PPL Corp
Form 4
November 02, 2012

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
ELLIOTT STEVEN G

(Last) (First) (Middle)

TWO NORTH NINTH STREET

(Street)

ALLENTOWN, PA 18101

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
PPL Corp [PPL]

3. Date of Earliest Transaction (Month/Day/Year)
10/31/2012

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. D Se (I

Derivative Security				Disposed of (D) (Instr. 3, 4, and 5)						
			Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Stock Unit (DDCP)	(1)	10/31/2012	A		352.272		(2)	(2)	Common Stock	352.272

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
ELLIOTT STEVEN G TWO NORTH NINTH STREET ALLENTOWN, PA 18101	X			

Signatures

/s/Frederick C. Paine, as Attorney-In-Fact for Steven G. Elliott	11/02/2012
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) No conversion or exercise price applies as, under the terms of the Directors Deferred Compensation Plan (DDCP), payout of the underlying securities will occur following a director's retirement.

(2) Payout of the underlying securities occurs as noted above in Note 1.

(3) Total includes the reinvestment of dividends.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. 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. CONSULTING As a multi-service, multi-vendor, multi-site integrator, MBS 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, 2004, we had 25 sales and marketing personnel with expertise in telecommunications, computers and network services. MBS 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. MBS uses several techniques to pursue new customer opportunities, including advertising, participation in trade shows, seminars and telemarketing. CUSTOMERS MBS provides its products and services to commercial, professional and government users within the states of Minnesota and North Dakota. MBS's customers are diverse and represent various industries such as financial services, hospitality, legal, manufacturing, and education. In the year ended December 31, 2003, MBS received 17.5% of its revenues from Meritcare Health System and 6.0% of its revenues from Noridian (Blue Cross Blue Shield). In its year ended December 31, 2002, MBS received approximately 22.8% of its revenues from two customers, Merit Care and Microsoft Great Plains. In its year ended December 31,

2001, MBS received approximately 21.7 % of all revenues from two customers. Those two customers were Microsoft Great Plains and the State of North Dakota. CUSTOMER SERVICE MBS has 20 full-time customer service and related support personnel who assist in project management duties, post-sale communications (which include site surveys), coordinated network services, and end-user training. Each key account is assigned its own individual customer service representative to ensure efficient implementation. The customer service representative works closely with the sales representative and main technician assigned to the project to facilitate the utmost in customer satisfaction. BACK OFFICE Back office refers to the hardware and software systems that support the primary functions of our operations, including sales support, order entry and provisioning, and billing. Order entry involves the initial loading of customer data into our information system. Currently our sales representatives take orders and our customer service and purchasing representatives load the initial customer information into our ILS (Integrated Logistic System) billing and accounting system. We use the ILS to manage and track the timely completion of each step in the provisioning and installation process. Our system is designed to enable the sales or customer service representative to keep an installation on schedule and 8 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, MBS purchases products and equipment from NEC, 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 2003, Ingram Micro supplied 60.55% and Dell computer supplied 8.35% of total products purchased. In 2002, Ingram Micro supplied 57.7% and Dell Computer 11.8% of total products purchased. In 2001, Ingram Micro supplied 37.8% and Tech Data provided 18.9% of total products purchased. The products MBS purchase are off-the-shelf products. MBS 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. MBS has a distribution agreement with NEC, its main supplier of telecommunication products, which expires June 30, 2004. MBS could replace NEC with an alternate supplier fairly quickly, but with a less competitive product. However, MBS's replacement of NEC could have a material adverse effect on Vicom's business, operating results and financial condition. MULTIBAND CONSUMER SERVICES 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 problems. 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 being visually unattractive or a structural/maintenance problem. The second is how to provide competitive access for local and long distance telephone cable television and Internet services. Our MCS offering addresses these problems and provides the consumer several benefits, including: o Lower Cost Per Service o Blended Satellite and Cable Television Package o Multiple Feature Local Phone Services (features such as call waiting, call forwarding and three-way calling) o Better than Industry Average Response Times o One Number for Billing and Service Needs o One Bill for Local, Long Distance Cable Television and Internet o "Instant On" Service Availability As we develop and market this package, we will keep a marketing focus on two levels of customer for this product. The primary decision-makers are the property owners/managers. Their concerns are focused on delivering their residents reliability, quality of service, short response times, minimized disruptions on 9 the property, minimized alterations to the property and value added services. Each of these concerns is addressed in our contracts with the property owner, which include annual reviews and 10 to 15 year terms as service providers on the property. The secondary customer is the end-user. We will provide the property with on-going marketing support for their leasing agents to deliver clear, concise and timely information on our services. This will include simple sign up options that should maximize our penetration of the property. When taken as a whole, and based on Vicom's interpretations of U.S. Census Bureau statistics, cable television, telephone and internet services currently generate over $170 billion of revenues annually in the U.S. These statistics indicate stable growing markets with demand that is likely to deliver significant values to businesses that can obtain a subscriber base of any meaningful size. MULTIBAND CONSUMER INDUSTRY ANALYSIS Strategy For the near future, the services described below will be offered primarily in Midwestern states. Our primary competition will come from the local incumbent providers of telephone and cable television services. Local Telephone Service In Minnesota, we expect to compete with Qwest Communications International, Inc. (Qwest) for local telephone services. 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 In Minnesota, we expect to compete with Comcast Corporation (Comcast) for pay-TV customers. Comcast is the cable television service provider that has resulted from the merger and acquisition of two competitive cable providers. This actually has improved the overall continuity of service. However, we have a significant consumer benefit in that we are establishing private rather than public television systems, which allows us to deliver a package that is not laden with local "public access" stations that clog the basic service package. In essence, we will be able to deliver a customized service offering to each property based upon pre-installation market research that we perform. Long Distance Telephone Service AT&T Corporation (AT&T), WorldCom Inc. dba MCI (MCI), and Sprint Corporation (Sprint) are our principal competitors in providing long distance telephone service. They offer new products almost weekly. Our primary concern in this marketplace is to assure that we are competitive with the most recent advertised offerings in the "long distance wars." We will meet this challenge by staying within a penny of the most current offering, while still maintaining a high gross margin on our product. We accomplish this through various carrier agency associations. We expect to generate a high penetration in our long distance services amongst our local service subscribers because private property owners in the shared tenant environment (similar to a hotel environment) are not required to offer multiple long distance carriers to their tenants. Internet Access Service The clear frontrunners in this highly unregulated market are America Online, Inc. and CompuServe Corp. They compete with local exchange carriers, long distance carriers, Internet backbone companies and many local ISPs (Internet Service Providers). Competition has driven this to a flat rate unlimited access dial 10 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 services to MDU properties primarily throughout Minnesota, North Dakota, Missouri and Florida. 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 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, 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, 2003, MCS had 8,246 units wired for service and 6,827 subscribers using its services(1,180 using voice services, 4,908 using video services and 739 using internet services). Employees As of March 15, 2004, Vicom employed four full-time management employees. As of that same date, MBS had 90 full-time employees, consisting of 25 in sales and marketing, 36 in technical positions, 20 in customer service and related support, 10 in management and 9 in administration and finance. As of March 15, 2004, MCS had 6 full-time employees, 2 in sales and the rest in operations. RISK FACTORS Our operations and our securities are subject to a number of risks, including but not limited to those described below. If any of the following risks actually occur, the business, financial condition or operating results of Vicom and the trading price or value of our common stock could be materially adversely affected. General Vicom, since 1998, has taken several significant steps to reinvent and reposition itself to take advantage of opportunities presented by a shifting economy and industry environment. Recognizing that voice, data and video technologies in the late twentieth century were beginning to 11 systematically integrate as industry manufacturers were evolving technological standards from "closed" proprietary networking architetectures to a more "open" flexible and integrated approach, Vicom, between 1998 and 2001, purchased three competitors which, in the aggregrate, possessed expertise in data networking, voice and data cabling and video distribution technologies. In early 2000, Vicom created its MCS division, employing the aforementioned expertise, to provide communications and entertainment services (local dial tone, long distance, high-speed internet and expanded satellite television services) to residents in Multi-Dwelling-Unit properties (MDUs) on one billing platform. Although MCS revenues (recurring subscriber fees) accounted for less than 6% of overall Vicom revenues in 2003, Vicom expects MCS related revenues to increase significantly in 2004 as a percentage of overall revenues. These revenues are expected to provide higher gross margins than the company's more traditional sales to commercial enterprises. The specific risk factors, as detailed below, should be analyzed in the context of the Company's anticipated MCS related growth. NET LOSSES The Company had net losses of $4,365,004 for the fiscal year ended December 31, 2003, $4,438,059 for the fiscal year ended December 31, 2002, and $5,325,552 for the fiscal year ended December 31, 2001. Vicom may never be profitable. The prolonged effects of generating losses without additional funding may restrict our ability to pursue our business strategy. Unless our business plan is successful, an investment in our common stock may result in a complete loss of an investor's capital. If we cannot achieve profitability from operating activities, we may not be able to meet: o our capital expenditure objectives; o our debt service obligations; or o our working capital needs. DEPENDENCE ON ASSET-BASED FINANCING Vicom currently depends on asset-based financing to purchase product, and we cannot guarantee that such financing will be available in the future. Furthermore, we need additional financing to support the anticipated growth of our MCS subsidiary. We cannot guarantee that we will be able to obtain this additional financing. However, the Company recently introduced a program where it can control capital expenditures by contracting Multiband services and equipment through a landlord or third party investor owned equipment program. This program both significantly reduces any Company expenditures in a Multi-dwelling-unit installation and permits the Company to record revenues from the third party sale of said equipment. GOODWILL In June 2001, the Financial Accounting Standards Board (FASB) adopted Statement of Financial Accounting Standards (SFAS) 142, "Goodwill and Other Intangible Assets" which changes the amortization rules on recorded goodwill from a monthly amortization to a periodic "impairment" analysis for fiscal years beginning after December 15, 2001. In 2003, the Company retained an independent outside expert to 12 evaluate the impact of this new accounting standard and the expert concluded there was no impairment to goodwill. However, the Company could be subject to a determination that its goodwill is impaired in the future. As of December 31, 2003, the Company had recorded goodwill of approximately $2.7 million. DEREGULATION Several regulatory and judicial proceedings have recently concluded, are underway or may soon be commenced that address issues affecting operations and those of our competitors, which may cause significant changes to our industry. We cannot predict the outcome of these developments, nor can we assure you that these changes will not have a material adverse effect on us. Historically, we have been a reseller of products and services, not a manufacturer or carrier requiring regulation of its activities. Pursuant to Minnesota statutes, our Multiband activity is specifically exempt from the need to tariff our services in multiple dwelling units (MDUs). However, the Telecommunications Act of 1996 provides for significant deregulation of the telecommunications industry, including the local telecommunications and long-distance industries. This federal statute and the related regulations remain subject to judicial review and additional rule-makings of the Federal Communications Commission, making it difficult to predict what effect the legislation will have on us, our operations, and our competitors. DEPENDENCE ON STRATEGIC ALLIANCES Vicom has a distribution agreement with NEC, its main supplier of telecommunication products, which expires June 30, 2004. An interruption or substantial modification of Vicom's distribution relationship with NEC could have a material adverse effect on Vicom's business, operating results and financial condition. In addition, several suppliers, or potential suppliers of Vicom, such as McLeod, WorldCom, WS Net, XO Communications and others have filed for bankruptcy in recent years. While the financial distress of its suppliers or potential suppliers could have a material adverse effect on Vicom's business, Vicom believes that enough alternate suppliers exist to allow the Company to execute its business plans. CHANGES IN TECHNOLOGY A portion of our projected future revenue is dependent on public acceptance of broadband, and expanded satellite television services. Acceptance of these services is partially dependent on the infrastructure of the internet and satellite television which is beyond Vicom's control. In addition, newer technologies, such as video-on-demand, are being developed which could have a material adverse effect on the Company's competitiveness in the marketplace if Vicom is unable to adopt or deploy such technologies. ATTRACTION AND RETENTION OF EMPLOYEES Vicom's success depends on the continued employment of certain key personnel, including executive officers. If Vicom were unable to continue to attract and retain a sufficient number of qualified key personnel, its business, operating results and financial condition could be materially and adversely affected. In addition, Vicom's success depends on its ability to attract, develop, motivate and retain highly skilled and educated professionals with a wide variety of management, marketing, selling and technical capabilities. Competition for such personnel is intense and is expected to increase in the future. BUSINESS GROWTH AND SCALABILITY Vicom's Multiband subsidiary, as of December 31, 2003, was providing communications and entertainment services to thirty-seven MDUs primarily located in Minnesota, North Dakota, Missouri and Florida. Vicom needs to provide products and services to additional MDUs if it is to become profitable. 13 Vicom may need to go beyond its current geographic territory to increase its MDU customers and attract additional financing. In expanding the provision of its services to MDUs in its current territories and beyond, Vicom needs to successfully overcome a number of the factors listed above such as attracting the capital to finance expanded installations, obtaining additional technical staff for installation and support in its present markets and beyond; and extending its key vendor relationships into other markets. INTELLECTUAL PROPERTY RIGHTS Vicom relies on a combination of trade secret, copyright, and trademark laws, license agreements, and contractual arrangements with certain key employees to protect its proprietary rights and the proprietary rights of third parties from which Vicom licenses intellectual property. If it was determined that Vicom infringed the intellectual property rights of others, it could be required to pay substantial damages or stop selling products and services that contain the infringing intellectual property, which could have a material adverse effect on Vicom's business, financial condition and results of operations. Also, there can be no assurance that Vicom would be able to develop non-infringing technology or that it could obtain a license on commercially reasonable terms, or at all. Vicom's success depends in part on its ability to protect the proprietary and confidential aspects of its technology and the products and services it sells. There can be no assurance that the legal protections afforded to Vicom or the steps taken by Vicom will be adequate to prevent misappropriation of Vicom's intellectual property. VARIABILITY OF QUARTERLY OPERATING RESULTS; SEASONALITY Variations in Vicom's revenues and operating results occur from quarter to quarter as a result of a number of factors, including customer engagements commenced and completed during a quarter, the number of business days in a quarter, employee hiring and utilization rates, the ability of customers to terminate engagements without penalty, the size and scope of assignments and general economic conditions. Because a significant portion of Vicom's expenses are relatively fixed, a variation in the number of customer projects or the timing of the initiation or completion of projects could cause significant fluctuations in operating results from quarter to quarter. Further, Vicom has historically experienced a seasonal fluctuation in its operating results, with a larger proportion of its revenues and operating income occurring during the third quarter of the fiscal year. CERTAIN ANTI-TAKEOVER EFFECTS Vicom is subject to Minnesota statutes regulating business combinations and restricting voting rights of certain persons acquiring shares of Vicom. These anti-takeover statutes may render more difficult or tend to discourage a merger, tender offer or proxy contest, the assumption of control by a holder of a large block of Vicom's securities, or the removal of incumbent management. VOLATILITY OF VICOM'S COMMON STOCK The trading price of our common stock has been and is likely to be volatile. The stock market has experienced extreme volatility, and this volatility has often been unrelated to the operating performance of particular companies. We cannot be sure that an active public market for our common stock will continue after this offering. Investors may not be able to sell the common stock at or above the price they paid for their common stock, or at all. Prices for the common stock will be determined in the marketplace and may be influenced by many factors, including variations in our financial results, changes in earnings estimates by industry research analysts, investors' perceptions of us and general economic, industry and market conditions. 14 FUTURE SALES OF OUR COMMON STOCK MAY LOWER OUR STOCK PRICE If our existing shareholders sell a large number of shares of our common stock, the market price of the common stock could decline significantly. The perception in the public market that our existing shareholders might sell shares of common stock could depress our market price. COMPETITION We face competition from others who are competing for a share of the MDU market, including other satellite companies and cable companies. Some of these companies have significantly greater assets and resources than we do. FORWARD-LOOKING STATEMENTS This document contains forward-looking statements within the meaning of federal securities law. Terminology such as "may," "will," "expect," "anticipate," "believe," "estimate," "continue," "predict," or other similar words, identify forward-looking statements. These statements discuss future expectations, contain projections of results of operations or of financial condition or state other forward-looking information. Forward-looking statements appear in a number of places in this prospectus and include statements regarding our intent, belief or current expectation about, among other things, trends affecting the industries in which we operate, as well as the industries we service, and our business and growth strategies. Although we believe that the expectations reflected in these forward-looking statements are based on reasonable assumptions, forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those predicted in the forward-looking statements as a result of various factors, including those set forth in "Risk Factors." ITEM 2: PROPERTIES Vicom and its subsidiaries lease principal offices located at 2000 44th Street SW, Fargo, ND 58103 and 9449 Science Center Drive, New Hope, Minnesota 55428. We have no foreign operations. The main Fargo office lease expires in 2017 and covers approximately 22,500 square feet. The Fargo base rent ranges from $23,565 to $30,377 per month. The New Hope office lease expires in 2013 and covers approximately 47,000 square feet. The New Hope base rent ranges from $18,389 to $25,166 per month. Both the New Hope and Fargo leases have provisions that call for the tenants to pay net operating expenses, including property taxes, related to the facilities. Both offices have office, warehouse and training facilities. Vicom considers its current facilities adequate for its current needs and believes that suitable additional space would be available as needed. ITEM 3: LEGAL PROCEEDINGS The Company is involved in legal actions in the ordinary course of business. However, as of December 31, 2003, Vicom was not engaged in any pending legal proceedings where, in the opinion of the Company, the outcome is likely to have a material adverse effect upon the business, operating results and financial condition of the Company. ITEM 4: 15 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. 16 PART II ITEM 5: MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES 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, 2002 and December 31, 2003 as provided by Nasdaq. QUARTER ENDED HIGH BID LOW BID ------------- -------- ------- March 31, 2002 .... 1.90 1.37 June 30, 2002 .... 1.75 .80 September 30, 2002 .... .92 .52 December 31, 2002 .... 1.12 .50 March 31, 2003 .... 1.37 .77 June 30, 2003 .... 2.49 1.03 September 30, 2003 .... 2.20 1.52 December 31, 2003 .... 1.85 1.23 As of March 15, 2004, Vicom had 679 shareholders of record of its common stock and 19,533,138 shares of common stock outstanding. As of that date, eight shareholders held a total of 27,931 of Class A Preferred, two shareholders held 8,700 shares of Class B Preferred, five shareholders held a total of 125,400 shares of Class C Preferred, and eight shareholders held a total of 77,650 shares of Class E Preferred. RECENT SALES OF UNREGISTERED SECURITIES The Company in 2003 issued $828,172 worth of its common stock to Pyramid Trading LP in connection with conversion of a note payable and accrued interest. The common stock was issued at various prices pursuant to a formula tied to the trading price of the Company's common stock. The Company, during 2003, issued $25,000 worth of Class B Preferred Stock and $76,500 worth of Class E Preferred Stock to various accredited investors. The Company also issued $72,000 worth of Class C Preferred Stock to a related party. At various other times in 2003, the Company, via conversions of preferred stock or investor purchases of common stock, issued common shares at various prices, netting proceeds of $4,023,704. All sales were made to accredited investors. In connection with these sales, we relied on the exemption from registration provided by Sections 4(2) and 4(6) of the Securities Act of 1933, as well as Rule 506 of Regulation D based on (i) our belief that the issuances did not involve a public offering, (ii) the transactions involved fewer than 35 purchasers, and (iii) because we had a reasonable basis to believe that each of the shareholders were either accredited or otherwise had sufficient knowledge and sophistication, either alone or with a purchaser representative, to appreciate and evaluate the risks and merits associated with their investment decision. 17 COMMON STOCK Holders of common stock are entitled to one vote per share in all matters to be voted upon by shareholders. There is no cumulative voting for the election of directors, which means that the holders of shares entitled to exercise more than 50% of the voting rights in the election of directors are able to elect all of the directors. Vicom's Articles of Incorporation provide that holders of the Company's common stock do not have preemptive rights to subscribe for and to purchase additional shares of common stock or other obligations convertible into shares of common stock which may be issued by the Company. Holders of common stock are entitled to receive such dividends as are declared by Vicom's Board of Directors out of funds legally available for the payment of dividends. Vicom presently intends not to pay any dividends on the common stock for the foreseeable future. Any future determination as to the declaration and payment of dividends will be made at the discretion of the Board of Directors. In the event of any liquidation, dissolution or winding up of Vicom, and subject to the preferential rights of the holders of the Class A Preferred, Class B Preferred, Class C Preferred, Class D Preferred and Class E Preferred, the holders of common stock will be entitled to receive a pro rata share of the net assets of Vicom remaining after payment or provision for payment of the debts and other liabilities of Vicom. All of the outstanding shares of common stock are fully paid and non-assessable. Holders of common stock of Vicom are not liable for further calls or assessments. The Company's Board of Directors has not declared any dividends on our common stock since our inception, and does not intend to pay out any cash dividends on our common stock in the foreseeable future. We presently intend to retain all earnings, if any, to provide for our growth. The payment of cash dividends in the future, if any, will be at the discretion of the Board of Directors and will depend upon such factors as earnings levels, capital requirements, our financial condition and other factors deemed relevant by our Board of Directors. PREFERRED STOCK In December 1998, Vicom issued 2,550 shares of Class A Preferred for $23,638 and 37,550 shares of Class B Preferred for $359,893. The Class B Preferred was offered to certain note holders at a conversion rate of $10.00 per share of Class B Preferred. Each share of Class A Preferred and Class B Preferred is non-voting (except as otherwise required by law) and convertible into five shares of common stock, subject to adjustment in certain circumstances. Each holder of a share of Class A Preferred or Class B Preferred has a five-year warrant to purchase one share of common stock at $3.00 per share, subject to adjustment. During 2001, Vicom issued 67,655 shares of Class A Preferred for $676,556. In June 2000, Vicom issued 80,500 shares of Class C Preferred for $805,000. The Class C Preferred was offered to certain note holders at a conversion rate of $10.00 a share. In September 2000, Vicom issued an additional 72,810 shares of Class C Preferred for $728,100. Each share of Class C Preferred is non-voting (except as otherwise required by law) and convertible into two shares of Vicom common stock, subject to adjustment in certain circumstances. In November 2000, Vicom issued 72,500 shares of Class D Preferred for $490,332. The Class D Preferred was sold to eight accredited investors at $10.00 per share. Each share of Class D Preferred is non-voting (except as otherwise required by law) and convertible into two and one-half shares of Vicom Common Stock, subject to adjustment in certain circumstances. In the second quarter of 2002, Preferred Class D stocks were redeemed; $100,000 converted to Common Stock, and $300,000 converted to a Note Payable. 18 In the fourth quarter of 2002, Vicom issued 70,000 shares of Class E Preferred for $700,000, with $600,000 related to conversion of a note payable from a director of the Company into Preferred Stock. In the first quarter of 2003, $72,000 worth of Class C Preferred Stock was issued to an officer of the Company in a conversion of accounts payable. Also in the first quarter of 2003, $76,500 worth of Class E Preferred Stock was issued to a member of the Board for his purchase of Multiband assets. In the third quarter of 2003 $25,000 worth of Class B Preferred Stock was purchased by an accredited investor. In addition, during 2003 $133,100 worth of Class C Preferred Stock was redeemed. The holders of the Class A Preferred, Class B Preferred, Class C Preferred, Class D Preferred and Class E Preferred (collectively, "Preferred Stock") are entitled to receive, as and when declared by the Board, out of the assets of the Company legally available for payment thereof, cumulative cash dividends calculated based on the $10.00 per share stated value of the Preferred Stock. The per annum dividend rate is eight percent (8%) for the Class A Preferred and ten percent (10%) for the Class B Preferred and Class C Preferred, fourteen percent (14%) for the Class D Preferred and fifteen percent (15%) in the Class E Preferred, to be paid in kind. Dividends on the Class A Preferred, Class C Preferred and Class D Preferred are payable quarterly on March 31, June 30, September 30, and December 31 of each year. Dividends on the Class B Preferred are payable monthly on the first day of each calendar month. Dividends on the Preferred Stock accrue cumulatively on a daily basis until the Preferred Stock is redeemed or converted. In the event of any liquidation, dissolution or winding up of Vicom, the holders of the Class A Preferred and Class B Preferred will be entitled to receive a liquidation preference of $10.50 per share, and the holders of the Class C Preferred, Class D Preferred and Class E Preferred will be entitled to receive a liquidation preference of $10.00 per share, each subject to adjustment. Any liquidation preference shall be payable out of any net assets of Vicom remaining after payment or provision for payment of the debts and other liabilities of Vicom. Vicom may redeem the Preferred Stock, in whole or in part, at a redemption price of $10.50 per share for the Class A Preferred and the Class B Preferred and $10.00 per share for the Class C Preferred, Class D Preferred and Class E Preferred (subject to adjustment, plus any earned and unpaid dividends) on not less than thirty days' notice to the holders of the Preferred Stock, provided that the closing bid price of the common stock exceeds $4.00 per share (subject to adjustment) for any ten consecutive trading days prior to such notice. Upon Vicom's call for redemption, the holders of the Preferred Stock called for redemption will have the option to convert each share of Preferred Stock into shares of common stock until the close of business on the date fixed for 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. 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, 2003, have been derived from our consolidated financial statements and accompanying notes contained in this prospectus. The Statement of 19 Operations Data for the year ended December 31, 2000 and 1999 and the Balance Sheet data at December 31, 2001, 2000 and 1999 have been derived from our audited consolidated financial statements which are not contained in this filing. STATEMENT OF OPERATIONS DATA 2003 2002 2001 2000 1999 --------------------------- ---- ---- ---- ---- ---- Revenues .... $ 22,640,421 $ 24,540,969 $ 32,260,777 $ 39,781,846 $ 20,388,870 Cost of products and services .... $ 15,952,019 $ 18,036,750 $ 25,295,186 $ 31,698,569 $ 16,247,898 Gross profit .... $ 6,688,402 $ 6,504,219 $ 6,965,591 $ 8,083,277 $ 4,140,972 % of revenues .... 29.5% 26.5% 21.6% 20.3% 20.3% Selling, general and administrative expenses .... $ 10,184,709 $ 9,337,292 $ 10,962,739 $ 11,852,041 $ 5,823,945 % of revenues .... 45.0% 38.0% 34.0% 29.8% 28.6% Loss from Operations .... $ (3,496,307) $ (2,833,073) $ (3,997,148) $ (3,768,764) $ (1,682,973) Other expense net .... $ (902,063) $ (1,604,986) $ (1,328,404) $ (458,067) $ (139,461) Minority interest in subsidiary .... $33,366 $0 $ 0 $ 0 $ 0 Loss before income taxes .... $ (4,365,004) $ (4,438,059) $ (5,325,552) $ (4,226,831) $ (1,822,434) Income tax provision .... $ 0 $ 0 $ 0 $ 9,000 $ 241,200 Net Loss .... $ (4,365,004) $ (4,438,059) $ (5,325,552) $ (4,235,831) $ (2,063,634) Loss attributable to common stockholders .... $ (4,613,693) $ (4,591,637) $ (5,758,221) $ (5,082,011) $ (2,101,603) Loss per common share-basic and diluted .... $ (.29) $ (.39) $ (.66) $ (0.72) $ (0.55) Weighted average shares outstanding .... 16,112,231 11,735,095 8,762,814 7,009,751 3,821,978 BALANCE SHEET DATA 2003 2002 2001 2000 1999 ----------------------------------- ------------ ------------ ------------ ------------ ------------ Working capital (deficiency) .... $ 1,118,792 $ (252,870) $ 426,549 $ 2,870,114 $ (2,882,907) Total assets .... $ 13,902,885 $ 10,347,316 $ 12,209,681 $ 15,614,573 $ 12,598,745 Long-term debt .... $ 2,262,891 $ 3,273,350 $ 3,311,870 $ 3,362,083 $ 926,821 Stockholders' equity .... $ 5,807,711 $ 2,642,285 $ 4,184,001 $ 5,876,352 $ 1,026,344 ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION The following discussion of the financial condition and results of operations of Vicom, Incorporated should be read in conjunction with the Condensed Consolidated Financial Statements and the Notes thereto included elsewhere in this report. 20 YEARS ENDED DECEMBER 31, 2003 AND DECEMBER 31, 2002 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. 2003 2002 Revenues Vicom 0% 0% MBS 93.63% 97.65% MCS 6.37% 2.35% ----- ----- Total Revenues 100.0% 100.0% ====== ====== Cost of Sales Vicom 0% 0% MBS 66.55% 71.89% MCS 3.91% 1.61% ----- ----- Total Cost of Sales 70.46% 73.50% ====== ====== Gross Margin 29.54% 26.5% Selling, General and Administrative expenses 44.98% 37.39% Operating Loss (15.44%) (11.34%) Net Loss (19.28%) (17.78%) REVENUES Total revenues decreased 7.7% to $22,640,421 in 2003 from $24,540,969 in 2002. Revenues from the MBS segment which traditionally sells telephone and computer technologies products and services decreased 11.5% to $21,199,303 in 2003 from $23,963,748 in 2002. This decrease in MBS segment revenues resulted primarily from weaker economic conditions in 2003 and from MBS's desire to increase gross margins versus maintaining top line revenues. MBS is increasing margins by focusing more on sales of services versus sales of product. Vicom segment had no revenues. Revenues from MCS increased 149.7% to $1,441,118 in 2003 from $577,221 in 2002. This increase is due to the expansion of MCS services to nineteen apartment properties and eighteen timeshare properties. GROSS MARGIN The Company's gross margin was $6,688,402 for 2003, as compared to $6,504,219 for 2002. The increase of 2.8% in 2003 was primarily due to an increase in consumer recurring revenues comprising a greater percentage of overall revenues. For 2003, gross margin, as a percentage of total revenues, was 29.5% versus 26.5% for 2002. The Company expects gross margins to maintain or even slightly increase in future periods as recurring revenues become a greater percentage of the Company's overall revenue mix. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES Selling, general and administrative expenses increased 9.1% to $10,184,709 in 2003, compared to $9,337,292 in 2002. This increase in expenses is primarily related to increased payroll and facility expense and costs incurred for 21 re-branding Vicom operating divisions as Multiband. Increased payroll primarily resulted from acquisition related payroll expense and increase in officer compensation in 2003. Selling, general and administrative expenses were, as a percentage of revenues, 45.0% for 2003 and 38.0% for 2002. The Company expects these expenses to remain stable or even slightly decrease as a

percentage of revenues in 2004. INTEREST EXPENSE Interest expense was $897,704 for 2003, versus $1,604,512 for 2002 reflecting a substantial decrease in Original Issue Discount expense associated with long term debt and a significant decrease in cash interest expense associated with notes payable. NET LOSS In 2003, the Company incurred a net loss of $4,365,004 compared to a net loss of $4,438,059 for 2002. YEARS ENDED DECEMBER 31, 2002 AND DECEMBER 31, 2001 RESULTS OF OPERATIONS The following table sets forth certain items from the Company's consolidated statements of operations expressed as a percentage of total revenue. 2002 2001 Revenues Vicom and VMTS 0% 0% MBS 97.65% 99.2% MCS 2.35% .78% ----- ---- Total Revenues 100.0% 100.0% ====== ====== Cost of Sales Vicom and VMTS 0% .02% MBS 71.89% 77.39% MCS 1.61% .69% ----- ---- Total Cost of Sales 73.50% 78.10% ====== ====== Gross Margin 26.5% 21.88% Selling, General and Administrative expenses 37.39% 34.45% Operating Loss (11.34%) (12.56%) Net Income Loss (17.78%) (16.73%) REVENUES Total revenues decreased 23.9% to $24,540,969 in 2002 from $32,260,777 in 2001. Revenues from the MBS segment which traditionally sells computer technologies products and services decreased 25.1% to $23,963,748 in 2002 from $31,994,781 in 2001. This decrease in MBS segment revenues resulted primarily from weaker economic conditions in 2002 and from MBS's desire to increase gross margins versus maintaining top line revenues. Vicom segment had no revenues. Revenues from MultiBand increased 131% to $577,221 in 2002 from $249,590 in 2001. This increase is due to the expansion of Multiband services to ten properties. 22 GROSS MARGIN The Company's gross margin was $6,504,219 for 2002, as compared to $6,965,591 for 2001. The decrease of 6.6% in 2002 was due to reduced revenues. For 2002, gross margin, as a percentage of total revenues, was 26.50% versus 21.5% for 2001. This increase in gross margin revenues is primarily due to an increase in sale of services constituting a greater percentage of overall revenues than in the prior year. As the Company continues to strive for bundled sales of services, and bundled sales of equipment and services, the Company anticipates that it will maintain its gross margin percentages in fiscal 2003. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES Selling, general and administrative expenses decreased 14.83% to $9,337,292 in 2002, compared to $10,962,739 in 2001. This decrease in expenses is primarily related to reductions in payroll, benefits and vehicle expenses. Selling, general and administrative expenses were, as a percentage of revenues, 38.0% for 2002 and 33.9% for 2001. INTEREST EXPENSE Interest expense was $1,604,512 for 2002, versus $1,446,868 for 2001 reflecting an increase in debt due to capital raising efforts, valuation of warrants issued with Preferred Stock and convertible notes, and additional borrowings. NET LOSS In 2002, the Company incurred a net loss of $4,438,059 compared to a net loss of $5,325,552 for 2001. The decrease in net loss is primarily due to a significant reduction in payroll and benefit related expenses from the prior year. 23 UNAUDITED QUARTERLY RESULTS The following table sets forth certain unaudited quarterly operating information for each of the eight quarters in the two-year period ending December 31, 2003. 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, Sept. 30, June 30, March 31, Dec. 31, Sept. 30, June 30, March 31, 2003 2003 2003 2003 2002 2002 2002 2002
-- Revenues:
-- Vicom 0 0 0 0 0 0 0 0 --
MBS 4,367,773 5,864,468 5,330,420 5,636,642 5,758,953 6,227,683 5,815,531 6,161,581
-- MCS 429,140 418,897 357,961 235,120 192,771 154,950 128,893 100,607

-- Total Revenues 4,796,913 6,283,365 5,688,381 5,871,762 5,951,724 6,382,633 5,944,424 6,262,188
-- Cost of Sales 3,233,068 4,493,829 3,914,420 4,310,702 4,212,240 4,680,582 4,354,714 4,789,214
-- Gross Margin 1,563,845 1,789,536 1,773,961 1,561,060 1,739,484 1,702,051 1,589,710 1,472,974

-- SG&A Expense 3,036,745 2,409,227 2,502,741 2,235,996 2,484,108 2,376,225 2,240,223 2,236,736 -- Operating Loss (1,472,900) (619,691) (728,780) (674,936) (744,624) (674,174) (650,513) (763,762) -- Interest Expense (249,336) (202,958) (219,723) (225,687) (462,420) (349,388) (426,869) (365,835) -- Other Income (Expenses) 52,418 (6,513) 15,232 (65,496) 47,740 (93,171) 25,281 19,676 -- Minority Interest 38,219 (3,460) (1,393) -- Net Loss Before Taxes (1,631,599) (832,622) (934,664) (966,119) (1,159,304) (1,116,733) (1,052,101) (1,109,921) -- Income Tax (Benefit) Provision 0 0 0 0 0 0 0 0 -- Net Loss (1,631,599) (832,622) (934,664) (966,119) (1,159,304) (1,116,733) (1,052,101) (1,109,921) -- Loss Per Common Share Basic and Diluted (.10) (.05) (.06) (.08) (.11) (.09) (.09) (.10) -- a LIQUIDITY AND CAPITAL RESOURCES YEAR ENDED DECEMBER 31, 2003 Available working capital for 2003 increased $1,3771,662 primarily to a stronger cash position due to investing activities. Vicom successfully completed an offering of institutional financing in the second half of 2003 raising net proceeds of $2,223,150. Vicom had a decrease of $289,890 in accounts receivable as a result of a reduction in sales. Current liabilities increased in 2003 by $1,373,968 as a result of higher current portion of long term debt and accrued liabilities. Inventories increased by $509,762 primarily due to a planned expansion to provide wireless intranet service. Total long term debt and capital lease obligation decreased by $1,010,459 during the year ended December 31, 2003. Vicom paid out $75,301 related to capital lease obligations and $200,768 related to long term debt during the year ended December 31, 2003 versus $1,069,433 paid out in 2002. The Company used $526,936 for capital expenditures during 2003, as compared to $1,275,434 in 2002. The decrease was primarily attributed to a reduction in self-financed MCS construction. In 2004 24 capital expenditures are expected to be limited to the Company's internal information technology infrastructure and are expected to be less than 2003 expenditures. In 2003, the Company reached an agreement to convert the remaining $962,000 of a Note Payable to equity. Terms of the conversion state the note will be converted to equity over a 14 month period at a price generally equivalent to a 10% discount to market price. In November of 2003, the Company borrowed $1,500,000 and issued a three-year warrant to the lender to purchase 535,000 common shares at $2.21 per share through November 2006. The debt is also convertible into common stock of the Company at a conversion rate of $1.40 per share through November 2006. On June 30, 2003, the Company borrowed $124,000 as an unsecured note from a stockholder of the Company, with monthly payments of $5,600 at an interest rate of 7.85%. Net cash used by operations in 2003 was $2,580,248 as compared to cash used by operations in 2002 of $869,721. The cash used by operations in 2003 is due primarily to net operating losses and a reduction in the wholesale line of credit. During the years ended December 31, 2003, and December 31, 2002, the Company incurred significant net losses. Although the majority of these losses were due to non-cash expenses, The Company still continued to incur cash losses as well due to general corporate expense. The on-going addition of MCS properties in the Company's portfolio provided additional cash flows in 2003 and those cash flows are projected to improve in 2004 with additional expansions. Management of Vicom believes that, for the near future, cash generated from new investments combined with existing credit facilities are adequate to meet the anticipated liquidity in capital resource requirements of its business, contingent upon Company operating results for the next twelve months. YEAR ENDED DECEMBER 31, 2002 Available working capital, for 2002, decreased $679,419 due to Vicom's net operating loss and net cash used in operating activities of $869,721. Proceeds from issuance of long term debt, stock and warrants totaling $2,121,597 helped offset Vicom's net operating loss. Vicom had a decrease of $38,344 in accounts payable and other current liabilities for 2002 versus last year's period, primarily due to significant reductions in accounts receivables which were used to reduce payables. Inventories year to date decreased net of reserves $182,783 over last year's prior period inventories due to a decrease in revenues. The aforementioned decrease in revenues also led to a decrease in accounts receivable net of reserves of $576,509. Total long term debt and capital lease obligation decreased by $102,631 during the year ended December 31, 2002. The Company paid out $937,828 related to capital lease obligations and $131,605 related to long term debt during the year ended December 31, 2002 versus $777,578 paid out in 2001. In 2001, the Company entered into a long-term debt agreement, expiring in 2003, with an investment fund. The fund, in exchange for its $1.5 million investment, also received 375,000 warrants and the right to convert its investment into Vicom common stock at a predetermined price. The effect of recording the beneficial conversion feature and warrants associated with the convertible loan resulted in a $1,500,000 discount attributable to the warrants in accordance with the Black-Scholes pricing model. The Company is expensing the aforementioned warrant discount in eight quarterly installments over the two year term of the loan. $460,000 of the debt was converted to stock in 2002 pursuant to a formula tied to the trading price of the Company's Common Stock. 25 In 2002, the Company borrowed $600,000 from a Director. This investment was later converted into Class E Preferred Stock. Also in 2002, the Company restructured its debenture with Convergent Capital, resetting the date of principal repayment to begin in August 2005. The Company used $1,275,434 for capital expenditures during 2002, as compared to $1,884,945 in 2001. The decrease was primarily attributed to a reduction in self-financed MCS construction. In 2002, the Company extinguished $937,828 worth of capital lease obligations, reduced its principal indebtedness $460,000 to a note holder, and converted another $600,000 worth of debt to Preferred Stock. All these events, combined, with the aforementioned refinancing and delayed principal repayment to its largest debt holder, should materially improve projected cash flows throughout 2003 provided Company operating losses continue to diminish. Net cash used by operations was approximately $869,721 in 2002 versus net cash used by operations of $502,110 in 2001. The cash used by operations in 2002 is due primarily to net operating losses, and reductions in accounts payable and wholesale line of credit balances in that year. During the years ended December 31, 2002 and December 31, 2001, the Company incurred significant net losses. Although the majority of these losses were due to non-cash expenses, the Company still continued to incur cash losses as well due to general corporate expense and continuing expenses related to the building out of its MCS network. The Company in 2002 significantly cut its selling, general and administrative expenses which led to a material decrease in cash losses. The on-going addition of MCS properties in the Company's portfolio also generated additional cash flows in 2002 and these MCS cash flows are projected to improve meaningfully in 2003. Management of Vicom believes that, for the near future, cash generated from new investments combined with existing credit facilities are adequate to meet the anticipated liquidity in capital resource requirements of its business, contingent upon Company operating results for the next twelve months. CRITICAL ACCOUNTING POLICIES Impairment of Long-Lived Assets The Company's long-lived assets include property, equipment and leasehold improvement. At December 31, 2003, the Company had net property and equipment of $3,589,704, which represents approximately 26% of the Company's total assets. The estimated fair value of these assets is dependent on the Company's future performance. In assessing for potential impairment for these assets, the Company considers future performance. If these forecasts are not met, the Company may have to record an impairment charge not previously recognized, which may be material. In 2003, the Company did not record any impairment. In 2002 the Company recorded impairment of $119,480 on property, plant and equipment. During the year ended December 31, 2001, the Company did not record any impairment losses related to long-lived assets. Impairment of Goodwill We periodically evaluate acquired businesses for potential impairment indicators. Our judgments regarding the existence of impairment indicators are based on legal factors, market conditions and operational performance of our acquired businesses. Future events could cause us to conclude that impairment indicators exist and that goodwill associated with our acquired businesses, which amounts to $2,748,879 (or 20% of total assets), may be impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations. During the years ended December 31, 2003, 2002 and 2001, the Company did not record any impairment losses related to goodwill. 26 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 April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," effective for contracts entered into or modified after June 30, 2003. This amendment clarifies when a contract meets the characteristics of a derivative, clarifies when a derivative contains a financing component and amends certain other existing pronouncements. The adoption of SFAS No. 149 did not have a material effect on the Company's consolidated financial statements In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial lnstruments with Characteristics of both Liabilities and Equity." SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. SFAS No. 150 requires the classification as a liability of any financial instruments with a mandatory redemption feature, an obligation to repurchase equity shares, or a conditional obligation based on the issuance of a variable number of its equity shares. The Company does not have any financial instruments as defined by SFAS No. 150. The adoption of SFAS No. 150 did not have a material effect on the Company's consolidated financial statements. In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 clarifies the requirements for a guarantor's accounting for and disclosure of certain guarantees issued and outstanding. The initial recognition and initial measurement provisions of FIN 45 are applicable to guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN 45 are effective for financial statements for periods ending after December 15, 2002. The adoption of FIN 45 did not effect the Company's consolidated financial statements. In December 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46 (Revised December 2003), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" (FIN 46R). This standard replaces FIN 46, Consolidation of Variable Interest Entities" that was issued in January 2003. FIN 46R modifies or clarifies various provisions of FIN 46. FIN 46R addresses the consolidation of business enterprises of variable interest entities (VIEs), as defined by FIN 46R. FIN 46R exempts certain entities from its requirements and provides for special effective dates for entities that have fully or partially applied FIN 46 prior to issuance of FIN 46R. Otherwise, application of FIN 46R is required in financial statements of public entities that have interest in structures commonly referred to as special purpose entities for periods ending after December 15, 2003. Application by the Company for all other types of VIEs is required in financial statements for periods ending no later than the quarter ended January 31, 2005. The Company does not expect the adoption of FIN 46R to have a material effect on the Company's consolidated financial statements 27 DISCLOSURES ABOUT CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS The following summarizes our contractual obligations at December 31, 2003, and the effect these contractual obligations are expected to have on our liquidity and cash flows in future periods (in thousands): Total 1 Year of Less 1-3 Years Over 3 Years --------------- -------------- ------------- --------------- Operating Leases $7,199,000 $534,000 $1,569,000 $5,096,000 Capital Leases 230,179 69,556 160,623 --------- Long Term Debt 4,786,877 998,813 3,602,829 185,235 Wholesale Line of Credit 976,314 $976,314 --------- --------- -------------- -------------- ------------- --------------- Total $13,192,370 $2,578,683 $5,332,452 $5,281,235 =============== ============== ============= ============== 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, 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. 28 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 except for the note payable to Laurus Master Fund, Ltd., which is three percent over the prime interest rate. ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA VICOM, INCORPORATED AND SUBSIDIARIES New Hope, Minnesota December 31, 2003 and 2002 CONSOLIDATED FINANCIAL STATEMENTS Including Report of Independent Auditors VICOM, INCORPORATED AND SUBSIDIARIES

TABLE OF CONTENTS REPORT OF INDEPENDENT AUDITORS 1 FINANCIAL STATEMENTS Consolidated Balance Sheets 2 Consolidated Statements of Operations 3 Consolidated Statements of Stockholders' Equity 4 - 9 Consolidated Statements of Cash Flows 10 Notes to Consolidated Financial Statements 11 - 34 SUPPLEMENTAL INFORMATION Report of Independent Auditors on Supplementary Information 35 Valuation and Qualifying Accounts 36 REPORT OF INDEPENDENT AUDITORS To Stockholders, Board of Directors, and Audit Committee Vicom, Incorporated and subsidiaries We have audited the accompanying consolidated balance sheets of Vicom, Incorporated and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2003. 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, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. /s/ VIRCHOW, KRAUSE & COMPANY, LLP Minneapolis, Minnesota February 16, 2004 Page 1 VICOM, INCORPORATED AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS December 31, 2003 and 2002 ASSETS -- 2003 2002 ------------ ------------ CURRENT ASSETS Cash and cash equivalents $ 2,945,960 $ 540,375 Certificate of deposit 250,000 -- Accounts receivable, net 1,658,114 1,948,004 Inventories, net 1,973,817 1,463,658 Other current assets 96,550 226,774 ------------ ------------ Total Current Assets 6,924,441 4,178,811 ------------ ------------ PROPERTY AND EQUIPMENT, NET 3,589,704 3,248,973 ------------ ------------ OTHER ASSETS Goodwill 2,748,879 2,748,879 Other assets 639,861 170,653 ------------ ------------ Total Other Assets 3,388,740 2,919,532 ------------ ------------ TOTAL ASSETS $ 13,902,885 $ 10,347,316 ============ ============ LIABILITIES AND STOCKHOLDERS' EQUITY CURRENT LIABILITIES Checks issued in excess of cash in bank $ 147,398 $ -- Wholesale line of credit 976,314 1,290,383 Current portion of long-term debt 998,813 321,589 Current portion of note payable - stockholder 81,554 -- Current portion of capital lease obligations 54,939 59,570 Accounts payable 1,771,699 1,735,931 Accrued liabilities 1,459,705 714,479 Deferred service obligations and revenue 315,227 309,729 ------------ ------------ Total Current Liabilities 5,805,649 4,431,681 LONG-TERM LIABILITIES Long-term debt, net 2,087,156 3,114,006 Note payable - stockholder, net of current portion 32,837 -- Capital lease obligations, net of current portion 142,898 159,344 ------------ ------------ Total Liabilities 8,068,540 7,705,031 ------------ ------------ MINORITY INTEREST IN SUBSIDIARY 26,634 -- ------------ ------------ COMMITMENTS AND CONTINGENCIES STOCKHOLDERS' EQUITY Cumulative convertible preferred stock, no par value: 8% Class A (27,931 and 27,831 shares issued and outstanding, $293,276 and $292,226 liquidation preference) 419,752 418,252 10% Class B (8,700 and 6,200 shares issued and outstanding, $91,350 and $65,100 liquidation preference) 62,000 62,000 10% Class C (125,400 and 131,510 shares issued and outstanding, $1,254,000 and $1,315,100 liquidation preference) 1,611,105 1,699,407 15% Class E (77,650 and 70,000 shares issued and outstanding, $776,500 and $700,000 liquidation preference) 438,964 395,778 Common stock, no par value (19,036,805 and 13,110,477 shares issued; 19,019,786 and 13,065,410 shares outstanding) 7,726,505 4,465,832 Stock subscriptions receivable (418,085) (633,195) Options and warrants 30,514,872 26,632,299 Unamortized compensation (217,210) (682,089) Accumulated deficit (34,330,192) (29,715,999) ------------ ------------ Total Stockholders' Equity 5,807,711 2,642,285 ------------ ------------ TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY $ 13,902,885 $ 10,347,316 ============ ============ See accompanying notes to consolidated financial statements. PAGE 2 VICOM, INCORPORATED AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS Years Ended December 31, 2003, 2002 and 2001 2003 2002 2001 ------------------ ------------------ ------------------ REVENUES $ 22,640,421 $ 24,540,969 $ 32,260,777 ------------------ ------------------ ------------------ COST AND EXPENSES Cost of products and services 15,952,019 18,036,750 25,295,186 Selling, general and administrative 10,184,709 9,337,292 10,962,739

