

Edgar Filing: MULTIBAND CORP - Form 10-Q

MULTIBAND CORP  
Form 10-Q  
August 22, 2005

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

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FORM 10-Q

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

FOR THE PERIOD ENDING June 30, 2005

OR

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

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NUMBER 0 - 1325

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MULTIBAND CORPORATION

(Exact name of registrant as specified in its charter)

MINNESOTA

(State or other jurisdiction of incorporation or organization)

41 - 1255001

(IRS Employer Identification No.)

9449 Science Center Drive, New Hope, Minnesota 55428

(Address of principal executive offices)

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

Internet: www.multibandusa.com

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

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

Yes  No

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

Yes  No

On August 18, 2005 there were 29,092,035 shares outstanding of the

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registrant's common stock, par value \$.01 per share, and 456,999 outstanding shares of the registrant's convertible preferred stock.

### PART I. FINANCIAL INFORMATION

#### ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

##### MULTIBAND CORPORATION AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

|   | Three Months Ended |                  |             |
|---|--------------------|------------------|-------------|
|   | June 30,<br>2005   | June 30,<br>2004 | June<br>200 |
|   | (unaudited)        | (unaudited)      | (unaud)     |
| REVENUES  | \$ 4,183,606       | \$ 2,911,261     | \$ 7,89     |
| COSTS AND EXPENSES  |                    |                  |             |
| Cost of products and services (exclusive of depreciation and amortization shown separately below) | 1,703,517          | 1,712,280        | 3,58        |
| Selling, general and administrative   | 2,377,575          | 1,137,780        | 4,52        |
| Depreciation and amortization   | 1,218,867          | 1,150,677        | 2,36        |
| Total Costs and Expenses  | 5,299,959          | 4,000,737        | 10,47       |
| LOSS FROM OPERATIONS  | (1,116,353)        | (1,089,476)      | (2,58)      |
| OTHER EXPENSE   |                    |                  |             |
| Interest expense  | (373,013)          | (188,986)        | (1,05       |
| Other income (expense)  | 70,120             | 6,851            | 8           |
| Total Other Expense   | (302,893)          | (182,135)        | (97         |
| LOSS FROM CONTINUING OPERATIONS   | (1,419,246)        | (1,271,611)      | (3,56       |
| INCOME (LOSS) FROM DISCONTINUED OPERATIONS  | 122,892            | (179,863)        | (31         |
| NET LOSS  | (1,296,354)        | (1,451,474)      | (3,87       |
| Preferred Stock Dividends   | (669,634)          | (395,273)        | (1,60       |
| LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS  | \$ (1,965,988)     | \$ (1,846,747)   | \$ (5,48    |
| BASIC AND DILUTED - LOSS PER COMMON SHARE   |                    |                  |             |
| Loss from continuing operations   | (.05)              | (.06)            |             |
| Income (loss) from discontinued operations  | (.00)              | (.00)            |             |
| Net Loss  | (.05)              | (.06)            |             |
| LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS  | (.07)              | (.08)            |             |
| WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED   | 28,634,502         | 22,689,301       | 27,92       |

See notes to condensed consolidated financial statements

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## MULTIBAND CORPORATION AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

|   |    | June 30, 2013 |
|---|----|---------------|
| -----   |    |               |
| ASSETS  |    |               |
| CURRENT ASSETS  |    |               |
| Cash and cash equivalents   | \$ | 5,000         |
| Certificate of deposit  |    | 1,000         |
| Accounts receivable, net  |    | 1,000         |
| Inventories   |    | 1,000         |
| Current assets of discontinued operations   |    | 1,000         |
| Note receivable, net  |    | 1,000         |
| Other current assets  |    | 1,000         |
| TOTAL CURRENT ASSETS  |    | 8,000         |
| PROPERTY AND EQUIPMENT, NET   |    |               |
|   |    | 4,000         |
| OTHER ASSETS  |    |               |
| Goodwill  |    | 15,000        |
| Intangible assets, net  |    | 15,000        |
| Other assets of discontinued operations   |    | 15,000        |
| Other assets  |    | 15,000        |
| TOTAL OTHER ASSETS  |    | 15,000        |
| TOTAL ASSETS  |    |               |
|   | \$ | 29,000        |
| =====   |    |               |
| LIABILITIES AND STOCKHOLDERS' EQUITY  |    |               |
| CURRENT LIABILITIES   |    |               |
| Checks issued in excess of cash in bank   | \$ | 1,000         |
| Short-term debt   |    | 3,000         |
| Wholesale line of credit  |    | 1,000         |
| Current portion of long-term debt   |    | 1,000         |
| Current portion of note payable, stockholder  |    | 1,000         |
| Current portion of capital lease obligations  |    | 1,000         |
| Accounts payable  |    | 1,000         |
| Accrued liabilities   |    | 3,000         |
| Contingent liability  |    | 1,000         |
| Customer deposits   |    | 1,000         |
| Current liabilities of discontinued operations                                      |    | 1,000         |
| Deferred subscription revenue   |    | 1,000         |
| TOTAL CURRENT LIABILITIES   |    | 8,000         |
| LONG-TERM LIABILITIES   |    |               |
| Long-term debt, net   |    | 3,000         |
| Capital lease obligations, net of current portion                                   |    | 1,000         |
| Long term liabilities of discontinued operations                                    |    | 1,000         |
| TOTAL LIABILITIES   |    | 12,000        |
| STOCKHOLDERS' EQUITY  |    |               |
| Cumulative convertible preferred stock, no par value:                               |    |               |
| 8% Class A (27,931 shares issued and outstanding, \$293,276 liquidation preference) |    | 17,000        |

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|   |        |
|---|--------|
| 10% Class B (8,620 and 8,700 shares issued and outstanding, \$90,510 and \$91,350 liquidation preference)           |        |
| 10% Class C (125,280 and 125,400 shares issued and outstanding, \$1,252,800 and \$1,254,000 liquidation preference) | 1,     |
| 10% Class F (150,000 shares issued and outstanding, \$1,500,000 liquidation preference)                             | 1,     |
| 8% Class G (45,245 shares issued and outstanding, \$452,450 liquidation preference)                                 |        |
| 6% Class H (3.0 and 11.5 shares issued and outstanding, \$300,000 and \$1,150,000 liquidation preference)           |        |
| Variable rate Class I (100,000 shares issued and outstanding, \$10,000,000 liquidation preference)                  |        |
| Common stock, no par value (28,949,008 and 25,784,490 shares issued; 28,948,340 and 25,781,818 shares outstanding)  | 18,    |
| Stock subscriptions receivable  | (      |
| Options and warrants  | 44,    |
| Unamortized compensation  | (      |
| Accumulated deficit   | (50,   |
|   | -----  |
| TOTAL STOCKHOLDERS' EQUITY  | 16,    |
|   | -----  |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY  | \$ 29, |
|   | =====  |

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See notes to condensed consolidated financial statements.

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MULTIBAND CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR SIX MONTHS ENDED JUNE 30, 2005 AND 2004

|   |           |
|---|-----------|
|   | SIX M     |
|   | -----     |
|   | 200       |
|   | -----     |
|   | (unaudi   |
| OPERATING ACTIVITIES  |           |
| Net loss  | \$ (3,879 |
| Adjustments to reconcile net loss to net cash flows from operating activities |           |
| Depreciation and amortization   | 2,521     |
| Amortization of deferred compensation   | 50        |
| Amortization of original issue discount                                       | 667       |
| Gain on sale of business segment  | (103      |
| Common stock issued for services  | 20        |
| Changes in operating assets and liabilities:                                  |           |
| Accounts receivable, net  | 908       |
| Inventories   | (371      |
| Other current assets  | 13        |
| Other assets  |           |
| Wholesale line of credit  | (1,000    |
| Accounts payable and accrued liabilities                                      | (1,612    |
| Deferred service obligations and revenue                                      | 65        |
| Liabilities of discontinued operations  | (125      |
| Customer deposits   | 2         |
|   | -----     |

