assets acquired	438
Liabilities assumed	2
Equity securities consideration	386
Employee stock options issued with unamortized compensation	1,200

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 the second quarter of fiscal year 2001, Vicom increased equity by $745,876 via issuance of 69,515 shares and 10,000 shares of its Class A and Class D convertible preferred stock, respectively.

LOSS PER SHARE

Loss per share-basic is determined by dividing net loss plus the preferred stock dividends by the weighted average common shares outstanding. Net 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), (collectively, the "Company"). VMTS was not active as of June 30, 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 June 30, 2001, CTU was providing telephone equipment and service to approximately 1,000 customers, with approximately 10,000 telephones in service. In addition, CTU provides computer products and services to approximately 3,500 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 June 30, 2001, MultiBand provided services to approximately 370 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 AS A PERCENTAGE OF REVENUES

	THREE MONTHS ENDED	SIX MONTHS

	JUNE 30, 2001 (unaudited)	JUNE 30, 2000 (unaudited)	JUNE 30, 2001 (unaudited)
REVENUES	100.0%	100.0%	100.0%
COST OF PRODUCTS AND SERVICES	77.2%	74.9%	78.9%
GROSS MARGIN	22.8%	25.1%	21.1%
SELLING, GENERAL & ADMINISTRATIVE EXPENSES	35.0%	32.8%	31.0%
LOSS FROM OPERATIONS	-12.2%	-7.7%	-9.9%
OTHER EXPENSES, NET	-3.7%	-2.1%	-2.6%
LOSS BEFORE INCOME TAXES	-15.9%	-9.8%	-12.5%
INCOME TAX PROVISION	0.0%	0.0%	0.0%
NET LOSS	-15.9%	-9.8%	-12.5%

The following table sets forth, for the period indicated, the gross margin percentages for Vicom, Incorporated, CTU, and MultiBand.

	THREE MONTHS ENDED		SIX
	JUNE 30, 2001 (unaudited)	JUNE 30, 2000 (unaudited)	JUNE 30, 200 (unaudited)
VICOM, INCORPORATED	0.0%	5.0%	54.7%
CTU	23.7%	17.8%	21.4%
MULTIBAND	-63.6%	0.0%	-35.1%

RESULTS OF OPERATIONS

REVENUES

Revenues decreased 9.9% to $7,830,229 in the quarter ended June 30, 2001, as compared to $8,687,581 for the quarter ended June 30, 2000.

Revenues for Vicom, Incorporated decreased 100% to $0.00 in the second quarter of fiscal 2001, as compared to $1,715,142 in the second quarter of fiscal 2000. This decrease is due to the fact that all sales operations have been transferred to CTU.

Revenues for Corporate Technologies increased 13.3% to $7,794,443 as compared to $6,881,229 in the second quarter of fiscal 2000. This increase is the result of the added sales transferred from Vicom, Incorporated.

MultiBand revenues in the quarter ended June 30, 2001 were $35,786. Revenues for MultiBand were non-existent in the second quarter of fiscal 2000 as MultiBand was not yet operational.

Revenues for the six month period ended June 30, 2001 increased 0.6% to $18,513,048 from $18,405,878 for the second quarter of fiscal 2000.

GROSS MARGIN

The Company's gross margin decreased 18.31% or $399,316 to $1,781,830 for the quarter ended June 30, 2001, as compared to $2,181,146 for the similar quarter last year. For the quarter ended June 30, 2001, as a percent of total revenues, gross margin was 22.76% as compared to 25.11% for the similar period last year. This decrease in gross margin is primarily due to greater sales of lower margin computer equipment rather than higher margin telephone equipment.

Gross margin for Vicom, Inc. decreased 100.0% or $564,459 to ($2,278) for the quarter ended June 30, 2001, as compared to $562,181 the second quarter of fiscal 2000. This decrease is a result of sales operations transferred to CTU.

Gross margin for CTU increased by 9.47%, or $156,333, to $1,806,855 for the quarter ended June 30, 2001, as compared to $1,650,522 in the second 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 CTU.

Gross margin for MultiBand for the quarter ended June 30, 2001 was $(22,747). MultiBand was not operational in the second quarter of fiscal 2000.

For the six month period ended June 30, 2001, the Company's gross margin decreased 4.48% or $183,335 to $3,909,600, as compared to $4,092,935 for the similar period last year primarily due to greater sales of lower margin computer equipment rather than higher margin telephone equipment.

For the six month period ended June 30, 2001, as a percent of total revenues, gross margin was 21.12% for as compared to 22.24% for the similar period last year due to the aforementioned sales.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses decreased 4.03% to $2,738,532 in the quarter ended June 30, 2001, compared to $2,853,634 in the prior year quarter. This decrease in selling, general and administrative expenses was, as a percentage of revenues, 1.47% for the quarter ended June 30, 2001 and 1.32% for the similar period a year ago. This decrease is primarily attributable to reductions in payroll.

For the six month period ended June 30, 2001, these expenses increased 2.16% to $5,747,083, as compared to $5,625,315 for the same period in 2000. As a percentage of revenues, selling, general and administrative expenses are 31.04% for the period ended June 30, 2001, as compared to 30.71% for the same period last year.

INTEREST EXPENSE

Interest expense was $292,677 for the quarter ended June 30, 2001, versus $146,504 for the similar period a year ago, reflecting an increased Company debt load due to acquisition related debt and increased borrowings.

Interest expense was $524,745 for the six months ended June 30, 2001, and $313,151 for the same period last year.

NET LOSS

In the second quarter of fiscal 2001, the Company incurred a net loss of $1,249,077 compared to a net loss of $855,138 for the second fiscal quarter of 2000. The six-month period ended June 30, 2001, resulted in a net loss of $2,316,831 compared to a net loss of $2,042,365 for the same period last year.

LIQUIDITY AND CAPITAL RESOURCES

Available working capital at June 30, 2001 increased approximately 1,300,000 over June 30, 2000.

The Company also experienced a significant increase in accounts payable and other payables related to wholesale financing at June 30, 2001 versus June 30, 2000.

Inventories and accounts receivable at June 30, 2001 decreased slightly from June 30, 2000.

Current maturities of notes and installment obligations payable at June 30, 2001 decreased materially from June 30, 2000 generally due to replacement with longer term debt.

Management of the Company 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 CTU business. Significant continuation of the Company's MultiBand'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. The Company slowed the rate of its MultiBand build-out in the second quarter of fiscal year 2001, however, to reflect a reduced raising of funds in that quarter and to increase its focus on marketing those properties already built.

In May 2001, CTU purchased certain assets of Red River Computers, Inc., for total consideration of $438,154, paid primarily with Company stock.

CAPITAL EXPENDITURES

The Company used $1,403,953 for capital expenditures during the six months ended June 30, 2001, as compared to $259,588 in the similar period last year. Of the total year-to-date expenditures 1,194,657 were incurred during the first quarter of 2001. These year-to-date 2001 expenditures were primarily for construction-in-process items, which totaled $1,160,201 and related to the continued build-out of MultiBand (see LIQUIDITY AND CAPITAL RESOURCES). 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 1. LEGAL PROCEEDINGS

As of June 30, 2001, the Company was not engaged in any legal proceedings whose anticipated results would have a material adverse impact.

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: August 14, 2001	By:	/s/ James L. Mandel
		James L. Mandel
		CHIEF EXECUTIVE OFFICER
Date: August 14, 2001	By:	/s/ Steven M. Bell
		Steven M. Bell
		CHIEF EXECUTIVE OFFICER
		(PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER)