VICOM INC
Form 10-K
April 01, 2002

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

FORM 10-K

(MARK ONE)

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

FOR THE PERIOD ENDED DECEMBER 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

The Company's Internet Address: 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 (no 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 of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes |X| No |_|

Indicate by check mark 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 / /

As of March 15, 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 $10,396,584.

As of March 15, 2002, there were 10,770,686 outstanding shares of the registrant's common stock, no par value 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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Part IV
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ITEM 1
BUSINESS SUMMARY

Vicom, Incorporated (Vicom) is a Minnesota corporation formed in September 1975. Vicom is the parent corporation of two wholly-owned subsidiaries, Corporate Technologies, USA, Inc. (CTU), and MultiBand, Inc. (MultiBand).

Vicom completed an initial public offering in June 1984. In November 1992, Vicom became a non-reporting company under the Securities Exchange Act of 1934. In July 2000, Vicom regained its reporting company status. In December, 2000, Vicom stock began trading on the NASDAQ stock exchange under the symbol VICM.

Vicom's website is located at: www.vicominc.net.

Vicom recently expanded its efforts to establish itself within the rapidly evolving telecommunications and computer industries. 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). In May 2001, Vicom acquired certain assets of Red River Computer, Inc, a voice and data networking company. 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 15, 2002, CTU was providing telephone equipment and service to approximately 1,000 customers, with approximately 10,000 telephones in service. In addition, CTU provides computer products and services to approximately 3,000 customers. Telecommunications systems distributed by Vicom are intended to provide users with flexible, cost-effective alternatives as compared to systems available from major telephone companies, including those formerly comprising the Bell System and from other interconnect telephone companies.

CTU provides a full range voice, data and video communications systems and service, system integration, training and related communication sales and support activities for commercial, professional and institutional customers, most of which are located in Minnesota, North Dakota, and South Dakota. CTU purchases products and equipment from NEC America, Inc. (NEC), Siemens Enterprise Networks (Siemens), Cisco Systems, Inc. (Cisco), Nortel Networks Corp. (Nortel), Tadiran Telecommunications, Inc. (Tadiran), and other manufacturers of communications and electronic products and equipment. CTU uses these products to design telecommunications systems to fit its customers' specific needs and demands.

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.

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.

While organizations recognize the importance of communication and IT systems in this business environment, the selection, implementation, customization and maintenance of these systems are becoming more complex and the resources required to perform these tasks are becoming increasingly scarce. Faced with a shortage of qualified technical resources and great demands to implement the latest technology, customers are increasingly relying on outside vendors to provide the necessary resources. By outsourcing communication and information technology (IT) services, companies are able to focus on their core businesses; access specialized technical skills; implement solutions more rapidly; benefit from flexible staffing; and reduce the cost of recruiting, training and retaining communication and IT professionals.

As a result of these factors, demand for communication and IT services and products has grown significantly. For calendar year 1999, Philips InfoTech (InfoTech), a market research firm specializing in telecommunications market information, estimates that the U.S. market for switching, maintenance and professional services and application equipment was over $17 billion, and the U.S. market for telecommunications maintenance and professional services and application equipment was estimated to be $4 billion. As customers seek the competitive advantages that advanced communication and computer telephony integration can deliver, growth of certain segments of call processing are expected to be particularly strong. According to InfoTech, between 1999 and 2004, the U.S. Market for voice mail, interactive voice response units, automated call distribution equipment and other telecommunication peripherals and applications is expected to grow at a compound annual growth rate of approximately 7.5%. By 2004, the U.S. market for these associated applications and peripherals is projected to be over $10 billion. The 1999 worldwide market for IT services was estimated at $605 billion and is projected to grow to $1.3 trillion by 2004, according to DataQuest, Inc., a unit of Gartner Group, the world's premiere business technology advisor. The market will continue to be fueled by end-user demand for external service providers for everything from product support to e-business transformation services to business process outsourcing. Business management services are projected to achieve the fastest growth at a compound annual growth rate of 25% through 2004.

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. In addition, many middle-market and Fortune 500 companies rely on multiple, often specialized providers, where there

is no distinct responsible party, creates vendor relationships that are difficult and expensive to manage and adversely impacts the quality and compatibility of communications and IT solutions. 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.

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.

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 15, 2002, we had 24 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 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, North Dakota, and South 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, 2001, CTU received approximately 15 % of all revenues from one customer, which was Microsoft Great Plains. Vicom 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 In 1999, no one customer provided 10% or more of Vicom's total revenues. In its year ended June 30, 1999, Ekman, Inc. (the predecessor company to CTU) received 23% and 10% of its revenues, respectively, from two major customers, Great Plains Software and Meritcare Health Systems.

CUSTOMER SERVICE

CTU has 8 full-time customer service 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.

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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 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. In 1999, Tech Data supplied 34% and NEC supplied 18% of Vicom's total products purchased. In its year ended June 30, 1999, Pinacor supplied 42% and Ingram Micro supplied 21% of Ekman Inc.'s (the predecessor to CTU) total products purchased.

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, 2002. 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.

CTU also has a distribution agreement with Siemens, a supplier of telecommunications products, which expires December 14, 2002.