----------------- ----------------- ----------------- Total costs and expenses 26,136,728 27,374,042 36,257,925 ----------------- ----------------- ----------------- LOSS FROM OPERATIONS (3,496,307) (2,833,073) (3,997,148) ----------------- ----------------- ----------------- OTHER INCOME (EXPENSE) Interest expense (897,704) (1,604,512) (1,446,868) Interest income 16,309 64,083 63,717 Other income (expense) (20,668) (64,557) 54,747 ----------------- ----------------- ----------------- Total Other Expense (902,063) (1,604,986) (1,328,404) ----------------- ----------------- ----------------- LOSS BEFORE MINORITY INTEREST IN SUBSIDIARY (4,398,370) (4,438,059) (5,325,552) Minority interest in subsidiary 33,366 -- -- ----------------- ----------------- ----------------- NET LOSS (4,365,004) (4,438,059) (5,325,552) Preferred stock dividends 248,689 153,578 432,669 ----------------- ----------------- ----------------- LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS $ (4,613,693) $ (4,591,637) $ (5,758,221) ================= ================= ================= LOSS PER COMMON SHARE- BASIC AND DILUTED $ (0.29) $ (0.39) $ (0.66) ================= ================= ================= WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC AND DILUTED 16,112,231 11,735,095 8,762,814 ================= ================= ================= See accompanying notes to consolidated financial statements. PAGE 3 VICOM, INCORPORATED AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY Years Ended December 31, 2003, 2002, and 2001 -- Cumulative Convertible Preferred Stock -- 8% Class A 10% Class B 10% Class C --------------------- --------------------- --------------------- Shares Amount Shares Amount Shares Amount --------- --------- --------- --------- --------- --------- BALANCES, December 31, 2000 -- $ -- 22,836 $ 218,869 150,810 $1,951,003 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) (78,000) Conversion of dividends payable 6,030 60,300 -- -- -- -- Redemption of preferred stock (7,783) (77,830) (986) (369) (3,500) (35,000) Discount on preferred stock related to -- 145,147 -- -- -- (37,556) warrants Interest receivable on stock subscription -- -- -- -- -- -- receivable Warrants issued: -- -- Preferred stock -- -- -- -- -- -- Common stock -- -- -- -- -- -- Debt -- -- -- -- -- -- Deferred compensation expense related to stock options issued below fair market value -- -- -- -- -- -- Deferred compensation expense -- -- -- -- -- -- Restricted stock: -- -- Issued -- -- -- -- -- -- Forfeited -- -- -- -- -- -- Amortization expense -- -- -- -- -- -- Repricing of warrants -- -- -- -- -- -- Embedded value with Pyramid Trading warrants -- -- -- -- -- -- Preferred stock dividends -- -- -- -- -- -- Net loss -- -- -- -- -- -- --------- --------- --------- --------- --------- --------- BALANCES, December 31, 2001 28,872 433,867 8,700 87,000 139,510 1,800,447 Stock issued: Cash -- -- -- -- -- -- Reduction of stock subscriptions -- -- -- -- -- -- receivable for fees related to equity transactions Acquisition of assets 1,859 18,590 -- -- -- -- Guarantee of debt financing -- -- -- -- -- -- 14% Class D 15% Class E -------------------- -------------------- Shares Amount Shares Amount --------- --------- --------- --------- BALANCES, December 31, 2000 72,500 $ 802,813 -- $ -- Stock issued: Cash -- -- -- -- Stock subscriptions receivable -- -- -- -- Acquisition of assets -- -- -- -- Purchase of intangible asset -- -- -- -- Guarantee of debt financing -- -- -- -- Conversion of accounts payable -- -- -- -- Conversion of accrued liabilities -- -- -- -- Conversion of notes payable 10,000 100,000 -- -- Conversion of preferred stock -- -- -- -- Conversion of dividends payable -- -- -- -- Redemption of preferred stock (42,500) (425,000) -- -- Discount on preferred stock related to -- (60,313) -- -- warrants Interest receivable on stock subscription -- -- -- -- receivable Warrants issued: Preferred stock -- -- -- -- Common stock -- -- -- -- Debt -- -- -- -- Deferred compensation expense related to stock options issued below fair market value -- -- -- -- Deferred compensation expense -- -- -- -- Restricted stock: Issued -- -- -- -- Forfeited -- -- -- -- Amortization expense -- -- -- -- Repricing of warrants -- -- -- -- Embedded value with Pyramid Trading warrants -- -- -- -- Preferred stock dividends -- -- -- -- Net loss -- -- -- -- --------- --------- --------- --------- BALANCES, December 31, 2001 40,000 417,500 -- -- Stock issued: Cash -- -- 10,000 100,000 Reduction of stock subscriptions -- -- -- -- receivable for fees related to equity transactions Acquisition of assets -- -- -- -- Guarantee of debt financing -- -- -- -- See accompanying notesd to consolidated financial statements. Page 4 VICOM, INCORPORATED AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY Years Ended December 31, 2003, 2002, and 2001 -- Cumulative Convertible Preferred Stock -- 8% Class A 10% Class B 10% Class C ---------------------- ---------------------- ---------------------- Shares Amount Shares Amount Shares Amount

---------- ---------- ---------- ---------- ---------- ---------- Services rendered -- -- -- -- -- -- Conversion of accounts payable -- -- -- -- -- -- Conversion of notes payable and accrued interest -- -- -- -- -- -- Conversion of accrued interest -- -- -- -- -- -- Conversion of preferred stock -- -- (2,500) (25,000) (2,500) (25,000) Redemption of preferred stock (2,900) (29,000) -- -- (5,500) (55,000) Discount on preferred stock related to warrants issued -- (5,205) -- -- -- (21,040) Interest receivable on stock subscription -- -- -- -- -- -- receivable Warrants issued: Preferred stock -- -- -- -- -- -- Common stock -- -- -- -- -- -- Debt -- -- -- -- -- -- Deferred compensation expense related to stock options issued below fair market value -- -- -- -- -- -- Deferred compensation expense -- -- -- -- -- -- Restricted stock: Issued and outstanding -- -- -- -- -- -- Forfeited -- -- -- -- -- -- Amortization expense -- -- -- -- -- -- Embedded value with Pyramid Trading warrants -- -- -- -- -- -- Preferred stock dividends -- -- -- -- -- -- Net loss -- -- -- -- -- -- ---------- ---------- ---------- ---------- ---------- ---------- BALANCES, December 31, 2002 27,831 418,252 6,200 62,000 131,510 1,699,407 Stock issued: Cash 100 1,000 2,500 25,000 -- -- Exercise of warrants -- -- -- -- -- -- Cashless exercise of warrants -- -- -- -- -- -- Exercise of stock options -- -- -- -- -- -- Reduction of stock subscriptions -- -- -- -- -- -- receivable for fees related to equity transactions Acquisition of assets -- -- -- -- -- -- Conversion of accounts payable -- -- -- -- 7,200 72,000 Conversion of notes payable -- -- -- -- -- -- Conversion of accrued interest -- -- -- -- -- -- Conversion of preferred stock -- -- -- -- (4,000) (40,000) Conversion of dividends payable -- -- -- -- -- -- Redemption of preferred stock -- -- -- -- (9,310) (93,100) Intrinsic value of convertible feature -- 500 -- -- -- (27,202) Discount on preferred stock related to warrants issued -- -- -- (25,000) -- -- Stock subscriptions receivable: Cash payments -- -- -- -- -- -- Increase reserve -- -- -- -- -- -- Interest collected -- -- -- -- -- -- Warrants issued: Preferred stock -- -- -- -- -- -- Common stock -- -- -- -- -- -- 14% Class D 15% Class E ---------------------- ---------------------- Shares Amount Shares Amount ---------- ---------- ---------- ---------- Services rendered -- -- -- -- Conversion of accounts payable -- -- -- -- Conversion of notes payable and accrued interest (30,000) (300,000) 60,000 600,000 Conversion of accrued interest -- -- -- -- Conversion of preferred stock (10,000) (100,000) -- -- Redemption of preferred stock -- -- -- -- Discount on preferred stock related to warrants issued -- (17,500) -- (304,222) Interest receivable on stock subscription -- -- -- -- receivable Warrants issued: Preferred stock -- -- -- -- Common stock -- -- -- -- Debt -- -- -- -- Deferred compensation expense related to stock options issued below fair market value -- -- -- -- Deferred compensation expense -- -- -- -- Restricted stock: Issued and outstanding -- -- -- -- Forfeited -- -- -- -- Amortization expense -- -- -- -- Embedded value with Pyramid Trading warrants -- -- -- -- Preferred stock dividends -- -- -- -- Net loss -- -- -- -- ---------- ---------- ---------- ---------- BALANCES, December 31, 2002 -- -- 70,000 395,778 Stock issued: Cash -- -- -- -- Exercise of warrants -- -- -- -- Cashless exercise of warrants -- -- -- -- Exercise of stock options -- -- -- -- Reduction of stock subscriptions -- -- -- -- receivable for fees related to equity transactions Acquisition of assets -- -- 7,650 76,500 Conversion of accounts payable -- -- -- -- Conversion of notes payable -- -- -- -- Conversion of accrued interest -- -- -- -- Conversion of preferred stock -- -- -- -- Conversion of dividends payable -- -- -- -- Redemption of preferred stock -- -- -- -- Intrinsic value of convertible feature -- -- -- -- Discount on preferred stock related to warrants issued -- -- -- (33,314) Stock subscriptions receivable: Cash payments -- -- -- -- Increase reserve -- -- -- -- Interest collected -- -- -- -- Warrants issued: Preferred stock -- -- -- -- Common stock -- -- -- -- See accompanying notes to consolidated financial statements. Page 5 VICOM, INCORPORATED AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY Years Ended December 31, 2003, 2002, and 2001 -- Cumulative Convertible Preferred Stock -- 8% Class A 10% Class B 10% Class C ---------------------- ---------------------- ---------------------- Shares Amount Shares Amount Shares Amount ---------- ---------- ---------- ---------- ---------- ---------- Debt -- -- -- -- -- -- Services rendered -- -- -- -- -- -- Deferred compensation expense related to stock options issued below fair market value -- -- -- -- -- -- Deferred compensation expense -- -- -- -- -- -- Restricted stock: Forfeited -- -- -- -- -- -- Amortization expense -- -- -- -- -- -- Embedded value with Laurus warrants -- -- -- -- -- -- Preferred stock dividends -- -- -- -- -- -- Net loss -- -- -- -- -- -- ---------- ---------- ---------- ---------- ---------- ---------- BALANCES, December 31, 2003 27,931 $ 419,752 8,700 $ 62,000 125,400 $1,611,105 ========== ========== ========== ========== ========== ========== 14% Class D 15% Class E ---------------------- ---------------------- Shares Amount Shares Amount ---------- ---------- ---------- ---------- Debt -- -- -- -- Services rendered -- -- -- -- Deferred compensation expense related to stock options issued below fair market value -- -- -- -- Deferred compensation expense -- -- -- -- Restricted stock: Forfeited -- -- -- -- Amortization expense -- -- -- -- Embedded value with Laurus warrants -- -- -- -- Preferred stock dividends -- -- -- -- Net loss -- -- -- -- ---------- ---------- ---------- ---------- BALANCES, December 31, 2003 -- $ -- 77,650 $ 438,964 ==========

========= ========= ========= See accompanying notes to consolidated financial statements. Page 6 VICOM, INCORPORATED AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY Years Ended December 31, 2003, 2002, and 2001 -- Common Stock Stock Options -------------------------- Subscriptions and Shares Amount Receivable Warrants ------------ ------------ ------------ ------------ BALANCES, December 31, 2000 8,137,181 $ 1,340,074 $ -- $ 14,347,833 Stock issued: Cash 1,092,953 421,566 -- -- Stock subscriptions receivable 800,000 610,000 (610,000) -- Acquisition of assets 87,000 261,000 -- -- Purchase of intangible assets 50,000 83,750 -- -- Guarantee of debt financing 100,000 120,000 -- -- Conversion of accounts payable -- -- -- -- Conversion of accrued liabilities 10,000 9,007 -- -- Conversion of notes payable 20,000 50,000 -- -- Conversion of preferred stock 382,027 528,742 -- -- Conversion of dividends payable -- -- -- -- Redemption of preferred stock -- -- -- -- Discount on preferred stock related to warrants -- -- -- -- Interest receivable on stock subscription receivable -- -- (21,619) -- Warrants issued: Preferred stock -- -- -- 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 Deferred compensation expense -- -- -- -- Restricted stock Issued 83,000 308,145 -- -- Forfeited (82,711) (289,180) -- -- Amortization expense -- -- -- -- Repricing of warrants -- -- -- 6,919,692 Embedded value with Pyramid Trading warrants -- -- -- 431,925 Preferred stock dividends -- -- -- -- Net loss -- -- -- -- ------------ ------------ ------------ ------------ BALANCES, December 31, 2001 10,679,450 3,443,104 (631,619) 24,957,912 Stock issued: Cash 1,548,120 274,414 7,850 -- Reduction of stock subscriptions receivable for fees related to equity transactions -- (40,563) 40,563 -- Acquisition of assets -- -- -- (18,590) Guarantee of debt financing 25,000 14,750 -- -- Services rendered 35,214 27,700 -- -- Conversion of accounts payable 7,500 7,255 -- -- Conversion of notes payable and accrued interest 554,569 460,001 -- -- Conversion of accrued interest 117,787 119,881 -- -- Unamortized Accumulated Compensation Deficit Total ------------ ------------ ------------ BALANCES, December 31, 2000 $ (278,138) $(12,506,102) $ 5,876,352 Stock issued: Cash -- -- 742,066 Stock subscriptions receivable -- -- -- Acquisition of assets -- -- 367,400 Purchase of intangible assets -- -- 83,750 Guarantee of debt financing -- -- 120,000 Conversion of accounts payable -- -- 35,000 Conversion of accrued liabilities -- -- 105,313 Conversion of notes payable -- -- 208,044 Conversion of preferred stock -- -- 9,242 Conversion of dividends payable -- -- 60,300 Redemption of preferred stock -- -- (538,199) Discount on preferred stock related to warrants -- 68,948 116,226 Interest receivable on stock subscription receivable -- -- (21,619) Warrants issued: Preferred stock -- -- 87,403 Common stock -- -- 544,683 Debt -- -- 1,382,126 Deferred compensation expense related to stock options issued below fair market value (1,244,250) -- -- Deferred compensation expense 239,461 -- 239,461 Restricted stock Issued (308,145) -- -- Forfeited 289,180 -- -- Amortization expense 92,749 -- 92,749 Repricing of warrants -- (6,919,692) -- Embedded value with Pyramid Trading warrants -- -- 431,925 Preferred stock dividends -- (432,669) (432,669) Net loss -- (5,325,552) (5,325,552) ------------ ------------ ------------ BALANCES, December 31, 2001 (1,209,143) (25,115,067) 4,184,001 Stock issued: Cash -- -- 382,264 Reduction of stock subscriptions receivable for fees related to equity transactions -- -- -- Acquisition of assets -- -- -- Guarantee of debt financing -- -- 14,750 Services rendered -- -- 27,700 Conversion of accounts payable -- -- 7,255 Conversion of notes payable and accrued interest -- -- 760,001 Conversion of accrued interest -- -- 119,881 See accompanying notes to consolidated financial statements. Page 7 VICOM, INCORPORATED AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY Years Ended December 31, 2003, 2002, and 2001 -- Common Stock Stock Options -------------------------- Subscriptions and Shares Amount Receivable Warrants ----------- ----------- ----------- ----------- Conversion of preferred stock 140,000 150,000 -- -- Redemption of preferred stock -- -- -- -- Discount on preferred stock related to warrants issued -- -- -- -- Interest receivable on stock subscription receivable -- -- (49,989) -- Warrants issued: Preferred stock -- -- -- 324,324 Common stock -- -- -- 575,119 Debt -- -- -- 879,382 Deferred compensation expense related to stock options issued below fair market value -- 53,745 -- (53,345) Deferred compensation expense -- -- -- -- Restricted stock: Issued and outstanding 22,434 21,255 -- -- Forfeited (19,597) (65,710) -- -- Amortization expense -- -- -- -- Embedded value with Pyramid Trading warrants -- -- -- (32,503) Preferred stock dividends -- -- -- -- Net loss -- -- -- -- ----------- ----------- ----------- ----------- BALANCES, December 31, 2002 13,110,477 4,465,832 (633,195) 26,632,299 Stock issued: Cash 4,477,279 1,947,197 -- -- Exercise of warrants 258,790 262,030 -- -- Cashless exercise of warrants 141,529 -- -- -- Exercise of stock options 3,000 3,750 -- -- Reduction of stock subscriptions receivable -- (36,977) 36,977 -- for fees related to equity transactions Acquisition of assets -- -- -- -- Conversion of accounts payable 85,000 120,690 -- -- Conversion of notes payable 654,202 762,000 -- -- Conversion of accrued interest 63,539 66,172 -- -- Conversion of preferred stock 66,666 40,000 -- -- Conversion of dividends payable 187,164 113,209 -- -- Redemption of preferred stock -- -- -- -- Intrinsic value of convertible feature -- -- -- -- Discount on preferred stock related to warrants -- -- -- -- issued Stock subscriptions receivable: Cash payments -- -- 105,806 -- Increase reserve -- -- 71,000 -- Interest collected -- -- 1,327 -- Warrants issued: Preferred stock -- -- -- 58,314 Common stock -- -- -- 2,050,507 Debt -- -- -- 883,711 Services rendered -- -- -- 321,920 Deferred compensation expense related to stock options issued below fair market value -- -- -- -- Deferred compensation expense -- -- -- -- Restricted stock: Unamortized Accumulated Compensation Deficit Total ---------- ---------- ---------- Conversion of preferred stock -- -- -- Redemption of preferred stock -- -- (84,000) Discount on preferred stock related to warrants issued -- (9,295) (357,262) Interest receivable on stock subscription receivable -- -- (49,989) Warrants issued: Preferred stock -- -- 324,324 Common stock -- -- 575,119 Debt -- -- 879,382 Deferred compensation expense related to stock options issued below fair market value 4,307 -- 4,707 Deferred compensation expense 78,292 -- 78,292 Restricted stock: Issued and outstanding (21,255) -- -- Forfeited 65,710 -- -- Amortization expense 400,000 -- 400,000 Embedded value with Pyramid Trading warrants -- -- (32,503) Preferred stock dividends -- (153,578) (153,578) Net loss -- (4,438,059) (4,438,059) ---------- ---------- ---------- BALANCES, December 31, 2002 (682,089) (29,715,999) 2,642,285 Stock issued: Cash -- -- 1,973,197 Exercise of warrants -- -- 262,030 Cashless exercise of warrants -- -- -- Exercise of stock options -- -- 3,750 Reduction of stock subscriptions receivable -- -- -- for fees related to equity transactions Acquisition of assets -- -- 76,500 Conversion of accounts payable -- -- 192,690 Conversion of notes payable -- -- 762,000 Conversion of accrued interest -- -- 66,172 Conversion of preferred stock -- -- -- Conversion of dividends payable -- -- 113,209 Redemption of preferred stock -- -- (93,100) Intrinsic value of convertible feature -- (500) (27,202) Discount on preferred stock related to warrants -- -- (58,314) issued Stock subscriptions receivable: Cash payments -- -- 105,806 Increase reserve -- -- 71,000 Interest collected -- -- 1,327 Warrants issued: Preferred stock -- -- 58,314 Common stock -- -- 2,050,507 Debt -- -- 883,711 Services rendered -- -- 321,920 Deferred compensation expense related to stock options issued below fair market value 367 -- 367 Deferred compensation expense 47,114 -- 47,114 Restricted stock: See accompanying notes to consolidated financial statements. Page 8 VICOM, INCORPORATED AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY Years Ended December 31, 2003, 2002, and 2001 --- Common Stock Stock Options --------------------------- Subscriptions and Shares Amount Receivable Warrants ------------ ------------ ------------- ------------ Forfeited (10,841) (17,398) -- -- Amortization expense -- -- -- -- Embedded value with Laurus warrants -- -- -- 568,121 Preferred stock dividends -- -- -- -- Net loss -- -- -- -- ------------ ------------ ------------- ------------ BALANCES, December 31, 2003 19,036,805 $ 7,726,505 $ (418,085) $ 30,514,872 ============ ============ ============= ============ Unamortized Accumulated Compensation Deficit Total ------------ ------------ ------------ Forfeited 17,398 -- -- Amortization expense 400,000 -- 400,000 Embedded value with Laurus warrants -- -- 568,121 Preferred stock dividends -- (248,689) (248,689) Net loss -- (4,365,004) (4,365,004) ------------ ------------ ------------ BALANCES, December 31, 2003 $ (217,210) $(34,330,192) $ 5,807,711 ============ ============ ============ See accompanying notes to consolidated financial statements. Page 9 VICOM, INCORPORATED AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS Years Ended December 31, 2003, 2002, and 2001 --- 2003 2002 2001 ----------- ----------- ----------- CASH FLOWS FROM OPERATING ACTIVITIES Net loss $(4,365,004) $(4,438,059) $(5,325,552) Adjustments to reconcile net loss to cash flows from operating activities: Depreciation 948,796 981,985 1,019,581 Amortization 47,583 133,472 391,183 Amortization of deferred compensation 447,481 482,999 332,210 Amortization of original issue discount 405,248 1,103,314 797,169 Write off of notes receivable and investment 19,069 60,000 -- Reserve for stock subscriptions and interest receivable 71,000 -- -- Impairment reserve on property and equipment -- 119,480 -- Common stock issued for services -- 27,700 -- Loss on sale of property and equipment 79,394 31,412 846 Interest receivable on stock subscription receivable 1,327 (49,989) (21,619) Warrants issued for services 321,920 -- 87,403 Warrants issued with debt conversion -- 183,903 -- Discount on preferred stock related to warrants -- -- (33,178) Minority interest in subsidiary (33,366) -- -- Changes in operating assets and liabilities: Accounts receivable, net 289,890 576,509 3,087,313 Inventories, net (509,762) 182,783 705,050 Other current assets 70,264 (205,483) 47,031 Other assets (143,101) 43,210 -- Wholesale line of credit (314,069) (34,424) (708,533) Accounts payable and accrued liabilities 122,403 38,344 (978,479) Deferred service obligations and revenue (39,321) (106,877) 97,465 ----------- ----------- ----------- Net Cash Flows from Operating Activities

(2,580,248) (869,721) (502,110) ----------- ----------- ----------- CASH FLOWS FROM INVESTING ACTIVITIES Proceeds from sale of property and equipment 15,492 1,239,313 60,019 Purchases of property and equipment (526,936) (1,275,434) (1,884,945) Payments received on notes receivable -- -- 59,084 Payments for investment in joint venture (64,878) -- -- Purchase of certificate of deposit (250,000) -- -- ----------- ----------- ----------- Net Cash Flows from Investing Activities (826,322) (36,121) (1,765,842) ----------- ----------- ----------- CASH FLOWS FROM FINANCING ACTIVITIES Increase in checks issued in excess of cash in bank 147,398 -- -- Proceeds from long-term debt and warrants issued with long-term debt 1,659,726 1,172,064 1,919,650 Proceeds from note payable - stockholder 124,000 -- -- Payments received on stock subscriptions receivable 105,806 6,786 -- Payments on long-term debt (200,768) (131,605) (461,808) Payments on note payable - stockholder (9,609) -- -- Payments on capital lease obligations (75,301) (937,828) (315,770) Proceeds from issuance of stock and warrants 4,023,704 949,533 1,270,612 Redemption of preferred stock (93,100) (84,000) (538,199) Preferred dividends (135,481) (153,578) (143,167) Exercise of stock options 3,750 -- -- Exercise of warrants 262,030 -- -- ----------- ----------- ----------- Net Cash Flows from Financing Activities 5,812,155 821,372 1,731,318 ----------- ----------- ----------- NET CHANGE IN CASH AND CASH EQUIVALENTS 2,405,585 (84,470) (536,634) CASH AND CASH EQUIVALENTS - Beginning of Year 540,375 624,845 1,161,479 ----------- ----------- ----------- CASH AND CASH EQUIVALENTS - END OF YEAR $ 2,945,960 $ 540,375 $ 624,845 =========== =========== =========== See accompanying notes to consolidated financial statements. Page 10 VICOM, INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2003, 2002 and 2001 --- 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 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, 2003, 2002, and 2001, the Company incurred net losses of $4,365,004, $4,438,059 and $5,325,552, respectively. At December 31, 2003, the Company had an accumulated deficit of $34,330,192. 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. 5. Establish market for wireless internet services. Principles of Consolidation The consolidated financial statements include the accounts of Vicom, Incorporated (Vicom) and its wholly owned subsidiaries, Corporate Technologies, USA, Inc. (CTU), and Multiband, Inc. (Multiband) which provides voice, data and video services to residential multi-dwelling units. In February 2003, the Company formed a 50% owned subsidiary, Multiband USA, Inc. (MB USA) with Pace Electronics, Inc. (PACE) a video wholesaler, and provides the same services as Multiband). As part of the subsidiary agreement, the Company has the right to elect two of the three board of directors and, at its sole option and discretion, shall have the right, but not the obligation to convert one Vicom common share for every ten shares of Multiband USA issued to PACE (Notes 2 and 17). Based on the Company's control of the subsidiary, the operating results have been consolidated. All significant intercompany transactions and balances have been eliminated in consolidation. On January 1, 2004, the Company merged Multiband into CTU. Revenues and Cost Recognition The Company earns revenues from five sources: 1) Video and computer technology products which are sold but not installed, 2) Voice, video and data communication products which are sold and installed, 3) Service revenues related to communication products which are sold and both installed and not installed 4) Multiband user charges to multiple dwelling units, and 5) MB USA user charges to timeshares. Page 11 VICOM, INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003, 2002 and 2001 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. Product returns and customer discounts are netted against revenues. 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 are recognized when the products are delivered and installed and the customer has accepted the terms and has the ability to fulfill the terms. Service revenues related to technology products including consulting, training and support are recognized when the services are provided. Service revenues accounted for less than 10% of total revenues for the years ended December 31, 2003, 2002 and 2001. 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 and MB USA 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, 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. Certificate of Deposit The Company has a certificate of deposit which matures in October 2004. Accounts Receivable The Company reviews customers' credit history before extending unsecured credit and establishes an allowance for uncollectible accounts based upon factors surrounding the credit risk of specific customers and other information. Credit risk on accounts receivable is minimized as a result of the large and diverse nature of the Company's customer base. Invoices are due 30 days after presentation. Accounts receivable over 30 days are considered past due. The Company does not accrue interest on past due accounts receivable. Receivables are written off only after all collection attempts have failed and are based on individual credit evaluation and specific circumstances of the customer. Accounts receivable are shown net of an allowance for uncollectible accounts of $223,000 and $236,000 at December 31, 2003 and 2002, respectively. Accounts receivable over 90 days were $433,000 and $331,000 at December 31, 2003 and 2002, respectively. Page 12 VICOM, INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2003, 2002 and 2001 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. Property and Equipment Property, equipment and leasehold improvements are recorded at cost. Improvements are capitalized while repairs and maintenance costs are charged to operations when incurred. Property and equipment is depreciated or amortized using the straight-line method over estimated useful lives ranging from three to seven years. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the assets. Debt Issuance Costs Debt issuance costs are amortized over the life of the loan of approximately three years using the straight-line method, which approximates the interest method. Goodwilll and Other Intangible Assets Goodwill represents the excess of acquisition costs over the fair value of identifiable net assets acquired and was being amortized using the straight-line method over ten years. Accumulated amortization was $782,278 at December 31, 2003 and 2002. In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations", effective for acquisitions initiated on or after July 1, 2001, and No. 142, "Goodwill and Other Intangible Assets", effective for fiscal years beginning after December 15, 2001. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, and includes guidance on the initial recognition and measurement of goodwill and other intangible assets arising from business combinations. SFAS No. 142 indicates that goodwill (and intangible assets deemed to have indefinite lives) will no longer be amortized but will be subject to annual impairment tests. Other intangible assets will continue to be amortized over their useful lives. The Company adopted SFAS No. 142 effective January 1, 2002. The Company performed the required goodwill impairment test during the years ended December 31, 2003 and 2002. Page 13 VICOM, INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2003, 2002 and 2001 As part of compliance with this standard, the Company obtained an independent appraisal to assess the fair value of its business units to determine whether goodwill carried on its books was impaired and the extent of such impairment, if any for the years ended December 31, 2003 and 2002. For the year ended December 31, 2003, the independent appraisal used the discounted future returns method to measure the fair value of its business units rather than the income method which was used for 2002. The method of valuation was changed due to the Company changing its business model and historical results, which are used for the income method, would not accurately evaluate the value of future economic benefits. Under the discounted future returns method, future benefits over a period of time are estimated and then discounted back to present value. For the year ended December 31, 2002, the independent appraisal used the income method to measure the fair value of its business units. Under the income method, value is dependent on the present value of future economic benefits to be derived from ownership. Future net cash flows available for distribution are discounted at market-based rates of return to provide indications of value. The independent appraiser used a discount factor of 16.8% and 18.35% for the years ended December 31, 2003 and 2002, respectively. Based upon this independent appraisal, the Company determined that its current goodwill balances were not impaired as of December 31, 2003 and 2002. Components of intangible assets are as follows: December 31, 2003 December 31, 2002 ------------------------------ ------------------------------ Gross Gross Carrying Accumulated Carrying Accumulated Amount Amortization Amount Amortization ------------- ------------- ------------- ------------- Intangible assets subject to amortization Domain name $ 83,750 $ 39,083 $ 83,750 $ 22,333 Access contracts 60,000 13,334 -- -- Debt issuance costs 115,500 3,208 -- -- Customer cable lists 300,000 -- -- -- ------------- ------------- ------------- ------------- Total $ 559,250 $ 55,625 $ 83,750 $ 22,333 ============= ============= ============= ============= Intangible assets not subject to amortization Goodwill $ 3,531,157 $ 782,278 $ 3,531,157 $ 782,278 ============= ============= ============= ============= Amortization of intangible assets was $33,291, $16,750 and $5,583 for the years ended December 31, 2003, 2002 and 2001, respectively. Estimated amortization expense of intangible assets for the years ending December 31, 2004, 2005, 2006, 2007, and 2008 is $135,250, $135,250, $113,125, $60,000 and $60,000, respectively. The Company's loss attributable to common stockholders, excluding goodwill amortization expense, for the years ended December 31, 2003, 2002 and 2001 would have been as follows had we adopted SFAS No. 142 on January 1, 2000: 2003 2002 2001 ------------- ------------- ------------- Loss attributable to common stockholders - as reported $ (4,613,693) $ (4,591,637) $ (5,758,221) SFAS No. 142 amortization adjustment -- -- 345,600 Loss attributable to common stockholders - as adjusted (4,613,693) (4,591,637) (5,412,621) Basic and diluted net loss per share - as reported (0.29) (0.39) (0.66) Basic and diluted net loss per share - adjusted (0.29) (0.39) (0.62) Page 14 VICOM, INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2003, 2002 and 2001 Intangible Assets The Company amortizes a domain name acquired during the year ended December 31, 2001 over its estimated useful life of five years using the straight-line method. The Company amortizes access contracts acquired during the year ended December 31, 2003 over the estimate useful life of three years using the straight-line method. The Company will amortize the customer cable lists acquired on December 31, 2003 over five years beginning January 1, 2004. Advertising Costs Advertising costs are charged to expense as incurred. Advertising costs were $146,906, $104,788 and $230,629 for the years ended December 31, 2003, 2002 and 2001, 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 and related interpretations, the Company uses the intrinsic value-based method for measuring stock-based compensation cost which measures compensation cost as the excess, if any, of the quoted market price of the Company's common stock at the grant date over the amount the employee must pay for the stock. The Company's general policy is to grant stock options at fair value at the date of grant. Options and warrants issued to nonemployees are recorded at fair value, as required by SFAS No. 123 "Accounting for Stock-Based Compensation," (SFAS No. 123), using the Black Scholes pricing model. The Company has adopted the disclosure only provision of SFAS No. 148, "Accounting for Stock-Based Compensation." Pursuant to APB No. 25 and related interpretations, $447,481,