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|   |             |
|---|-------------|
| Net cash flows from operating activities  | (2,842)     |
| <hr/>   |             |
| INVESTING ACTIVITIES  |             |
| Purchases of property and equipment   | (415)       |
| Purchases of intangible asset   | (209)       |
| Purchase of Ultravision   | (287)       |
| Purchase of Satellite Broadcasting Corporation                                    |             |
| Purchase of Minnesota Digital Universe, Inc.                                      |             |
| Purchase of Rainbow Satellite Group, LLC  |             |
| Proceeds from sale of business segment  | 1,682       |
| Proceeds from sale of property and equipment                                      |             |
| Collections on notes receivable   |             |
|   | <hr/>       |
| Net cash flows from investing activities  | 770         |
| <hr/>   |             |
| FINANCING ACTIVITIES  |             |
| Checks issued in excess of cash in bank   | (37)        |
| Payments on short-term debt   | (3,971)     |
| Payments on long-term debt  | (2,248)     |
| Payments on capital lease obligations   | (44)        |
| Payments on note payable to stockholder   | (51)        |
| Payments for debt issuance costs  | (25)        |
| Proceeds from issuance of stock and warrants                                      | 11,090      |
| Proceeds from issuance of long term debt  | 2,000       |
| Exercise of warrants  | 6           |
| Payments received on stock subscriptions receivable                               | 66          |
| Redemption of preferred stock   | (2)         |
| Preferred stock dividends   | (31)        |
|   | <hr/>       |
| Net cash flows from financing activities  | 6,752       |
| <hr/>   |             |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS                                  | 4,680       |
| CASH AND CASH EQUIVALENTS   |             |
| Beginning of period   | 726         |
|   | <hr/>       |
| End of period   | \$ 5,407    |
|   | <hr/> <hr/> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION                                  |             |
| Cash paid for interest, net of amortization of original issue discount            | \$ 417      |
| SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES           |             |
| Note receivable recorded on sale of discontinued operations                       | 339         |
| Issuance of common stock for acquisition of assets                                |             |
| Conversion of preferred stock into common stock                                   | 850         |
| Current liabilities converted to common stock                                     | 46          |
| Conversion of notes payable into common stock                                     | 648         |
| Conversion of dividend into common stock  | 176         |
| Common stock issued in lieu of cash for other current assets                      | 218         |
| Issuance of common stock for deferred financing costs                             | 36          |
| Issuance of common stock for acquisition of assets - MDU                          |             |
| Issuance of preferred stock for acquisition of assets - Rainbow                   |             |
| Issuance of preferred stock for acquisition of assets - SBC                       |             |
| Issuance of common stock and notes payable for acquisition of assets - MDU        |             |
| Issuance of preferred stock and notes payable for acquisition of assets - Rainbow |             |
| Common stock issued for services  |             |

See notes to condensed consolidated financial statements

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MULTIBAND CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004

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Note 1 - Unaudited Consolidated Financial Statements  
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The information furnished in this report is unaudited and reflects all adjustments which are normal recurring adjustments and, which in the opinion of management, are necessary to fairly present the operating results for the interim periods. The operating results for the interim periods presented are not necessarily indicative of the operating results to be expected for the full fiscal year.

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NOTE 2 - Summary of Significant Accounting Policies  
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Nature of Business

Multiband Corporation and subsidiaries, formerly known as Vicom, Incorporated and subsidiaries, (the Company) was incorporated in Minnesota in September 1975. The Company provides voice, data and video services to multi-dwelling unit 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 six months ended June 30, 2005 and 2004, the Company incurred net losses of \$3,879,562 and \$2,968,339 respectively. At June 30, 2005, the Company had an accumulated deficit of \$50,184,889. The Company's ability to continue as a going concern is dependent on it ultimately achieving profitability and/or raising additional capital. On February 3, 2005, the Company completed a \$10 million private placement of the Company's Series I Convertible Preferred Stock which includes \$520,000 of offering costs. 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. The Company, in February 2005 issued \$10,000,000 worth of Class I Preferred Stock to a group of accredited investors.
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.
6. Discontinuation of Multiband business services segment which was unprofitable in 2004. This segment was sold effective after the close of business March 31, 2004.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

#### Principles of Consolidation

The consolidated financial statements include the accounts of Multiband Corporation (MB) and its wholly owned subsidiaries, Corporate Technologies, USA, Inc. (CTU), URON, Inc., Minnesota Digital, Inc. (MDU), Rainbow Satellite Group, LLC (Rainbow) and Multiband Subscriber Services, 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). On January 1, 2004, the Company purchased the 50% PACE interest in Multiband USA. All significant intercompany transactions and balances have been eliminated in consolidation.

On January 1, 2004, the Company merged Multiband into CTU. On April 1, 2005, the continuing operations of CTU terminated (see Note 9.)