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 MultiBand(SM) offering addresses these problems and provides the consumer several benefits, including:

- Lower Cost Per Service
- Blended Satellite and Cable Television Package

- Multiple Feature Local Phone Services (features such as call waiting, call forwarding and three-way calling)
- Better than Industry Average Response Times
- One Number for Billing and Service Needs
- One Bill for Local, Long Distance Cable Television and Internet
- "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 20 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.

MULTIBAND INDUSTRY ANALYSIS

All statistics in this section were taken from the 1998 statistical abstract of the United States; communications and information technology section, authored by the U.S. Census Bureau.

CABLE AND PAY TELEVISION

The U.S. Census Bureau has reported that as of December 31, 1997, the last official year reported, there were more than 64,210,000 cable and pay TV subscribers in the United States, with an average bill of $26.48 per month each. Vicom estimates, based on the aforementioned U.S. Census Bureau data, that this equates to annual cable and pay television billing revenues of more than $20 billion. The U.S. Census Bureau has also estimated that consumer spending on cable and pay television for the year ended December 31, 1998 surpassed $31.8 billion. Projections compiled by the U.S. Census Bureau indicate that by 2001, consumer spending per person for cable and pay television will reach $196.62 or over $55 billion annually.

TELEPHONE

According to the U.S. Census Bureau, as of December 31, 1996, there were more than 104,000,000 residential access lines with an average monthly bill of $19.58 or $24 billion. This accounted for 93.8% of American homes. In the same year, total toll service revenues for interstate long distance reached $82 billion.

INTERNET

According to the U.S. Census Bureau, the average annual spending per person in the United States in 2001 for Internet services is estimated to be $49.32. This is based on a projected population of more than 280,000,000 people, which equates to approximately $13.8 billion.

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SUMMARY

When taken as a whole, and based on Vicom's interpretations of U.S. Census Bureau statistics, these services could generate over $170 billion annually by the end of 2001. 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.

STRATEGY

For the near future, the services described below will be offered only in the states of Minnesota and North Dakota.

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 AT&T Broadband (AT&T Broadband) 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

AT&T Broadband is the cable television service provider that has resulted from the merger and acquisition of three 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 frontrunner in this highly unregulated market is AOL Timewarner. 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 MultiBand(SM) 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 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, 2001, MultiBand had 1,556 units wired for service and 480 customers using its services.

BACKLOG

At December 31, 2001, MultiBand was projecting that in 2002, it would wire for its services another 2,000 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, 2002, Vicom employed four full-time management employees. As of that same date, CTU had 105 full-time employees, consisting of 24 in sales and marketing, 63 in technical positions, 8 in customer service, 6 in management and 4 in administration and finance. As of March 15, 2002, MultiBand, Inc. has 3 full-time employees, one in sales and two in operations.

ITEM 2:

PROPERTIES

Vicom and its subsidiaries lease principal offices located at 1700 42nd Street SW, Fargo, ND 58013 and 9449 Science Center Drive, New Hope, Minnesota 55428. Vicom also leases a satellite office in Fargo consisting of approximately 3,800 square feet of space under a lease with a term that expires in July 2002. Vicom also has an office staffed with two employees in Sioux Falls, South Dakota. We have no foreign operations. The main Fargo office lease expired in 2001 and covers approximately 20,000 square feet. The Fargo base rent is $18,550 per month. The Fargo office has executed a new fifteen year lease for 22,500 square feet commencing in 2002. The new Fargo base rent will be $21,562 per month. The new Fargo address will be 2000 44th Street SW, Fargo, North Dakota 58103. The New Hope office lease expires in 2006 and covers approximately 47,000 square feet. The New Hope base rent ranges from $16,000 to $17,653 per month. Both the New Hope and main Fargo leases have provisions that call for the tenants to pay net operating expenses, including property taxes, related to the facilities. Both locations 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

As of December 31, 2001, Vicom was not engaged in any pending legal proceedings where 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, 2000 and December 31, 2001 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, 2000........................	12.63	2.50
June 30, 2000.........................	10.50	4.75
September 30, 2000....................	10.13	4.75
December 31, 2000.....................	7.13	3.38
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

As of March 15, 2002, Vicom had 516 shareholders of record of its common stock and 10,770,686 shares of common stock outstanding. As of that date, eight shareholders held a total of 28,372 of Class A Preferred, two shareholders held a total of 8,700 shares of Class B Preferred, six shareholders held a total of 139,510 shares of Class C Preferred, and three shareholders held a total of 40,000 shares of Class D Preferred.

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 and Class D 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 (class a 2001) 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 has a five-year warrant to purchase one share of common stock at $3.00 per share, subject to adjustment.

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 2001, at various times, Vicom issued 67,655 shares of Class A Preferred for cash, acquisitions of assets and conversion of various liabilities. The total cash and non-cash amount recorded for the shares issued was $676,556. Vicom also issued 10,000 shares of Class D Preferred related to conversion of a note payable for $100,000.

The holders of the Class A Preferred, Class B Preferred, Class C Preferred and Class D 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 and fourteen percent (14%) for the Class D Preferred. 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 and Class D 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 and Class D 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 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.