$482,999 and $332,210 of compensation cost has been recognized in the accompanying consolidated statements of operations for the years ended December 31, 2003, 2002 and 2001, respectively. Had compensation cost been recognized based on the fair values of options at the grant dates consistent with the provisions of SFAS No. 123, the Company's loss attributable to common stockholders and basic and diluted loss per common share would have increased to the following pro forma amounts for the years ended December 31: Page 15 VICOM, INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2003, 2002 and 2001 2003 2002 2001 --------------- --------------- --------------- Loss attributable to common stockholders $ (4,613,693) $ (4,591,637) $ (5,758,221) Pro forma loss attributable to common shares $ (5,363,381) $ (4,915,649) $ (6,131,692) Basic and diluted net loss per share: As reported $ (0.29) $ (0.39) $ (0.66) Pro forma loss attributable to common shares $ (0.33) $ (0.42) $ (0.70) Stock-based compensation: As reported $ 447,481 $ 482,999 $ 332,210 Pro forma $ 749,688 $ 324,012 $ 373,471 In determining the compensation cost of the options granted during fiscal 2003, 2002, and 2001, as specified by SFAS No. 123, the fair value of each option grant has been estimated on the date of grant using the Black-Scholes option pricing model and the weighted average assumptions used in these calculations are summarized as follows: 2003 2002 2001 ----------------- ----------------- ----------------- Risk-free interest rate 3.00% 4.40% 5.00% Expected life of options granted 10 years 10 years 10 years Expected volatility range 170% 170% 110% Expected dividend yield 0% 0% 0% Net Loss per Common 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, 2003, 2002 and 2001 were anti-dilutive. Recently Issued Accounting Pronouncements In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," effective for contracts entered into or modified after June 30, 2003. This amendment clarifies when a contract meets the characteristics of a derivative, clarifies when a derivative contains a financing component and amends certain other existing pronouncements. The adoption of SFAS No. 149 did not have a material effect on the Company's consolidated financial statements. Page 16 VICOM, INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2003, 2002 and 2001 In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial lnstruments with Characteristics of both Liabilities and Equity." SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. SFAS No. 150 requires the classification as a liability of any financial instruments with a mandatory redemption feature, an obligation to repurchase equity shares, or a conditional obligation based on the issuance of a variable number of its equity shares. The Company does not have any financial instruments as defined by SFAS No. 150. The adoption of SFAS No. 150 did not have a material effect on the Company's consolidated financial statements. In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 clarifies the requirements for a guarantor's accounting for and disclosure of certain guarantees issued and outstanding. The initial recognition and initial measurement provisions of FIN 45 are applicable to guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN 45 are effective for financial statements for periods ending after December 15, 2002. The adoption of FIN 45 did not effect the Company's consolidated financial statements. In December 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46 (Revised December 2003), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" (FIN 46R). This standard replaces FIN 46, Consolidation of Variable Interest Entities" that was issued in January 2003. FIN 46R modifies or clarifies various provisions of FIN 46. FIN 46R addresses the consolidation of business enterprises of variable interest entities (VIEs), as defined by FIN 46R. FIN 46R exempts certain entities from its requirements and provides for special effective dates for entities that have fully or partially applied FIN 46 prior to issuance of FIN 46R. Otherwise, application of FIN 46R is required in financial statements of public entities that have interest in structures commonly referred to as special purpose entities for periods ending after December 15, 2003. Application by the Company for all other types of VIEs is required in financial statements for periods ending no later than the quarter ended January 31, 2005. The

Company does not expect the adoption of FIN 46R to have a material effect on the Company's consolidated financial statements. 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, inventory obsolescence, and stock subscriptions and interest receivable, property and equipment estimated useful lives, goodwill carrying value and the valuation of deferred income tax assets. Financial Instruments The carrying amounts for all financial instruments approximates fair value. The carrying amounts for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments. The fair value of capital lease obligations, note payable-stockholder 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. Page 17 VICOM, INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2003, 2002 and 2001 Reclassifications Certain accounts in the prior years' consolidated financial statements have been reclassified for comparative purposes to conform with the presentation in the current year consolidated financial statements. These reclassifications had no effect on net loss or stockholders' equity. -- NOTE 2 - BUSINESS ACQUISITIONS -- During February 2003, the Company incorporated a new subsidiary, MB USA. This subsidiary was formed as a 50% owned joint venture agreement with PACE (Note 1). The reason for the joint venture with PACE is to continue to expand the Company's services related to multi-users of voice, data and video services. On April 25, 2003, the Company, through MB USA, purchased certain video equipment assets, related rights to video subscribers and rights of access agreements from Suncoast Automation, Inc. (Suncoast). The purchase price was allocated to the acquired assets and assumed certain liabilities based on the estimated fair values as of the acquisition date. The purchase price was allocated to assets and liabilities acquired as follows: Property and equipment $ 504,224 Access contracts 60,000 Capital lease obligations (54,224) ---------------- Net purchase price $ 510,000 ================= The net purchase price of $510,000 consisted entirely of cash paid. The consolidated results of operations on an unaudited pro forma basis are not presented separately as the results do not differ significantly from historical amounts presented herein. On December 31, 2003, the Company purchased certain customer lists from Florida Cable, Inc. (Florida Cable) for $300,000 which was paid to Florida Cable on January 2, 2004. In addition, the Company agreed to lease from Florida Cable equipment used in the operation of the cable television systems for six months for $1.00. After the six month lease period has expired, the Company has agreed to purchase the equipment for $165,000. If the Company fails to pay the $165,000 in full, all rights and title of the customer lists mentioned above will revert back to Florida Cable. At December 31, 2003, the Company has recorded the $165,000 liability associated with the contingent purchase of equipment. Page 18 VICOM, INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2003, 2002 and 2001 -- NOTE 3 - PROPERTY AND EQUIPMENT -- Property and equipment consisted of the following at December 31: 2003 2002 ----------- ----------- Leasehold improvements $ 764,064 $ 732,931 Property and equipment - owned 5,318,243 4,230,560 Property and equipment under capital lease obligations 428,749 456,124 ----------- ----------- 6,511,056 5,419,615 Less accumulated depreciation and amortization (2,921,352) (2,170,642) ----------- ----------- $ 3,589,704 $ 3,248,973 =========== =========== Depreciation and amortization expense on property and equipment was $948,796, $981,985 and $1,019,581 for the years ended December 31, 2003, 2002 and 2001, respectively. -- NOTE 4 - OTHER ASSETS -- Other assets consisted of the following at December 31: 2003 2002 -------- -------- Other current assets: Current portion of notes receivable $ 2,983 $ 52,977 Prepaid expenses and other 93,567 173,797 -------- -------- Total other current assets $ 96,550 $226,774 ======== ======== Noncurrent assets: Debt issuance costs, net $112,292 $ -- Access contracts, net 46,666 -- Domain name, net 44,667 61,417 Customer cable lists 300,000 -- Prepaid expenses and other 136,236 109,236 -------- -------- Total other assets $639,861 $170,653 ======== ======== At December 31, 2003 and 2002, the Company had notes receivable of $2,983 and $52,977, respectively. The remaining note was due in December 2003 with interest of 12% and was unsecured. Page 19 VICOM, INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2003, 2002 and 2001 --- NOTE 5 - ACCRUED LIABILITIES --- Accrued liabilities consisted of the following at December 31: 2003 2002 ---------- ---------- Payroll and related taxes $ 514,516 $ 398,415 Accrued preferred stock dividends 277,928 138,288 Payable - Florida Cable 465,000 -- Other 202,261 177,776 ---------- ---------- $1,459,705 $ 714,479 ========== ========== --- NOTE 6 - WHOLESALE LINE OF CREDIT --- At December 31, 2003, the Company has a $1,750,000 wholesale line of credit agreement with a financial institution, which expires on December 1, 2004, for the purchase of certain resale merchandise from certain suppliers. Interest is generally at 0% (if paid within certain terms of up to 45 days), and the wholesale line of credit is collateralized by the accounts receivable up to $300,000 as well as all of the inventory financed and the $1,450,000 letters of credit. The wholesale line of credit agreement is an agreement between the Company, financial institution, and certain vendors of the Company. The Company receives no funds from the financial institution, but pays the financial institution rather than certain vendors. The balance outstanding was $976,314 at December 31, 2003. At December 31, 2002, the Company had a $1,450,000 wholesale line of credit agreement with a different financial institution, which expired with 30 day notice by either party, for the purchase of certain resale merchandise from certain suppliers. Interest was generally at 0% (if paid within certain terms, generally 30 days), and the wholesale line of credit was collateralized by the related inventories, accounts receivable and the $1,450,000 letters of credit. The wholesale line of credit agreement was an agreement between the Company, financial institution, and certain vendors of the Company. The Company received no funds from the financial institution, but paid the financial institution rather than certain vendors The balance outstanding was $1,290,383 at December 31, 2002. Page 20 VICOM, INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2003, 2002 and 2001 --- NOTE 7 - LONG-TERM DEBT --- Long-term debt consisted of the following at December 31: 2003 2002 ------------- ------------- Note payable - Pyramid Trading Limited Partnership, net of unamortized original issue discount and beneficial conversion of note payable into common stock of $59,557 and $59,250 at December 31, 2003 and 2002, respectively, quarterly interest payments at 10% (effective interest rate of 54.2%) through May 2004, monthly principal payments of $40,000, due May 2004, unsecured. $ 140,443 $ 902,971 Debenture payable - Convergent Capital Partners I, L.P., net of original issue discount of $432,504 and $595,295 at December 31, 2003 and 2002, respectively, monthly interest only payments through July 2005, monthly installments of $102,273 including interest at 14% (effective interest rate 18.4%) thereafter, due May 2007, secured by substantially all of the assets of the Company. 1,967,496 1,804,705 Demand debenture payable - Convergent Capital Partners I, L.P., monthly interest only payments at 14% through May 2007, due on demand or May 2007, secured by substantially all of the assets of the Company. 100,000 100,000 Note payable - Lexus Tower Limited Partnership, monthly installments of $5,987 including interest at 8.4%, due November 2010, secured by certain assets of the Company. 379,332 418,872 Note payable - Laurus Master Fund LTD, net of unamortized original issue discount and beneficial conversion of note payable into common stock of $1,208,847 at December 31, 2003, monthly installments of $45,455 beginning in March 2004, including interest at prime rate plus 3% but not less than 7% (7% at December 31, 2003) (effective interest rate of 174.6%), due through November 2006, secured by certain assets of the Company. 291,153 -- Notes payable, interest at 5.25% to 20% due through May 2007, secured by certain assets of the Company. 207,545 209,047 ------------- ------------- Total long-term debt 3,085,969 3,435,595 Less: current portion (998,813) (321,589) ------------- ------------- Long-term debt, net $ 2,087,156 $ 3,114,006 ============= ============= Page 21 VICOM, INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2003, 2002 and 2001 Future maturities of long-term debt are as follows for the years ending December 31: 2004 $ 998,813 2005 1,113,898 2006 1,838,008 2007 650,923 2008 59,072 Thereafter 126,163 ----------------- Total future minimum payments 4,786,877 Less: original issue discounts and beneficial conversion feature (1,700,908) ----------------- Total long-term debt 3,085,969 Less: current portion (998,813) ----------------- Long-term debt, net $ 2,087,156 ================= In 2000, the Company entered into a $2,250,000 debenture agreement with Convergent Capital Partners I, L.P., with interest at 14% payable monthly and monthly payments of $102,273 from August 1, 2003 through June 1, 2005. The timing of repayment was changed to August 2005 through