#### Discontinued Operations

During the first quarter of 2005, the Company sold certain assets and transferred certain liabilities related to its Multiband Business Services (a/k/a CTU). The Company began discussions and efforts to sell these assets in the fourth quarter of 2004. These assets met the requirements of Statement of Financial Accounting Standards No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets" as being held for sale. Operations and cash flows were eliminated as a result of the sale and the Company will not have any significant involvement in the operations after the sale. In accordance with appropriate accounting rules, the Company has reclassified the previously reported financial results to exclude the results of the Multiband Business Services (CTU) and these results are presented on a historical basis as a separate line in the consolidated statements of operations and the consolidated balance sheets entitled "Discontinued Operations". All of the financial information in the consolidated financial statements and notes to the consolidated financial statements has been revised to reflect only the results of continuing operations (see Note 9). Based on the discussions and efforts to sell these assets, the Company determined, based on the final purchase price which was arrived at in the first quarter of 2005, it was required to take an impairment charge to the goodwill of the Multiband Business Services division. As a result, an impairment charge related to goodwill of \$2,221,000 was recorded in the fourth quarter of 2004.

#### Revenues and Cost Recognition

The Company recognizes revenue in accordance with the Securities Exchange Commission's Staff Accounting Bulletin No. 104 (SAB 104) "Revenue Recognition", which requires that four basic criteria be met before revenue can be recognized: (i) persuasive evidence of a customer arrangement exists; (ii) the price is fixed or determinable; (iii) collectibility is reasonably assured; and (iv) product delivery has occurred or services have been rendered. The Company recognizes revenue (included in discontinued operations) as products are shipped based on FOB shipping point terms when title passes to customers.

The Company earns revenues from six 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 5) voice, data and video revenue directly generated by the Company as a principal to subscribers, and 6) DirecTV master service operator revenue earned primarily through the activation of and residual fees on video programming services.

MULTIBAND CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004

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. This revenue has been included with discontinued operations.

Customer's 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. Revenue is recognized when the products are delivered and installed and the customer has accepted the terms and has the ability to fulfill the terms. This revenue has been included with discontinued operations.

Substantially all of the service revenue the Company had in the past was part of the business segment, Multiband Business Services, which was sold effective after business hours on March 31, 2005. Service revenues for continuing operations accounted for less than 10% of total revenues for the three and six months ended June 30, 2005 and 2004.

Revenue generated from activation on video programming services is earned in the month of activation. According to the Company's agreement with DirecTV, in the event that a customer cancels within the first 12 months of service, DirecTV has the right to chargeback the Company for a portion of the activation fees received. In accordance with Securities Exchange Commission SAB 104, the Company has estimated the potential charge back of commissions received on activation fees during the past 12 months based on historical percentages of customer cancellations and has included that amount as a reduction of revenue. Residual income is earned as services are provided by DirecTV through its system operators. As a master system operator for DirecTV, the Company earns a fixed percentage based on net cash received by DirecTV for recurring monthly services and a variable amount depending on the number of activations in a given month. The Company's master system operator contract with DirecTV also permits the Company to earn revenues through its control of other system operators who are unable to provide DirecTV video programming services without the Company's performance.

The Company has determined that the accounting policies for income recognition described above were in accordance with the Financial Accounting Standards Board Emerging Issues Task Force ("EITF") Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent". EITF No. 99-19 employs multi-factor tests to determine whether amounts charged to customers in respect of certain expenses incurred should be included in revenues or netted against such expenses.

The Company reports the aforementioned voice, data and video programming revenues on a gross basis based on the following factors: the Company has the primary obligation in the arrangement with its customers; the Company controls the pricing of its services; the Company performs customer service for the agreements; the Company approves customers; and the Company assumes the risk of payment for services provided. The Company reports DirecTV revenue on a net basis.

Multiband, Rainbow, MDU and MB USA user charges are recognized as revenues in



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the period the related services are provided in accordance with SAB 104.

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

### Goodwill and Other Intangible Assets

#### Impairment of Goodwill

We periodically evaluate acquired businesses for potential impairment indicators. Our judgements regarding the existence of impairment indicators are based on legal factors, market conditions and operational performance of our acquired businesses. Future events could cause us to conclude that impairment indicators exist and that goodwill associated with our acquired businesses is impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations. Goodwill related to continuing operations was \$812,366 at both June 30, 2005 and December 31, 2004.