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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, 2001, 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, 1998 and 1997 and the Balance Sheet data at December 31, 1999, 1998, and 1997 has been derived from our audited consolidated financial statements which are not contained in this prospectus.

STATEMENT OF OPERATIONS DATA	2001	2000	1999	1998
Revenues	$ 31,822,891	$ 39,781,846	$ 20,388,870	$ 6,458,113
Cost of products and services	$ 24,857,300	$ 31,698,569	$ 16,247,898	$ 4,841,111
Gross profit	$ 6,965,591	$ 8,083,277	$ 4,140,972	$ 1,617,002
% of revenues	21.88%	20.3%	20.3%	25.0%
Selling, general and administrative expenses	$ 10,962,739	$ 11,852,041	$ 5,823,945	$ 2,839,862
% of revenues	34.45%	29.8%	28.6%	44.0%
Income (loss) from				

Operations	$ (3,997,148)	$ (3,768,764)	$ (1,682,973)	$ (1,222,860)
Other expense net	$ (1,328,404)	$ (458,067)	$ (139,461)	$ (170,888)
Income (loss) before income taxes	$ (5,325,552)	$ (4,226,831)	$ (1,822,434)	$ (1,393,748)
Income tax provision	$ 0	$ 9,000	$ 241,200	$ 50,000
Net income (loss)	$ (5,325,552)	$ (4,235,831)	$ (2,063,634)	$ (1,443,748)
Income (loss) attributable to common stockholders	$ (5,758,221)	$ (5,082,011)	$ (2,101,603)	$ (1,443,748)
Earnings (loss) per common share- basic and diluted	$ (.66)	$ (0.72)	$ (0.55)	(0.68)
Weighted average shares outstanding	8,762,814	7,009,751	3,821,978	2,129,387

BALANCE SHEET DATA	2001	2000	1999	1998
Working capital (deficiency)	$ 448,168	$ 2,870,114	$ (2,882,907)	$ (43,161)
Total assets	$ 12,231,300	$ 15,614,573	$ 12,598,745	$ 6,630,917
Long-term debt	$ 3,311,870	$ 3,362,083	$ 926,821	$ 826,490
Stockholders' equity	$ 4,205,620	$ 5,876,352	$ 1,026,344	$ 689,775

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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 Consolidated Financial Statements and the Notes thereto included elsewhere in this report.

YEARS ENDED DECEMBER 31, 2001 AND DECEMBER 31, 2000

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	.0%	8.2%
CTU	99.22%	91.6%
MultiBand, Inc.	.78%	0.2%
Total Revenues	100.0%	100.0%
Cost of Sales		
Vicom	.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 Loss	(16.73%)	(10.6%)

REVENUES

Total revenues decreased 20.01% to $31,822,891 in 2001 from $39,781,846 in 2000.

Revenues from the CTU segment which traditionally sells computer technologies products and services decreased 13.4% to $31,556,894 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 MARGIN

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 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, 34.5% 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.

YEARS ENDED DECEMBER 31, 2000 AND DECEMBER 31, 1999

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.

	2000	1999
Revenues		
Vicom and VMTS	8.2%	76.4%
CTU	91.6%	23.6%
MultiBand, Inc.	0.2%	0
Total Revenues	100.0%	100.0%
Cost of Sales		
Vicom and VMTS	6.2%	61.0%
CTU	73.2%	18.7%
MultiBand, Inc.	0.3%	0
Total Cost of Sales	79.7%	79.7%
Gross Margin	20.3%	20.3%
Selling, General and Administrative expenses	29.8%	28.6%
Operating Loss	(9.5%)	(8.3%)
Net Loss	(10.6%)	(10.1%)

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REVENUES

Total revenue increased 95.1% to $39,781,846 in 2000 from $20,388,870 in 1999. Total revenues decreased from the $44,941,776 pro forma consolidated revenues for 1999, primarily due to intra company sales to MultiBand, Inc., which were eliminated in consolidation.

Revenues from the CTU segment which traditionally sells computer technologies products and services increased 656% to $36,460,217 in 2000 from $4,821,388 in 1999. This significant increase in CTU segment revenues resulted primarily from the reporting of 12 months revenue in this segment versus two months the prior year due to the November 1, 1999 acquisition of Ekman, Inc. A secondary factoring the CTU revenue increase was the gradual merging of the traditional Vicom and VMTS voice, video and data business segment into the CTU operational and management structure.

Revenues from the Vicom and VMTS segment decreased 79.1% in 2000 to $3,248,310 from $15,567,282 in 1999. The decrease in revenues resulted from the aforementioned merging of the Vicom and CTU business segments during fiscal year 2000.

Revenues from MultiBand were $73,219 in 2000. There is no comparative data for 1999, as MultiBand was not in operations during that year and was in the start-up phase.

GROSS MARGIN

The Company's gross margin was $8,083,277 for 2000, as compared to $4,140,972 for 1999. The gross margin increase is due to the aforementioned acquisition of Ekman, Inc. For 2000, as a percent of total revenues, gross margin was 20.3% as compared to 20.3% for 1999. The same gross margin percentage is primarily due to an increase in service sales which allowed the company to maintain margins.