May 2007 as part of the amendment made in 2002. The debenture is secured by substantially all Company assets. In connection with this debenture, the Company issued 150,000 five-year warrants to purchase common stock at prices ranging from $1.50 to $5.20 per share. The proceeds of $2,250,000 were allocated between the debenture and the warrant based on the relative fair values of the securities at the time of issuance. The warrants were valued using the Black Scholes pricing model. The resulting original issue discount, the fair value of the warrants, is being amortized over the life of the debenture using the straight-line method, which approximates the interest method. In 2002, the Company amended the debenture agreement with Convergent Capital Partners I, L.P., and borrowed an additional $150,000 with interest at 14% payable monthly and monthly principal payments from August 2005 through May 2007. In connection with this debenture, the Company issued an additional 500,000 seven-year warrants to purchase common stock at $1.10 per share. The additional warrants were valued using the Black Scholes pricing model. The resulting original issue discount, the fair value of the warrants, is being amortized over the life of the debenture using the straight-line method, which approximates the interest method. The Company was in violation of certain covenants of this debt agreement. A waiver was obtained from the lender. The debenture payable may be redeemed at the Company's option at a premium declining ratably thereafter to par value in April 2005. In January 2001, the Company borrowed $1,500,000 from Pyramid Trading Limited Partnership and issued a five-year warrant to the lender to purchase 375,000 common shares at $4.00 per share through January 2003. The debt is also convertible into common stock of the Company at a conversion rate of $4.75 per share through January 2003. The proceeds of $1,500,000 were allocated between the note and the fair value of the warrants using the Black Scholes pricing model. An additional 375,000 five-year warrants were issued in April 2002 and the fair value of the warrants was expensed as additional interest expense as of December 31, 2002. The resulting original issue discount, the fair value of the warrants, and the beneficial conversion of the note payable into common stock as defined in EITF 00-27 "Application of Issue No. 98-5 to Certain Convertible Instruments"(EITF 00-27), is being amortized over the life of the note using the straight-line method, which approximates the interest method. Page 22 VICOM, INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2003, 2002 and 2001 In February 2003, the Company reached an agreement to convert $962,000 of its note payable with Pyramid Trading Limited Partnership to equity and to extend the due date to May 2004. Terms of the conversion state that the note will be converted to equity over a 14 month period at a price generally equivalent to a 10% discount to market price. The Company issued an additional 253,000 five-year warrants at an exercise price of $1.00 with the note payable extension. These warrants, valued at $208,447 using the Black Scholes pricing model, are being expensed over the remaining term of the note agreement. During the year ended December 31, 2003, the Company converted principal and accrued interest totaling $828,172 into 717,741 shares of common stock. During 2002, the Company borrowed $600,000 and issued a five-year warrant to one of its directors to purchase 120,000 common shares at $1.50 per share. The proceeds of $600,000 were allocated between the note and the fair value of the warrants using the Black Scholes pricing model. The resulting original issue discount, the fair value of the warrants, was being amortized over the life of the note using the straight-line method which approximates the interest method. In December 2002, the lender converted the note payable into 60,000 shares of Class E convertible preferred stock. The remaining unamortized original issue discount amount was expensed at the time of the conversion. In November 2003, the Company borrowed $1,500,000 and issued a three-year warrant to the lender to purchase 535,000 common shares at $2.21 per share through November 2006. The debt is also convertible into common stock of the Company at a conversion rate of $1.40 per share through November 2006. The proceeds of $1,500,000 were allocated between the note, the intrinsic value of the conversion option, and the fair value of the warrants using the Black Scholes pricing model. The resulting original issue discount, the fair value of the warrant, and the beneficial conversion of the note payable into common stock as defined in EITF 00-27 is being amortized over the life of the note using the straight-line method, which approximates the interest method. Interest expense related to long-term debt with related parties for the years ended December 31, 2003, 2002, and 2001 was approximately $0, $228,000 and $3,000, respectively. -- NOTE 8 - CAPITAL LEASE OBLIGATIONS -- The Company has lease financing facilities for property, equipment and leasehold improvements. Leases outstanding under these agreements bear interest at an average rate of 8.25% and expires through October 2007. The obligations are secured by the property under lease. Total cost and accumulated amortization of the leased equipment was $428,749 and $221,432 at December 31, 2003 and $456,124 and $219,332 at December 31, 2002. Amortization expense related to these obligations is included in depreciation expense. Page 23 VICOM, INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2003, 2002 and 2001 Future minimum capital lease payments are as follows for the years ending December 31: 2004 $ 69,556 2005 69,556 2006 56,457 2007 34,610 ------------------ Total 230,179 Less: amounts representing interest (32,342) ------------------ Present value of future minimum lease payments 197,837 Less: current portion (54,939) ------------------ Capital lease obligations, net of current portion $ 142,898 ================== -- NOTE 9 - NOTE PAYABLE - STOCKHOLDER -- On June 30, 2003, the Company borrowed $124,000 from a stockholder of the Company with monthly payments of $5,600 including interest at 7.85%, due in June 2005, and unsecured. The balance due at December 31, 2003 is $114,391 of which $81,554 is due in 2004 and $32,837 is due in 2005. Interest expense related to this note payable - stockholder for the year ended December 31, 2003 was approximately $1,600. -- NOTE 10 - STOCKHOLDERS' EQUITY -- Capital Stock Authorized The articles of incorporation authorize the Company to issue 50,000,000 shares of no par capital stock. Authorization to individual classes of stock are determined by a Board of Directors resolution. The authorized classes of stock at December 31, 2003 are the following: 275,000 shares of Class A cumulative convertible preferred stock, 60,000 shares of Class B cumulative convertible preferred stock, 250,000 shares of Class C cumulative convertible preferred stock, 250,000 shares of Class D cumulative convertible preferred stock, and 400,000 shares of Class E cumulative convertible preferred stock. Page 24 VICOM, INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2003, 2002 and 2001 Cumulative Convertible Preferred Stock Dividends on Class A, Class B, Class C, Class D, and Class E cumulative convertible preferred stock are cumulative and payable quarterly at 8%, 10%, 10%, 14%, and 15% per annum, respectively. Cumulative convertible preferred stock can be converted into common shares at any time as follows: Class A and Class B - five shares, Class C - two shares, Class D - two and one-half shares, and Class E - eight shares. The intrinsic value of any beneficial conversion option is recorded as preferred stock dividends at the time of preferred stock issuance. Dividends on Class B preferred are cumulative and payable monthly at 10% per annum. The dividends are based on $10 per share for all preferred shares. The Class B preferred was offered to certain note payable holders at a conversion of $10 per Class B preferred share. All preferred stock is non-voting. Warrants to purchase shares of the Company's common stock were given with the issuance of Class A, Class B, Class D, and Class E preferred stock and were valued at fair value using the Black Scholes pricing model. The Company may, but is not obligated to, redeem the preferred stock at $10.50 per share for Class A and Class B and $10.00 per share for Class C, Class D, and Class E, whenever the Company's common stock price exceeds certain defined criteria as defined in the preferred stock agreements. Upon the Company's call for redemption, the holders of the preferred stock called for redemption have the option to convert each preferred share into shares of the Company's common stock. Holders of preferred stock cannot require the Company to redeem their shares. The liquidation preference is the same as the redemption price for each class of preferred stock. Stock Compensation Plans The Company has a 1999 Stock Compensation Plan, which permits the issuance of restricted stock and stock options to key employees and agents. All outstanding incentive stock options granted under the prior 1997 Stock Options Plan continue until all agreements have expired. There are 2,500,000 shares of common stock reserved for issuance through restricted stock, non-qualified stock option awards and incentive stock option awards. The Plans also provide that the term of each award be determined by the Board of Directors. Under the Plans, the exercise price of incentive stock options may not be less than the fair market value of the stock on the award date, and the options are exercisable for a period not to exceed ten years from award date. The Company also has a 2000 Non-employee Director Stock Compensation Plan, which permits the issuance of stock options for 300,000 shares of common stock to non-employee directors. The exercise price of the stock options is the fair market value of the stock on the award date, and the options are exercisable for a period not to exceed ten years from award date. Employee Stock Purchase Plan The Company has a 2000 Employee Stock Purchase Plan, which allows for the sale of 400,000 shares of Company common stock to qualified employees. At December 31, 2003, no shares were issued under the Plan. Page 25 VICOM, INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2003, 2002 and 2001 Stock Subscriptions Receivable The Company has stock subscriptions receivable including interest receivable totaling $418,085 and $633,195 due to the Company at December 31, 2003 and 2002, respectively, from the issuance of common stock. Monthly interest only payments at interest ranging from 9% to 10% were required through December 2003 at which time any unpaid stock subscription receivable was due. The receivables are secured by the common stock issued. At December 31, 2003, the Company has reserved $71,000 related to stock subscriptions and interest receivable deemed to be uncollectible. The Company does not record interest receivable on the outstanding receivable balance once they have determined it to be uncollectible. Restricted Stock The Company awards restricted common shares to selected employees. Recipients are not required to provide any consideration other than services. Company share awards are subject to certain restrictions on transfer, and all or part of the shares awarded may be subject to forfeiture upon the occurrence of certain events, including employment termination. The intrinsic value at the date of grant related to the shares awarded is generally amortized over three years, the vesting term of the awards. Compensation expense recorded during the years ended December 31, 2003, 2002, and 2001 in connection with the amortization of the award cost was $47,119, $78,292 and $92,749, respectively. Restricted stock activity is as follows for the years ended December 31: 2003 2002 2001 ---------------- ---------------- ---------------- Outstanding, January 1 45,066 75,337 113,829 Issued -- 22,434 83,000 Vested (17,204) (33,107) (38,781) Forfeited (10,843) (19,598) (82,711) ---------------- ---------------- ---------------- Outstanding, December 31 17,019 45,066 75,337 ================ ================ ================ Stock Options Stock option activity is as follows for the years ended December 31: Options Weighted-Average Exercise Price -- ------------------------------------- 2003 2002 2001 2003 2002 2001 ------------ ------------ ------------ ------------ ----------- ----------- Outstanding, January 1 1,093,157 1,050,024 1,145,507 $ 2.45 $ 2.55 $ 2.31 Granted 747,775 249,300 839,500 1.35 0.96 1.20 Exercised (3,000) -- (615,933) 1.25 -- 0.51 Forfeited (180,500) (206,167) (319,050) 4.49 1.86 2.11 ------------ ------------ ------------ ------------ ----------- ----------- Outstanding, December 31 1,657,432 1,093,157 1,050,024 $ 1.81 $ 2.45 $ 2.55 ============ ============ ============ ============ =========== =========== The weighted-average grant-date fair value of options granted during the years ended December 31, 2003, 2002, and 2001 was $1.20, $0.86 and $2.94, respectively. Page 26 VICOM, INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2003, 2002 and 2001 Options outstanding and exercisable as of December 31, 2003, are as follows: Outstanding Exercisable -- ---------------------------------- Weighted - Average --------------------------- Remaining Weighted- Range of Exercise Exercise Contractual Average Price Options Price Life-Years Options Exercise Price -------------------------- ---------------- ---------- ------------ ---------------- -------------- $.60 255,000 $ 0.60 6.43 255,000 $ 0.60 $.93 to $1.38 409,800 1.15 9.18 256,433 1.24 $1.43 to $2.08 688,766 1.67 7.90 620,658 1.68 $2.50 to $2.88 140,000 2.67 6.81 140,000 2.67 $3.98 to $5.38 109,666 4.48 6.67 92,166 4.57 $6.00 to $6.75 54,200 6.60 6.24 46,900 6.57 ---------------- ---------- ------------ ---------------- ------------- $.60 to $6.75 1,657,432 $ 1.81 7.76 1,411,157 $ 1.85 ================ ========== ============ ================ ============= Stock Warrants Stock warrants activity is as follows for the years ended December 31: Outstanding Weighted - Average Exercise Price -- --------------------------------------- 2003 2002 2001 2003 2002 2001 ------------ ------------ ------------ ------------ ----------- ----------- Outstanding, January 1 4,327,396 9,564,450 8,093,464 $ 2.05 $ 2.37 $ 8.71 Granted 3,687,447 2,546,690 9,483,530 1.53 1.46 2.32 Exercised (556,881) -- -- 1.53 -- -- Forfeited (36,088) (7,783,744) (8,012,544) 3.59 2.25 8.75 ------------ ------------ ------------ ------------ ----------- ----------- Outstanding, December 31 7,421,874 4,327,396 9,564,450 $ 1.83 $ 2.05 $ 2.37 ============ ============ ============ ============ =========== =========== The weighted-average grant-date fair value of warrants granted during the years ended December 31, 2003, 2002 and 2001 was $1.10, $1.00 and $1.79, respectively. Warrants outstanding and exercisable as of December 31, 2003, are as follows: Weighted - Average --------------------------------- Remaining Range of Exercise Exercise Price Contractual Prices Warrants Life-Years ---------------------- ------------------ -------------- ---------------- $.85 to $1.25 2,465,997 $ 1.02 4.13 $1.50 to $2.25 3,946,432 1.90 2.49 $2.40 to $3.56 501,025 2.52 3.15 $4.00 to $5.20 508,420 4.16 2.45 ---------------- ------------- ------------- $.85 to $5.20 7,421,874 $ 1.83 3.08 ================ ============ ============= Page 27 VICOM, INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2003, 2002 and 2001 Stock warrants issued for the years ended December 31 were awarded for: 2003 2002 2001 ---------------- ---------------- ---------------- Warrant repricing -- -- 8,012,544 Common stock 1,812,259 728,357 441,642 Services rendered 941,288 103,333 455,756 Preferred stock 145,900 420,000 48,588 Debt issuance and guarantees 788,000 1,295,000 525,000 ---------------- ---------------- ----------------