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MULTIBAND CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004

Components of intangible assets are as follows:

|   | June 30, 2005               |                             | December                    |
|---|-----------------------------|-----------------------------|-----------------------------|
|   | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Gross<br>Carrying<br>Amount |
| Intangible assets subject to amortization     |                             |                             |                             |
| Domain name                                   | \$ 83,750                   | \$ 64,207                   | \$ 83,750                   |
| Access contracts                              | 60,000                      | 43,333                      | 60,000                      |
| Debt issuance costs                           | 499,837                     | 145,225                     | 313,837                     |
| Right of entry                                | 17,435,984                  | 3,375,020                   | 17,226,759                  |
| Customer cable lists                          | 1,019,119                   | 443,710                     | 753,930                     |
| Total   | \$19,098,690                | \$ 4,071,495                | \$18,438,276                |
| Intangible assets not subject to amortization |                             |                             |                             |
| Goodwill                                      | \$ 812,366                  | \$ --                       | \$ 812,366                  |

The Company amortizes a domain name over its estimated useful life of five years using the straight-line method. The Company amortizes access contracts and customer cable lists over their useful estimated lives ranging from two to five years. The Company is amortizing the right of entry contracts over their estimated useful lives ranging from 36 to 73 months. 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.

Amortization of intangible assets was \$849,730 and \$969,185 for the three months ended June 30, 2005 and 2004, respectively. For the six months ended June 30, 2005 and 2004, amortization of intangible assets was \$1,714,854 and \$1,163,648,

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respectively. Amortization of debt issuance costs of \$98,011, is included in interest expense. Estimated amortization expense of intangible assets for the years ending December 31, 2005, 2006, 2007, 2008, 2009 and 2010 is \$3,459,762, \$3,217,718, \$3,036,976, \$2,986,738, \$2,895,384 and \$1,070,429, respectively. The weighted average remaining life of the intangibles is 5.5 years with right of entry average life of 6.0 years and customer cable lists of 2.6 years.

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### MULTIBAND CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

#### 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, \$0 and \$99,774 of compensation cost has been recognized in the accompanying consolidated statements of operations for the three months ended June 30, 2005 and 2004, respectively. For the six months ended June 30, 2005 and 2004, \$0 and \$212,415 of compensation cost has been recognized. 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 three and six months ended June 30:

|   | Three months<br>ended<br>June 30, 2005<br>----- | Three months<br>ended<br>June 30, 2004<br>----- | Six months<br>ended<br>June 30, 2004<br>----- |
|---|---|---|---|
| Loss attributable to common stockholders                    | \$ (1,965,988)                                  | \$ (1,846,747)                                  | \$ (5,480,280)                                |
| Pro forma loss attributable to common shares                | \$ (2,050,813)                                  | \$ (2,212,473)                                  | \$ (5,865,199)                                |
| Basic and diluted loss attributable to common shareholders: |   |   |   |
| As reported   | \$ (.07)  | \$ (0.08)                                       | \$ (.20)                                      |
| Pro forma loss attributable to common shares                | \$ (.07)  | \$ (0.10)                                       | \$ (.21)                                      |
| Stock-based compensation:                                   |   |   |   |
| As reported   | \$ 0  | \$ 99,774                                       | \$ 0  |
| Pro forma   | \$ 84,825                                       | \$ 365,726                                      | \$ 384,919                                    |

In determining the compensation cost of the options granted during the three and six months ended June 30, 2005 and 2004, as specified by SFAS No. 123, the fair value of each option grant has been estimated on the date of grant using the Black-Scholes option pricing model and the weighted average assumptions used in these calculations are summarized as follows:

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|                                  | Three months<br>ended<br>June 30, 2005<br>----- | Three months<br>ended<br>June 30, 2004<br>----- | Six months<br>ended<br>June 30, 2005<br>----- |
|----------------------------------|---|---|---|
| Risk-free interest rate          | 3.75%   | 3.50%   | 3.57%   |
| Expected life of options granted | 10 Years  | 10 Years  | 10 years                                      |
| Expected volatility range        | 208%  | 184%  | 211%  |
| Expected dividend yield          | 0%  | 0%  | 0%  |

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### MULTIBAND CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

#### 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 three and six months ended June 30, 2005 and 2004 were anti-dilutive.

#### Segment Reporting

A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. Management believes that the Company has two operating segments: 1) MCS, which acts as a principal in billing voice, data and cable revenues to subscribers; and 2) MDU, Inc. which collects net revenue from DirecTV.