The Company's gross margin as a percentage of revenues for Vicom was 24.5%. The Company's gross margin as a percentage of revenue for CTU was 20.1%. The Company's gross loss for MultiBand, Inc. as a percentage of revenues was 47.1%.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased 103.5% to $11,852,041 in 2000, compared to $5,823,943 in 1999. This increase in expenses is primarily related to increased payroll due to acquisitions and start-up expenses for the Company's MultiBand, Inc. subsidiary. Selling, general and administrative expenses were, as a percentage of revenues, 29.8% for 2000 and 28.6% for 1999.

INTEREST EXPENSE

Interest expense was $607,418 for 2000, versus $262,228 for 1999 reflecting an increased Company debt load due to acquisition related debt and increased bank borrowings.

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NET LOSS

In 2000, the Company incurred a net loss of $4,235,831 compared to a net loss of $2,063,634 for 1999.

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UNAUDITED QUARTERLY RESULTS

The following table sets forth certain unaudited quarterly operating information for each of the eight quarters in the two-year period ended December 31, 2001. 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, 2001	Sept. 30, 2001	June 30, 2001	March 31, 2001	Dec. 31, 2000	Sept. 30, 2000
Revenues:						
Vicom	0	0	0	0	$ (214,437)	$ 119,03
CTU	5,542,674	7,618,442	7,794,443	10,617,741	11,320,377	10,077,67
MultiBand	88,635	60,092	35,786	65,078	51,020	22,29
Total Revenues	5,631,309	7,678,534	7,830,229	10,682,819	11,156,960	10,219,00
Cost of Sales	4,142,991	6,110,861	6,048,399	8,555,049	9,517,517	7,868,10
Gross Margin	1,488,318	1,567,673	1,781,830	2,127,770	1,639,443	2,350,89
SG&A Expense	3,175,613	2,040,043	2,738,537	3,008,546	3,697,857	2,501,86
Operating loss	(1,687,295)	(472,370)	(956,707)	(880,776)	(2,058,414)	(150,97
Interest Expense	(427,924)	(352,735)	(373,771)	(292,438)	(160,598)	(133,66
Other Income (Expenses)	554,022	(480,955)	307	45,090	149,351	169,83
Loss Before Taxes	(1,561,197)	(1,306,060)	(1,330,171)	(1,128,124)	(2,069,661)	(114,80
Income Tax (Benefit) Provision	0	0	0	0	(9,000)	
Net Loss	(1,561,197)	(1,306,060)	(1,330,171)	(1,128,124)	(2,078,661)	(114,80
Loss Per Common Share Basic and Diluted	(.19)	(.15)	(.18)	(.14)	(0.31)	(0.0

LIQUIDITY AND CAPITAL RESOURCES

YEAR ENDED DECEMBER 31, 2001

Available working capital, for 2001, decreased $2,421,946 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 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 $705,050 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 $3,065,694.

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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 $2,482,624 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 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.

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.

YEAR ENDED DECEMBER 31, 2000

Available working capital, for 2000, increased $5,753,021 over 1999 to $8,429,375 due to proceeds from issuance of stock and warrants, which helped offset Vicom's net operating loss and net cash used in operating activities of $3,640,226. Vicom had a $2,092,811 decrease in accounts payable and other liabilities for 2000 versus last year's period, primarily due to the aforementioned proceeds, which were used to reduce payables.

Inventories year to date increased $320,406 over last year's prior period inventories due to the aforementioned revenue increases. Net borrowings under short-term loans increased $725,940 for 2000 compared to 1999.

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In 2000, the Company entered into a $2,250,000 debenture agreement with a financial institution, interest at 14% payable monthly due $102,273 per month from August 1, 2003 through June 1, 2005, and collateralized by substantially all Company assets.

In 2000, the Company entered into a $2,250,000 wholesale line of credit agreement, with a financial institution 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.

Two other commercial line of credit agreements expired in 2000.

The Company used $1,316,022 for capital expenditures during 2000, as compared to $631,166 in 1999. In addition, the Company financed the acquisition of $1,310,081 of equipment through capital leases in 2000. These 2000 expenditures were primarily for construction related to the start up of MultiBand. For the similar period last year, substantially all capital expenditures consisted of equipment acquired for internal use.

Net cash used by operations was approximately $3,640,226 in 2000 versus cash provided by operations of approximately $1,385,000 in 1999. The cash used by operation is due primarily to the decrease in accounts payable and other liabilities and MultiBand start-up expenses in 2000. Management of Vicom believes that, for the near future, cash generated by sales of stock, exercise of warrants, and existing credit facilities, in aggregate, are adequate to meet the anticipated liquidity and capital resource requirements of its business.

CRITICAL ACCOUNTING POLICIES

Impairment of Long-Lived Assets

The Company's long-lived assets include property, equipment and leasehold improvements. At December 31, 2001, the Company had net property and equipment of $4,059,831, which represents approximately 33% 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. During the years ended December 31, 2001, 2000 and 1999, the Company did not record any impairment losses related to long-lived assets.

Impairment of Goodwill

We periodically evaluate acquired businesses for potential impairment indicators. Our judgements regarding the existence of impairment indicators are based on legal factors, market conditions and operational performance of our acquired businesses. Future events could cause us to conclude that impairment indicators exist and that goodwill associated with our acquired businesses, which amounts to $2,749,879 (or 22% of total assets), is 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, 2001, 2000 and 1999, the Company did not record any impairment losses related to goodwill.