3,687,447 2,546,690 9,483,530 ================= ================= ================= During the year ended December 31, 2003, 298,091 warrants were exercised with a weighted average exercise price of $1.05. Based on the warrant agreements, these warrants were exercised in lieu of cash with the warrant holder receiving 141,529 shares of common stock. During the year ended December 31, 2003, the Company issued 400,000 five-year warrants with a weighted-average exercise price of $0.85 for services related to investor relations. These warrants were valued at $321,920 using the Black Scholes pricing model. During 2003, the Company issued 541,288 five-year warrants with a weighted-average exercise price of $1.02 for services related to equity financing. During the year ended December 31, 2002, the Company issued 103,333 three-to five-year warrants with a weighted-average exercise price of $1.56 for services related to equity financing. During the year ended December 31, 2001, the Company issued 455,756 one-to five-year warrants with a weighted-average exercise price of $2.16 for services related to equity financing. During 2001, the Company issued 48,588 two-to five-year warrants with a weighted-average exercise price of $3.69 for services related to preferred stock financing which were valued at $87,403 using the Black Scholes pricing model. On August 2, 2001, the Company approved the repricing of all outstanding warrants issued at $8.75 to $2.25. The expiration date of these warrants was extended to October 11, 2002. The Company recorded $6,919,692 to the accumulated deficit related to the change in warrant value using the Black Scholes pricing model. All warrants were recorded at fair value using the Black Scholes pricing model. The fair value of stock warrants is the estimated present value at grant date using the Black Scholes pricing model with the following weighted-average assumptions: 2003 2002 2001 ----------------- ----------------- ---------------- Risk-free interest rate 2.37% 3.90% 5.30% Expected life 3.4 years 4.5 years 4.5 years Expected volatility 170% 151.3% 94.3% Expected dividend rate 0% 0% 0% Page 28 VICOM, INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2003, 2002 and 2001 -- NOTE 11 - INCOME TAXES -- The Company has generated federal and state net operating losses of approximately $23,469,000 and $10,382,000, respectively, which, if not used, will begin to expire in 2004. Future changes in the ownership of the Company may place limitations on the use of these net operating loss carryforwards. The Company has recorded a full valuation allowance against its deferred tax asset due to the uncertainty of realizing the related benefits. The change in the valuation allowance was $1,722,000, $402,000, and $1,757,200 for the years ended December 31, 2003, 2002 and 2001, respectively. Components of net deferred income taxes are as follows at December 31: 2003 2002 ----------- ----------- Deferred income tax assets: Net operating loss carryforwards $ 9,387,000 $ 7,633,000 Goodwill 65,000 90,000 Asset valuation reserves 285,000 231,000 Accrued liabilities 55,000 69,000 ----------- ----------- 9,792,000 8,023,000 Less valuation allowance (9,674,000) (7,952,000) ----------- ----------- 118,000 71,000 Deferred income tax liabilities - depreciation (118,000) (71,000) ----------- ----------- Net deferred income tax assets $ -- $ -- =========== =========== Income tax computed at the federal statutory rate reconciled to the effective tax rate is as follows for the years ended December 31: 2003 2002 2001 ------ ------ ------ Federal statutory tax rate benefits (35.0)% (35.0)% (35.0)% State tax, net of federal benefit (5.0) (5.0) (5.0) Change in valuation allowance 39.6 36.1 33.0 Other 0.4 3.9 7.0 ------ ------ ------ Effective tax rate 0.0% 0.0% 0.0 % ====== ====== ====== Page 29 VICOM, INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2003, 2002 and 2001 The Company has the following net operating loss carryforwards at December 31, 2003, for income tax purposes: Federal Net State Net Year of Expiration Operating Loss Operating ----------------- ------------- --------- Loss ---- 2004 $ 1,050,000 $ 1,050,000 2005 599,000 599,000 2007 501,000 501,000 2008 59,000 57,000 2009 22,000 22,000 2011 595,000 575,000 2012 25,000 -- 2018 1,122,000 1,096,000 2019 1,585,000 992,000 2020 4,839,000 1,587,000 2021 4,726,000 1,435,000 2022 4,353,000 1,230,000 2023 3,993,000 1,238,000 ----------- ----------- $23,469,000 $10,382,000 =========== =========== Under Internal Revenue Code Section 382, utilization of federal losses expiring prior to 2019 are limited to approximately $375,000 each year. Page 30 VICOM, INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2003, 2002 and 2001 -- NOTE 12 - SUPPLEMENTAL CASH FLOWS INFORMATION -- 2003 2002 2001 ---------- ---------- ---------- Cash paid for interest $ 436,061 $ 512,167 $1,286,155 Noncash investing and financing transactions: Repricing of warrants -- -- 6,919,692 Stock options issued below fair market value -- -- 1,244,250 Stock options issued for commissions earned -- 53,745 -- Stock subscriptions receivable received for stock -- -- 610,000 Issuance of preferred and common stock for acquisition of assets 76,500 18,590 386,000 Current liabilities converted to stock 192,690 59,755 225,613 Common stock issued for guarantee of debt -- 14,750 120,000 Issuance of stock for intangible asset -- -- 83,750 Purchase of customer lists and equipment through payable to Florida Cable 465,000 -- -- Notes payable and accrued interest converted to common and preferred stock 828,172 1,164,882 227,009 Capitalized lease equipment purchases -- 174,986 -- Conversion of preferred stock to common stock 40,000 150,000 528,742 Conversion of preferred stock into note payable -- 400,000 -- Reduction of stock subscription receivable related to commission earned on equity transactions 36,977 40,563 -- Warrants issued related to modifications of long-term debt 208,447 528,650 -- Conversion of preferred stock dividends into common stock 113,209 -- -- -- NOTE 13 - RETIREMENT SAVINGS PLAN -- The Company has 401(k) profit sharing plan covering substantially all full-time employees. Employee contributions are limited to the maximum amount allowable by the Internal Revenue Code. The Company made no discretionary contributions for any of the years presented. Page 31 VICOM, INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2003, 2002 and 2001 -- NOTE 14 - COMMITMENTS AND CONTINGENCIES -- Operating leases Office space was leased from an LLC which an officer of the Company was partial owner of through August 2003. In addition to basic monthly rents ranging from $16,640 to $17,653, the Company paid building maintenance costs, real estate taxes and assessments. During 2003, the Company converted $72,000 of accrued rent into 7,200 shares of Class C preferred stock. At December 31, 2003 and 2002, accrued rent of $56,560 and $141,060, respectively, was owed to this related party. In August 2003, the Company signed a new lease agreement with an unrelated party disclosed below. The Company has various other operating leases for its corporate office space, vehicles and various equipment with lease terms expiring in August 2017. The monthly base rents range from $69,736 to $83,325, net of payments received from subleases. In July 2003, the Company entered into an agreement to sublease a portion of their office space through August 2008 for approximately $5,000 per month.The leases contain provisions for payments of real estate taxes, insurance and common area costs. Total rent expense for the years ended December 31, 2003, 2002 and 2001 including common area costs and real estate taxes was approximately $578,000, $566,000 and $689,000, respectively. Rent expense with related parties for December 31, 2003, 2002, 2001 was approximately $59,000, $462,000 and $561,000, respectively. Future minimum rental payments, net of payments received from subleases, are as follows for the years ending December 31: Year Amount ----- ---------------- 2004 $ 534,000 2005 512,000 2006 516,000 2007 541,000 2008 587,000 Thereafter 4,509,000 ---------------- $ 7,199,000 ================ Legal proceedings The Company is involved in legal actions in the ordinary course of its business. Although the outcome of any such legal actions cannot be predicted, management believes that there is no pending legal proceedings against or involving the Company for which the outcome is likely to have a material adverse effect upon the Company's consolidated financial position, results of operations, or cash flows. Page 32 VICOM, INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2003, 2002 and 2001 -- NOTE 15 - SIGNIFICANT CUSTOMERS AND SUPPLIERS -- One customer represented approximately 16%, 13%, and 15% of revenues for the years ended December 31, 2003, 2002, and 2001, respectively. The Company purchased materials from major suppliers approximately as follows for the years ended December 31: Supplier --- A B C ------------- ------------- ------------- 2003 61% 4% 8% 2002 58% 6% 12% 2001 38% 19% 12% The Company had revenues from companies that are associated with a director, who was elected to the board of directors during 2003, of approximately $1,124,000, $636,000, and $0 for the years ended December 31, 2003, 2002, and 2001, respectively. In addition, the Company had accounts receivable outstanding from these companies of approximately $142,000, $171,000, and $0 at December 31, 2003, 2002, and 2001, respectively. -- NOTE 16 - BUSINESS SEGMENTS -- The CTU subsidiary functions as one segment for integrated voice, video, data networking and computer technologies products and services, under one management structure, with one management financial reporting system, and having one unified marketing name. With the start up of Multiband in February 2000, the Company added the segment providing voice, data, and video services to residential multi-dwelling units. MB USA's business model is similar to Multiband. Segment disclosures are as follows: Multiband/ Vicom CTU MB USA Total ---------- -------- ---------- ---------- Year Ended December 31, 2003: Revenues $ -- $ 21,199,303 $ 1,441,118 $ 22,640,421 Loss from operations (1,941,271) (339,369) (1,215,667) (3,496,307) Identifiable assets 5,691,867 5,254,221 2,956,797 13,902,885 Depreciation and amortization 45,789 432,364 518,226 996,379 Capital expenditures 13,342 424,047 89,547 526,936 Page 33 VICOM, INCORPORATED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2003, 2002 and 2001 Vicom CTU Multiband Total --------- --------- --------- ---------- Year Ended December 31, 2002: Revenues $ -- $ 23,963,748 $ 577,221 $ 24,540,969 Income (loss) from operations (1,810,241) 172,689 (1,195,521) (2,833,073) Identifiable assets 3,151,891 5,282,233 1,913,192 10,347,316 Depreciation and amortization 142,426 482,390 490,641 1,115,457 Capital expenditures 2,126 814,464 458,844 1,275,434 Vicom CTU Multiband Total --------- --------- --------- ---------- Year Ended December 31, 2001: Revenues $ -- $ 32,011,187 $ 249,590 $ 32,260,777 Loss from operations (2,079,592) (299,553) (1,618,003) (3,997,148) Identifiable assets 3,171,968 5,786,796 3,250,917 12,209,681 Depreciation and amortization 418,655 550,075 442,034 1,410,764 Capital expenditures 6,900 491,532 1,386,513 1,884,945 Segment disclosures are provided by entity to the extent practicable under the Company's accounting system. --- NOTE 17 - SUBSEQUENT EVENTS --- On January 1, 2004, the Company entered into a stock purchase agreement with URON, Inc. (URON) to purchase all of the outstanding capital stock of URON for a total purchase price of 350,000 shares of the Company's common stock to be issued in installments as follows: a) 180,000 shares issued at closing, b) 170,000 shares held in escrow. The common shares issued to URON were valued at fair market value on the date of the agreement which was $1.31 per share for a purchase price of $458,500. The terms of the escrow are as follows: 50,000 shares to be released upon URON providing the Company with documentation satisfactory to the Company of a release from a certain vendor or any related entity of all liabilities incurred to a certain vendor by URON; 120,000 shares to be released in 40,000 share increments upon the Company's receipt of distributable gross profits, generated by certain customers, in increments of $75,000 cash. The escrow shall be terminated 24 months after the date of the agreement and any shares not released will be rescinded to the Company. The Company must register all shares issued within one year from the date of issuance. The reason for the purchase of URON is to continue to expand the Company's services related to voice, data and video services. The Company is acquiring the customer lists of URON and will be amortizing them over their estimated useful lives of three years. In January 2004, the Company purchased the remaining 50% ownership of MB USA from Pace, by issuing 30,000 shares of common stock valued at $39,300 (Note 2). Page 34 REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION To Stockholders, Board of Directors, and Audit Committee Vicom, Incorporated and subsidiaries New Hope, Minnesota Our report on our audits of the basic consolidated financial statements of Vicom, Incorporated and subsidiaries for the years ended December 31, 2003, 2002 and 2001 appears on page 1. The audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information on page 36 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole. /s/ VIRCHOW, KRAUSE & COMPANY, LLP Minneapolis, Minnesota February 16, 2004 Page 35 VICOM, INCORPORATED AND SUBSIDIARIES VALUATION AND QUALIFYING ACCOUNTS YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001 -- Column A Column B Column C Column D Column E --- ----------------- --------------- -------------------- --------------- Additions Charged to Balance at Costs and Balance at End Description Beginning of Year Expenses Deductions of Year --- ----------------- --------------- -------------------- --------------- ALLOWANCE DEDUCTED FROM ASSET TO WHICH IT APPLIES Allowance for doubtful accounts receivable: 2003 $ 236,000 $ -- $ 13,000 (A) $ 223,000 2002 178,000 58,000 -- 236,000 2001 159,000 141,000 122,000 (A) 178,000 Notes receivable: 2003 30,000 -- 30,000 (A) -- 2002 -- 30,000 -- 30,000 2001 -- -- -- -- Stock subscriptions and interest receivable 2003 -- 71,000 -- 71,000 2002 -- -- -- -- 2001 -- -- -- -- (A) Write-off uncollectible receivables Page 36 ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE None ITEM 9A. CONTROLS AND PROCEDURES. The Company, under the supervision and with the participation of its management, including the Chief Executive Officer, evaluated the effectiveness of the design and operation of the Company's "disclosure controls and procedures" (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer concluded that the Company's disclosure controls and procedures are effective in timely making known to him material information relating to the Company and the Company's consolidated subsidiaries required to be disclosed in the Company's reports filed or submitted under the Exchange Act. There has been no change in the Company's internal control over financial reporting during the quarter ended December 31, 2003 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Management is aware that there is a lack of segregation of duties due to the small number of employees dealing with general administrative and financial matters. However, management has decided that considering the employees involved and the control procedures in place, risks associated with such lack of segregation are insignificant and the potential benefits of adding employees to clearly segregate duties do not justify the expenses associated with such increases. PART III ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS OF THE REGISTRANT Information with respect to the directors and executive officers of the Company set forth under "Information Concerning Directors, Nominees and Executive Officers" and under "Compliance with Section 16 (a) "in the Company's definitive proxy statement for the annual meeting of shareholders to be held on or about June 19, 2004, is incorporated herein by reference. ITEM 11. EXECUTIVE COMPENSATION Information with respect to Executive Compensation set forth under "Executive Compensation" in the Company's definitive proxy statement for the annual meeting of shareholders to be held on or about June 19, 2004 is incorporated herein by reference. ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT Information with respect to security ownership of certain beneficial owners and management, set forth under "Beneficial Ownership of Principal Shareholders and Management" in the Company's definitive proxy statement for the annual meeting of shareholders to be held on or about June 19, 2004, is incorporated herein by reference. ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS Information with respect to certain relationships and related transactions, set forth under "Information Concerning Directors, Nominees and Executive Officers" in the Company's definitive proxy statement for the annual meeting of shareholders to be held on or about June 19, 2004, is incorporated herein by reference. ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES The Audit Commitee of the Company selected Virchow, Krause & Company, LLP ("Virchow Krause"), certified public accountants with offices in Minneapolis, Minnesota, to audit the Company's financial statements for the years ended December 31, 2003, 2002 and 2001. The following table details the fees paid to Virchow Krause for the years ended December 31, 2003 and 2002. 2003 2002 ------- ------- Audit Fees $60,929 $66,181 Audit-Related Fees 2,150 (1) 750 (1) Tax Fees 15,000 11,750 All Other Fees 1,705 (2) 155 (2) ----------------- ------- ------- Total $79,784 $78,836 ======= ======= (1) Fees related to review of Form S-3 Filings (2) Fees related to miscellaneous research projects The Company's Audit committee consists of Frank Bennett, Jonathan Dodge and Donald Miller. All three are considered audit committee financial experts independent from managers. The Company's current audit committee charter is filed herewith as exhibit 3.5. The audit committee is responsible for engaging the audit firm and fees related to their services. The policy of the Company's audit committee is to review and pre-approve both audit and non-audit services to be provided by the independent auditors (other than with de minimis exceptions permitted by the Sarbanes-Oxley Act of 2002). This duty may be delegated to one or more designated members of the audit committee with such approval reported to the committee at its next regularly scheduled meeting. Approval of non-audit services shall be disclosed to investors in periodic reports required by section 13(a) of the Securities Exchange Act of 1934. Approximately 95 % of the fees paid to Virchow Krause were pre-approved by the audit committee. No services in connection with appraisal or valuations services, fairness opinions or contribution-in-kind reports were rendered by Virchow Krause. Furthermore, no work of Virchow Krause with respect to its services rendered to the Company was performed by anyone other than Virchow Krause. ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K. A. EXHIBITS Exhibit 3.5 states Vicom's code of ethics for its senior officers. A copy of said code will be provided upon written request. Any waivers or amendments to said code will be posted to Vicom's website or disclosed in an 8K filing. Exhibit 3.6 provides Vicom's Audit committee charter B. REPORTS ON FORM 8K The Company filed reports on Form 8K on September 24, 2003 and December 16, 2003. Exhibits See Index to Exhibits on page 51 of this report. SIGNATURES Pursuant to the requirements of Section 13 or Section 15(d) of Securities Exchange Act of 1934, the registrant has duly caused this 10-K Report to be signed on its behalf by the undersigned, thereunto duly authorized. VICOM, INC. Registrant Date: March 30, 2004 By: /s/ James L. Mandel Chief Executive

Officer Date: March 30, 2004 By: /s/ Steven M. Bell Chief Executive Officer (Principal Financial and Accounting Officer) Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. INDEX TO EXHIBITS EXHIBIT NO. DESCRIPTION 2.1 Asset Purchase Agreement and related documents with Enstar Networking Corporation dated December 31, 1998(1) 2.2 Agreement and Plan of Merger with Ekman, Inc. dated December 29, 1999(1) 3.1 Amended and Restated Articles of Incorporation of Vicom, Inc.(1) 3.2 Restated Bylaws of Vicom, Incorporated(1) 3.3 Articles of Incorporation of Corporate Technologies, USA, Inc.(1) 3.5 Audit Committee Charter (9) 4.1 Certificate of Designation of the Relative Rights, Restrictions and Preferences of 8% Class A Cumulative Convertible Preferred Stock and 10% Class B Cumulative Convertible Preferred Stock dated December 9, 1998(1) 4.2 Form of Warrant Agreement(1) 4.3 Warrant Agreement with James Mandel dated December 29, 1999(1) 4.4 Warrant Agreement with Marvin Frieman dated December 29, 1999(1) 4.5 Warrant Agreement with Pierce McNally dated December 29, 1999(1) 4.6 Warrant Agreement with Enstar, Inc. dated December 29, 1999(1) 4.7 Warrant Agreement with David Ekman dated December 29, 1999(1) 4.8 Certificate of Designation of the Relative Rights, Restrictions and Preferences of 10% Class C Cumulative Convertible Stock(2) 4.9 Certificate of Designation of the Relative Rights, Restrictions and Preferences of 14% Class D Cumulative Convertible Stock(2) 4.10 Certificate of Designation of the Relative Rights, Restrictions and Preferences of 15% Class E Cumulative Convertible Stock(2) 4.11 Securities Purchase Agreement Dated September 18, 2003 (6) 4.12 Secured Convertible Note Agreement (7) 4.13 Wholesale Services Agreement Dated March 4, 2004 (8) 5.1 Opinion of Steven M. Bell, Esq.(6) 10.1 Vicom Lease with Marbell Realty dated June 20, 1996(1) 10.2 Employment Agreement with Marvin Frieman dated October 1, 1996(1) 10.3 Employment Agreement with Steven Bell dated October 1, 1996(1) 10.4 Employment Agreement with James Mandel dated August 14, 1998(1) 10.5 Vicom Associate Agreement with NEC America, Inc. dated June 1999(1) 10.6 Loan Agreement with Wells Fargo dated June 17, 1999(1) 10.7 Employment Agreement with David Ekman dated December 29, 1999(1) 10.8 Debenture Loan Agreement with Convergent Capital dated March 9, 2000(1) 10.9 Corporate Technologies, USA, Inc. lease with David Ekman dated January 19, 2000(1) 10.10 Amendment dated July 11, 2000 to debenture loan agreement with Convergent Capital dated March 9, 2000.(2) 10.11 Corporate Technologies agreement with Siemens dated December 14, 2001(4) 10.12 Note with Pyramid Trading, L.P. (4) 10.14 Employment Agreement of Steven M. Bell dated January, 1, 2002(5) 10.15 Employment Agreement of James Mandel dated January 1, 2002(5) 14 Vicom Code of Ethics for Senior Officers (9) 19.1 2000 Non-Employee Director Stock Compensation Plan (3) 19.2 2000 Employee Stock Purchase Plan (3) 21.1 List of subsidiaries of the registrant(1) 23 Consent of Virchow, Krause & Company, LLP (9) 24.1 Power of Attorney (included on signature page of original registration statement) 31.1 Rule 13a-14 (s) Certification of Chief Executive Officer - James Mandel (9) 31.2 Rule 13a-14 (s) Certification of Chief Financial Officer - Steven Bell (9) 32.1 Section 1350 of Sarbanes-Oxley Act of 2002 - James Mandel (9) 32.2 Section 1350of Sarbanes-Oxley Act of 2002 - Steven Bell (9) (1) Previously filed as the same exhibit to the Registrant's Registration Statement on Form 10, as amended. (2) Previously filed as the same exhibit to the original Registration Statement on Form S-1 filed on August 11, 2000 and declared effective on August 18, 2000. (3) Previously filed as the same exhibit to Registrant's Proxy Statement on Form 14A, filed on July 31, 2000. (4) Previously filed as the same exhibit to the original Registration Statement on Form S-1 filed on August 15, 2001 and declared effective on August 20, 2001. (5) Previously filed as the same exhibit to Registrant's Form 10-Q filed May 15, 2002 (6) Previously filed as the same exhibit to Registrant's Form 8-K filed September 24, 2003. (7) Previously filed as the same exhibit to Registrant's Form 8-k filed December 16, 2003. (8) Previously filed as the same exhibit to Registrant's Form 8-k filed March 17,2004. (9) Filed herewith