#### Reclassifications

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

#### Recent Accounting Pronouncements

In June 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 154, "Accounting Changes and Error Corrections", a replacement of APB Opinion No. 20 and FASB Statement No. 3. The statement applies to all voluntary changes in accounting principle, and changes the requirements for accounting for and reporting of a change in accounting principle. SFAS No. 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. SFAS No. 154 is effective for accounting changes and corrections

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of errors made in fiscal years beginning after December 15, 2005. Earlier application is permitted for accounting changes and corrections of errors made occurring in fiscal years beginning after June 1, 2005. The statement does not change the transition provisions of any existing accounting pronouncements, including those that are in a transition phase as of the effective date of this statement. The Company does not expect the adoption of SFAS No. 154 to have a material effect on its consolidated financial statements.

In December 2004, FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment", which focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This statement replaces SFAS No. 123, "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." Beginning with the quarterly period that begins July 1, 2005, the Company will be required to expense the fair value of employee stock options and similar awards. As a public company, the Company is allowed to select from two alternative transition methods, each having different reporting implications. The impact of SFAS No. 123R for the year ending December 31, 2005 is estimated to range from approximately \$150,000 and \$200,000 based on the value of the options outstanding as of December 31, 2004 that will vest during the third and fourth quarters of 2005. This estimate does not include any expenses for options that may be granted and vested during 2005.

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### NOTE 3 - Business Acquisitions

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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 were valued at fair market value on the date of 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 purchase price of \$458,500 was allocated to customer list of \$453,930 and property and equipment of \$4,570. The customer list will be amortized over its estimated useful lives of two years and the property and equipment for fifteen months. At June 30, 2005 and December 31, 2004, the Company was not obligated to issue any of the contingent shares of common stock.

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MULTIBAND CORPORATION AND SUBSIDIARIES  
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In April 2004, the Company purchased certain assets consisting of data and video subscribers and systems from Satellite Broadcasting Corporation and affiliates (SBC). The total purchase price for said assets was approximately \$679,200.

On April 2, 2004, Multiband Corporation and subsidiaries (the Company), (fka Vicom, Incorporated and subsidiaries), completed its acquisition of Minnesota

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Digital Universe, Inc. (MDU) for approximately 7.7 million dollars, half of which was paid for in Multiband Corporation common stock, valued at \$1.75 per share, (\$3,850,000), \$1.1 million paid in cash and the balance in promissory notes due by January 2005. Included in the purchase price is \$700,000 related to a finder's fee. In December 2004, the notes with an outstanding balance of \$990,000 were extended through May 2005; with \$200,000 of the outstanding note balance being extended to July 2006. These notes are unsecured and bear no interest. The stock value was a negotiated price between the Seller and the Buyer. The consideration paid was based on the Company's analysis of likely future net income to be generated over a six year period by the acquired company. The cash was provided by funds the Company had previously raised in a private placement. The assets were acquired from Pace Electronics. Prior to the transaction, there was no material relationship between the owners of MDU and the Company other than the fact that Pace Electronics previously owned a 50% interest in a company subsidiary, Multiband USA, Inc., which Multiband bought out the remaining 50% of ownership from Pace Electronics in January 2004 for 30,000 shares of the Company's common stock valued at \$39,000.

With the MDU acquisition, the Company became a nationwide agent for DirecTV. MDU services nearly 40,000 video subscribers through a network of private cable operators located throughout the United States. The purchase also permits the Company to receive ongoing residual payments from DirecTV, during the term of the master system operator agreement with DirecTV, which initially had approximately 25 months remaining at the time of purchase.

On July 9, 2004, Multiband (the Company) completed its acquisition, which had an acquisition date of June 1, 2004, of the outstanding membership interests of Rainbow Satellite Group, LLC (Rainbow), a provider of Satellite television services to multi dwelling units, for approximately 7.5 million dollars, two million of which was paid for in Multiband Preferred Stock, valued at \$2.00 per share on a conversion formula to Multiband common stock, one million dollars of which was paid for in cash and the balance in promissory notes due by January 2005. In December 2004, these notes were extended to May 31, 2005 and paid off in full as of that date. Included in the purchase price is \$321,850 related to a finders fee. These notes are collateralized by Rainbow assets and bear interest at the prime rate. In connection with the debt extension, the Company issued 75,000 two year warrants with an exercise price of \$1.35 valued at \$68,652 using the Black Scholes pricing model. The stock value was a negotiated price between the Buyer and Seller. In the event Multiband defaults in the payment of said promissory notes, the former owners of Rainbow have certain rights to repurchase the aforementioned membership interests for 20% less than any sums Multiband has paid prior to the date of the default. The consideration paid was based on the Company's analysis of likely future net incomes to be generated over a six year period by the acquired Company. The cash was provided by funds Multiband had previously raised in a private placement. The aforementioned purchase price is subject to adjustment pursuant to the parties agreement if the number of Rainbow subscribers increases or decreases as of an adjustment date. The assets were acquired from the members/owners of Rainbow. Prior to the transaction, there was no material relationship between the owners of sellers and the Company. With this acquisition, the Company acquired over 16,000 video subscribers which are primarily located in California, Colorado, Texas, Florida, Illinois and New York.