Inventories

We value our inventory at the lower of the actual cost or the current estimated market value of the inventory. We regularly review inventory quantities on hand and record a provision for excess and obsolete inventory. Rapid technological change, frequent new product development, and rapid product obsolescence that could result in an increase in the amount of obsolete inventory quantities on hand characterize our industry.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141 "Business Combinations." SFAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations except for qualifying business combinations that were initiated prior to July 1, 2001. In addition, SFAS No. 141 further clarifies the criteria to recognize intangible assets separately from goodwill. The requirements of SFAS No. 141 are effective for any business combination accounted for by the purchase method that is completed after June 30, 2001. The Company is evaluating the impact of this new accounting standard.

In June 2001, the Financial Accounting Standards Board (FASB) adopted Statement of Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 discontinues the amortization of recorded goodwill for fiscal years beginning after December 15, 2001. In the future, goodwill will be reduced based upon an impairment analysis of the amount recorded on the Company's books. To the extent it has been determined that the carrying value of goodwill is not recoverable and is in excess of fair value, an impairment loss will be recognized. Impairment will be reviewed annually.

In June 2001, the FASB issued SFAS No. 143. "Accounting for Asset Retirement Obligations." SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company believes the adoption of SFAS No. 143 will not have a material effect on the Company's consolidated financial position or results of operations.

In October 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes SFAS No. 121. SFAS 144 primarily addresses significant issues relating to the implementation of SFAS 121 and develops a single accounting model for long-lived assets to be disposed of, whether primarily held, used or newly acquired. The provisions of SFAS 144 will be effective for fiscal years beginning after December 15, 2001. The provisions of SFAS No. 144 generally are to be applied prospectively. The Company is evaluating the impact of this new accounting standard.

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

VICOM, INCORPORATED AND SUBSIDIARIES - CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2001 AND 2000, AND CONSOLIDATED STATEMENTS OF OPERATIONS, CONSOLIDATED STOCKHOLDERS' EQUITY AND CONSOLIDATED CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

VICOM, INCORPORATED
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001, 2000 and 1999

VICOM, INCORPORATED AND SUBSIDIARIES
TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

To Stockholders and Board of Directors
Vicom, Incorporated and subsidiaries

We have audited the accompanying consolidated balance sheet of Vicom, Incorporated and subsidiaries as of December 31, 2001, and the related consolidated statements of operations, stockholders' equity and cash flows for the year 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 audit. The consolidated financial statements of Vicom, Incorporated and subsidiaries as of December 31, 2000 and 1999, were audited by other auditors whose report dated February 15, 2001, expressed an unqualified opinion on those statements.

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 present fairly, in all material respects, the consolidated financial position of Vicom, Incorporated and subsidiaries as of December 31, 2001, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ VIRCHOW, KRAUSE & COMPANY, LLP

Minneapolis, Minnesota
February 15, 2002

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of Vicom, Incorporated and Subsidiaries as of December 31, 2000, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 200 and 1999. 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.

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 provide 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, 2000, and the consolidated results of their operations and their cash flows for the years ended December 31, 2000 and 1999, in conformity with accounting principles generally accepted in the United States of America.

Lurie Besikof Lapidus & Company, LLP

Minneapolis, Minnesota
February 15, 2001

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VICOM, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
December 31, 2001 and 2000

ASSETS

	2001	2000
CURRENT ASSETS		
Cash and cash equivalents	$ 624,845	$ 1,161,479
Accounts receivable, net	2,595,368	5,661,064
Inventories, net	1,646,441	2,122,002
Other current assets	295,324	301,707
Total Current Assets	5,161,978	9,246,252
PROPERTY AND EQUIPMENT, NET	4,059,831	3,277,109
OTHER ASSETS		
Goodwill, net	2,748,879	2,914,037
Other assets	260,612	177,175
Total Other Assets	3,009,491	3,091,212
TOTAL ASSETS	$ 12,231,300	$ 15,614,573

LIABILITIES AND STOCKHOLDERS' EQUITY

	2001	2000
CURRENT LIABILITIES		
Wholesale line of credit	$ 1,324,807	$ 2,033,340
Current portion of long-term debt	85,789	89,825
Current portion of capital lease obligation	309,906	338,509
Accounts payable	1,800,285	2,769,390
Accrued liabilities	776,417	825,933
Deferred service obligations and revenue	416,606	319,141
Total Current Liabilities	4,713,810	6,376,138
LONG-TERM DEBT, NET	2,669,510	2,431,733
CAPITAL LEASE OBLIGATIONS, NET OF CURRENT PORTION	642,360	930,350
Total Liabilities	8,025,680	9,738,221
STOCKHOLDERS' EQUITY		
Cumulative convertible preferred stock, no par value:		
8% Class A (28,872 and 0 shares issued and outstanding)	433,867	--
10% Class B (8,700 and 22,836 shares issued and outstanding)	87,000	218,869
10% Class C (139,510 and 150,810 shares issued and outstanding)	1,800,447	1,951,003
14% Class D (40,000 and 72,500 shares issued and outstanding)	417,500	802,813
Common stock, no par value (10,679,450 and 8,137,181 shares issued; 10,604,113 and 8,023,352 shares outstanding)	3,443,104	1,340,074
Stock subscriptions receivable	(610,000)	--
Options and warrants	24,957,912	14,347,833
Unamortized compensation	(1,209,143)	(278,138)
Accumulated deficit	(25,115,067)	(12,506,102)

Total Stockholders' Equity	4,205,620	5,876,352
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 12,231,300	$ 15,614,573

See accompanying notes to consolidated financial statements.

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VICOM, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2001, 2000 and 1999

	2001	2000	1999
REVENUES	$ 31,822,891	$ 39,781,846	$ 20,388,870
COST AND EXPENSES			
Cost of products and services	24,857,300	31,698,569	16,247,898
Selling, general and administrative	10,962,739	11,852,041	5,823,945
Total costs and expenses	35,820,039	43,550,610	22,071,843
LOSS FROM OPERATIONS	(3,997,148)	(3,768,764)	(1,682,973)
OTHER INCOME (EXPENSE)			
Interest expense	(1,446,868)	(607,418)	(262,228)
Interest income	63,717	23,291	18,367
Other income	54,747	126,060	104,400
Total Other Expense	(1,328,404)	(458,067)	(139,461)
Loss Before Income Taxes	(5,325,552)	(4,226,831)	(1,822,434)
PROVISION FOR INCOME TAXES	--	9,000	241,200
NET LOSS	$ (5,325,552)	$ (4,235,831)	$ (2,063,634)
Preferred stock dividends	432,669	846,180	37,969
LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (5,758,221)	$ (5,082,011)	$ (2,101,603)
LOSS PER COMMON SHARE- BASIC AND DILUTED	$ (0.66)	$ (0.72)	$ (0.55)

WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC AND DILUTED	8,762,814	7,009,751	3,821,978

See accompanying notes to consolidated financial statements.

VICOM, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2001, 2000, and 1999

	Cumulative Convertible Preferred				
	8% Class A		10% Class B		10% C
	Shares	Amount	Shares	Amount	Shares
BALANCES, December 31, 1998	--	$ --	35,050	$ 336,718	--
Sale of stock	2,550	23,638	2,500	23,175	--
Warrant issued:					
Preferred stock	--	--	--	--	--
Notes payable	--	--	--	--	--
Restricted stock:					
Issued	--	--	--	--	--
Forfeited	--	--	--	--	--
Amortization expense	--	--	--	--	--
Acquisition of Ekman:					
Stock	--	--	--	--	--
Options and warrants	--	--	--	--	--
Preferred dividends	--	--	--	--	--
Net loss	--	--	--	--	--
BALANCES, December 31, 1999	2,550	23,638	37,550	359,893	--
Stock issued:					
Options and warrants exercised	--	--	--	--	--
Other cash	--	--	--	--	153,310
Conversion of notes payable	--	--	--	--	--
Conversion of preferred stock	(2,550)	(23,638)	(9,000)	(86,259)	--
Redemption of preferred stock	--	--	(5,714)	(54,765)	(2,500)
Issuance costs	--	--	--	--	--
Warrants issued:					
Warrant dividend	--	--	--	--	--
Common stock	--	--	--	--	--
Preferred stock	--	--	--	--	--
Services	--	--	--	--	--
Cash	--	--	--	--	--
Restricted Stock:					
Issued	--	--	--	--	--
Forfeited	--	--	--	--	--
Amortization expense	--	--	--	--	--
Preferred dividends	--	--	--	--	--
Net loss	--	--	--	--	--

See accompanying notes to consolidated financial statements.

BALANCES, December 31, 2000	--	--	22,836	218,869	150,810
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)	(131,500)	(7,800)
Conversion of dividends payable	6,030	60,300	--	--	--
Redemption of preferred stock	(7,783)	(77,830)	(986)	(369)	(3,500)
Discount on preferred stock related to warrants	--	145,147	--	--	--
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	--	--	--	--	--
Forfeited	--	--	--	--	--
Amortization expense	--	--	--	--	--
Repricing of warrants	--	--	--	--	--
Embedded value with Pyramid Trading warrants	--	--	--	--	--
Preferred dividends	--	--	--	--	--
Net loss	--	--	--	--	--
BALANCE, December 31, 2001	28,872	$ 433,867	8,700	$ 87,000	139,510

See accompanying notes to consolidated financial statements.