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MULTIBAND CORPORATION AND SUBSIDIARIES  
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JUNE 30, 2005 AND 2004

On August 9, 2004, Multiband Corporation (the Company) completed its acquisition of certain assets of 21st Century Satellite Communications, Inc. (21st Century)

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for \$1,080,754, \$333,333 of which was paid for in Company stock, valued at \$1.60 per share, \$250,000 of which was paid for in cash and the balance in equipment lease payments due by August 2007. The stock value was a negotiated price between the Buyer and Seller. The consideration paid was based on the Company's analysis of the value of the acquired video equipment and related video subscribers totaling approximately 5,000. The cash was provided by funds Multiband had previously raised in a private placement. In connection with the acquisition, the Company incurred a \$125,000 finder's fee which was partially paid for in Company stock, valued at \$1.42 for a total of \$31,250, and the remaining \$93,750 was paid in cash by December 31, 2004.

Effective April 1, 2005, the Company purchased certain video assets (equipment and video subscribers) from Ultravision, Inc. for \$287,050 cash including a finder's fee of \$12,050.

With these acquisitions, the Company has substantially increased its subscriber base.

|                                    | MDU<br>-----         | Rainbow<br>-----     | 21st Century<br>----- |
|------------------------------------|----------------------|----------------------|-----------------------|
| Allocation of Purchase Price:      |                      |                      |                       |
| Total Cash/Stock Consideration     | \$7,000,000          | \$7,219,999          | \$ 987,000            |
| Add: Transaction Costs             | 726,550              | 361,850              | 93,754                |
| Add: Liabilities assumed           | 2,030,373            | 319,921              | --                    |
|                                    | -----                | -----                | -----                 |
| Total Consideration                | 9,756,923            | 7,901,770            | 1,080,754             |
| Less: Cash and accounts receivable | 59,044               | --                   | --                    |
| Less: Tangible assets              | --                   | 773,000              | 372,420               |
| Less: Goodwill                     | --                   | 800,000              | --                    |
|                                    | -----                | -----                | -----                 |
| Intangible assets, net             | \$9,697,879<br>===== | \$6,328,770<br>===== | \$ 708,334<br>=====   |

Goodwill was recorded on the Rainbow transaction based on a six year future projection of cash flows which indicated that those future cash flows would not equal or exceed total consideration paid for all intangible Rainbow assets. The goodwill is anticipated to be deductible for tax purposes.

The following unaudited pro forma condensed results of operations for the three and six months ended June 30, 2005 and 2004 give effect to the acquisition of MDU, Rainbow, and 21st Century as if such transactions had occurred on January 1, 2004.

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MULTIBAND CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004

The unaudited pro forma information does not purport to represent what the Company's results of operations would actually have been if such transactions in fact had occurred at such date or to project the Company's results of future operations.

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|   | 2005<br>Consolidated<br>as reported<br>----- | 2005<br>Pro Forma<br>Disclosed<br>----- | 2004<br>Consolidated<br>as reported<br>----- |
|---|--|---|--|
| Three months ended June 30, 2005 and 2004               |  |   |  |
| Revenues  | \$ 4,183,606                                 | \$ 5,187,466                            | \$ 2,911,187                                 |
| Loss from continuing operations                         | (1,419,246)                                  | (1,438,471)                             | (1,271,187)                                  |
| Income (loss) from discontinued operations              | 122,892                                      | 122,892                                 | (179,187)                                    |
| Net loss  | \$ (1,296,354)                               | \$ (1,315,579)                          | \$ (1,451,187)                               |
| Basic and diluted loss per share:                       |  |   |  |
| Loss from continuing operations                         | \$ (.05)                                     | \$ (.05)                                | \$ (.05)                                     |
| Loss from discontinued operations                       | \$ (.00)                                     | \$ (.00)                                | \$ (.00)                                     |
| Net loss  | \$ (.05)                                     | \$ (.05)                                | \$ (.05)                                     |
| Weighted average shares outstanding - basic and diluted | 28,634,502                                   | 28,634,502                              | 22,689,187                                   |