VICOM, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2001, 2000, and 1999

Common Stock		Stock Subscriptions	Options and	Unamor

	Shares	Amount	Receivable	Warrants	Compen
BALANCES, December 31, 1998	3,612,995	$ 2,181,042	$ --	$ 701	$ (6
Sale of stock	--	--	--	--	
Warrant issued:					
Preferred stock	--	--	--	3,687	
Notes payable	--	--	--	112,640	
Restricted stock:					
Issued	144,600	248,866	--	--	(24
Forfeited	(22,750)	(15,663)	--	--	1
Amortization expense	--	--	--	--	3
Acquisition of Ekman:					
Stock	1,250,000	2,137,500	--	--	
Options and warrants	--	--	--	100,000	
Preferred dividends	--	--	--	--	
Net loss	--	--	--	--	
BALANCES, December 31, 1999	4,984,845	4,551,745	--	217,028	(25
Stock issued:					
Options and warrants exercised	1,427,217	3,953,471	--	(163,703)	
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)	--	13,255,869	
Common stock	--	--	--	495,971	
Preferred stock	--	--	--	234,668	
Services	--	--	--	208,000	
Cash	--	--	--	100,000	
Restricted Stock:					
Issued	35,000	200,185	--	--	(20
Forfeited	(58,268)	(87,010)	--	--	8
Amortization expense	--	--	--	--	9
Preferred dividends	--	--	--	--	
Net loss	--	--	--	--	

See accompanying notes to consolidated financial statements.

BALANCES, December 31, 2000	8,137,181	1,340,074	--	14,347,833	(27
Stock issued:					
Cash, including 197,000 shares issued for services rendered	1,092,953	421,566	--	--	
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	--	--	--	--	
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	--	--	--	1,244,250	(1,24
Deferred compensation expense	--	--	--	--	23
Restricted stock:					
Issued	83,000	308,145	--	--	(30
Forfeited	(82,711)	(289,180)	--	--	28
Amortization expense	--	--	--	--	9
Repricing of warrants	--	--	--	6,919,692	
Embedded value with Pyramid Trading warrants	--	--	--	431,925	
Preferred dividends	--	--	--	--	
Net loss	--	--	--	--	
BALANCE, December 31, 2001	10,679,450	$ 3,443,104	$(610,000)	$24,957,912	$(1,20

See accompanying notes to consolidated financial statements.

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VICOM, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2001, 2000, and 1999

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (5,325,552)	$ (4,235,831)
Adjustments to reconcile net loss to cash flows from operating activities:		
Depreciation	1,019,581	673,074
Amortization	391,183	428,770
Amortization of deferred compensation	332,210	--
Amortization of original issue discount	797,169	--
Loss on sale of property and equipment	846	--
Warrants issued for services	87,403	208,000
Discount on preferred stock related to warrants	(33,178)	--
Deferred income taxes	--	--
Changes in operating assets and liabilities:		
Accounts receivable, net	3,065,694	(291,843)
Inventories, net	705,050	(320,406)
Other current assets	47,031	225,234
Other assets	--	(2,178)
Wholesale line of credit	(708,533)	2,033,340
Accounts payable and accrued liabilities	(978,479)	(2,092,811)

Deferred service obligations and revenue	97,465	(265,575)
Net Cash Flows from Operating Activities	(502,110)	(3,640,226)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(1,884,945)	(1,316,022)
Proceeds from sale of property and equipment	60,019	--
Purchase of business, net of $64,072 cash received	--	--
Payments received on notes receivable	59,084	45,331
Issuance of notes receivable	--	(96,897)
Other	--	--
Net Cash Flows from Investing Activities	(1,765,842)	(1,367,588)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in checks issued in excess of deposits	--	(126,297)
Proceeds from long-term debt and warrants issued with long-term debt	1,919,650	2,282,160
Net payments under short-term loans	--	(1,307,400)
Principal payments on notes and installment obligations	--	(2,482,624)
Payments on long-term debt	(461,808)	--
Payments on capital lease obligations	(315,770)	--
Proceeds from issuance of stock and warrants	1,270,612	8,448,760
Stock issuance costs	--	(679,110)
Redemption of preferred stock	(538,199)	(79,765)
Preferred dividends	(143,167)	(90,796)
Net Cash Flows from Financing Activities	1,731,318	5,964,928
NET CHANGE IN CASH AND CASH EQUIVALENTS	(536,634)	957,114
CASH AND CASH EQUIVALENTS - Beginning of Year	1,161,479	204,365
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 624,845	$ 1,161,479

See accompanying notes to consolidated financial statements.

VICOM, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001, 2000 and 1999

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, 2001, 2000 and 1999, the Company incurred net losses of $5,325,552, $4,235,831 and $2,063,634, respectively. At December 31, 2001, the Company had an accumulated deficit of $25,115,067. The Company's ability to continue as a going concern is dependent on it ultimately achieving profitability and/or raising additional capital. Management intends to obtain additional debt or equity capital to meet all of its existing cash obligations and fund commitments on planned MultiBand projects, however, there can be no assurance that the sources will be available or available on terms favorable to the Company. Management anticipates that the impact of the actions listed below, will generate sufficient cash flows to pay current liabilities, long-term debt and capital lease obligations and fund the Company's future operations:

1. Continued reduction of operating expenses by controlling payroll, professional fees and other general and administrative expenses.
2. Solicit additional equity investment in the Company by either issuing preferred or common stock.
3. Continue to market MultiBand services and acquire additional multi-dwelling unit customers.
4. Control capital expenditures by contracting MultiBand services and equipment through a landlord-owned equipment program.

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) (incorporated in February 2000 and in the start-up phase) 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Customers contract for both the purchase and installation of voice and data networking technology products and certain video technologies products on one sales agreement, as installation of the product is essential to the functionality of the product. Revenues and costs on the sale of products where installation is involved are recognized under the percentage of completion method. Costs are expensed as incurred. The amount of revenue recognized is the portion that the cost expended to date bears to the anticipated total contract cost, based on current estimates to complete. Contract costs include all labor and materials unique to or installed in the project, as well as subcontract costs. Costs and estimated earnings in excess of billings are classified as current assets; billings in excess of costs and estimated earnings are classified as current liabilities.

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

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

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

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 provides an allowance for uncollectible accounts on accounts receivable. The allowance for uncollectible accounts was $178,000 and $159,000 at December 31, 2001 and 2000, respectively. The Company believes all accounts receivable in excess of the allowance are fully collectible. If accounts receivable in excess of the provided allowance are determined uncollectible, they are charged to expense in the year that determination is made. The Company extends unsecured credit to customers in the normal course of business.

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 $321,000 and $200,000 at December 31, 2001 and 2000, respectively.

December 31, 2001, 2000 and 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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 eight 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.

GOODWILL

Goodwill represents the excess of acquisition costs over the fair value of identifiable net assets acquired and is amortized using the straight-line method over ten years. The carrying value of goodwill is reviewed if the facts and circumstances suggest that it may be impaired. If the review indicates that goodwill will not be recoverable, as determined based on the undiscounted cash flows of the assets acquired over the remaining amortization period, the Company's carrying value of goodwill is reduced by the estimated shortfall of cash flows. Accumulated amortization was $782,278 and $436,678 at December 31, 2001 and 2000, respectively. The Company did not record any impairment charges related to goodwill and property and equipment during the years ended December 31, 2001, 2000 and 1999.

In June 2001, the Financial Accounting Standards Board (FASB) adopted Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 discontinues the amortization of recorded goodwill for fiscal years beginning after December 15, 2001. In the future, goodwill will be reduced based upon an impairment analysis of the amount recorded on the Company's books. To the extent it has been determined that the carrying value of goodwill is not recoverable and is in excess of fair value, an impairment loss will be recognized. Impairment will be reviewed on a periodic basis based on its fair value.

The Company is currently evaluating the impact of this new accounting standard. Amortization expense for the years ended December 31, 2001, 2000 and 1999 was $345,600, $335,074 and $101,604, respectively.

INTANGIBLE ASSET

The Company amortizes an intangible asset acquired during the year ended December 31, 2001 over its estimated useful life of five years using the straight-line method. The cost and accumulated amortization at December 31, 2001 was $83,750 and $5,583, respectively.

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.

VICOM, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001, 2000 and 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ADVERTISING COSTS

Advertising costs are charged to expense as incurred. Advertising costs were $230,629, $188,444 and $87,936 for the years ended December 31, 2001, 2000 and 1999, 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.

STOCK-BASED COMPENSATION

In accordance with Accounting Principles Board (APB) Opinion No. 25, 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. Required pro forma disclosures of compensation expense determined under the fair value method of SFAS No. 123, "Accounting for Stock-Based Compensation," are presented in Note 9. Options and warrants issued to nonemployees are recorded at fair value, as required by SFAS No. 123, using the Black Scholes model.

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, 2001, 2000 and 1999 were anti-dilutive.

VICOM, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001, 2000 and 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

RECENT ACCOUNTING PRONOUNCEMENTS

The Securities and Exchange Commission (SEC) released Staff Accounting Bulletin No. 101 - Revenue Recognition (SAB No. 101). SAB No. 101 provides the SEC's views in applying accounting principles generally accepted in the United States of America to selected revenue recognition issues. In June 2000, the SEC released Staff Accounting Bulletin No. 101B - Second Amendment (SAB No. 101B) delaying the implementation date of SAB No. 101 to no later than the fourth fiscal quarter of registrants with fiscal years beginning after December 15, 1999. This pronouncement did not have a material effect on the Company's consolidated financial statements.

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, is effective for years beginning after June 15, 2000. SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge criteria are met. Special accounting for qualifying hedges allows a derivatives gains or losses to offset related results on the hedged item in the statement of operations and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. The adoption of SFAS No. 133 did not have a material effect on the Company's consolidated financial position or results of operations as the Company has no derivative instruments.

In June 2001, the FASB issued SFAS No. 141 "Business Combinations." SFAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations except for qualifying business combinations that were initiated prior to July 1, 2001. In addition, SFAS No. 141 further clarifies the criteria to recognize intangible assets separately from goodwill. The requirements of SFAS No. 141 are effective for any business combination accounted for by the purchase method that is completed after June 30, 2001. The Company is evaluating the impact of this new accounting standard.

In June 2001, the FASB issued SFAS No. 143. "Accounting for Asset Retirement Obligations." SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company believes the adoption of SFAS No. 143 will not have a material effect on the Company's consolidated financial position or results of operations.

In October 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes SFAS No. 121. SFAS 144 primarily addresses significant issues relating to the implementation of SFAS 121 and develops a single accounting model for long-lived assets to be disposed of, whether primarily held, used or newly acquired. The provisions of SFAS 144 will be effective for fiscal years beginning after December 15, 2001. The provisions of SFAS No. 144 generally are to be applied prospectively. The Company is evaluating the impact of this new accounting standard.

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 and the valuation of deferred income tax assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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. The