|   | 2005<br>Consolidated<br>as reported<br>----- | 2005<br>Pro Forma<br>Disclosed<br>----- | 2004<br>Consolidated<br>as reported<br>----- |
|---|--|---|--|
| Six months ended June 30, 2005 and 2004                 |  |   |  |
| Revenues  | \$ 7,890,482                                 | 11,861,857                              | \$ 3,673,187                                 |
| Loss from continuing operations                         | (3,561,186)                                  | (3,417,285)                             | (2,314,187)                                  |
| Loss from discontinued operations                       | (318,376)                                    | (318,376)                               | (653,187)                                    |
| Net loss  | \$ (3,879,562)                               | (3,735,661)                             | \$ (2,968,187)                               |
| Basic and diluted loss per share:                       |  |   |  |
| Loss from continuing operations                         | \$ (.13)                                     | \$ (.12)                                | \$ (.13)                                     |
| Loss from discontinued operations                       | \$ (.01)                                     | \$ (.01)                                | \$ (.01)                                     |
| Net loss  | \$ (.14)                                     | \$ (.13)                                | \$ (.13)                                     |
| Weighted average shares outstanding - basic and diluted | 27,929,454                                   | 27,929,454                              | 20,984,187                                   |

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MULTIBAND CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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The unaudited pro forma results of operations for the three and six months ended June 30, 2005 and 2004 as a result of the SBC, Florida Cable and Ultravision acquisitions of video subscribers and video equipment is not material to the historical financial statements.

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NOTE 4 - Stockholder Equity

Stock warrants activity is as follows for the six months ended June 30, 2005:

|                                | Number of Warrants | Weighted - Average Exerci |
|--------------------------------|--------------------|---------------------------|
|                                | -----              | -----                     |
| Outstanding, December 31, 2004 | 11,795,641         | 1.64                      |
| Granted                        | 8,882,723          | 1.70                      |
| Exercised                      | (33,066)           | .91                       |
| Cancelled                      | (1,611,219)        | 1.80                      |
|                                | -----              | -----                     |
| Outstanding, June 30, 2005     | 19,034,079         | 1.66                      |
|                                | =====              | =====                     |

The warrants granted during the six months ended June 30, 2005 were for common and preferred stock purchased and for services rendered.

NOTE 5 - Accrued Liabilities

Accrued liabilities consisted of the following:

|                                       | June 30, 2005 | December 31, 2004 |
|---------------------------------------|---------------|-------------------|
|                                       | -----         | -----             |
| Payroll and related taxes             | \$ 320,387    | \$ 389,394        |
| Accrued preferred stock dividends     | \$ 975,858    | \$ 415,120        |
| Accrued liability-vendor charge backs | \$1,347,673   | \$1,901,972       |
| Other                                 | \$ 398,538    | \$ 323,538        |
|                                       | -----         | -----             |
| Total                                 | \$3,042,456   | \$3,030,024       |
|                                       | =====         | =====             |

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MULTIBAND CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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NOTE 6 - Business Segments

The Company has the following business segments. Multiband Corp. includes corporate expenses (e.g. corporate administrative costs), interest income, interest expense, depreciation and amortization. The MDU segment represents results as the master service operator for DirecTV. The MCS segment provides voice, data and video services to residential multi-dwelling units as the principal to subscribers. The discontinued operations segment includes the Multiband Business Services segment which was sold effective after the close of business March 31, 2005 (see note 9).



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Segment disclosures are as follows:

|                                   | Multiband<br>Corp. | MDU          | MCS          | Discon<br>Opera |
|-----------------------------------|--------------------|--------------|--------------|-----------------|
| Three months ended June 30, 2005: |                    |              |              |                 |
| Revenues                          | \$ --              | \$ 2,102,459 | \$ 2,081,147 | \$              |
| Income (loss) from operations     | (1,058,495)        | 1,029,527    | (1,390,278)  |                 |
| Identifiable assets               | 8,072,968          | 8,807,922    | 12,072,166   |                 |
| Depreciation and amortization     | 63,927             | 401,079      | 753,861      |                 |
| Capital expenditures              | 5,429              | --           | 268,486      |                 |

|                                   | Multiband<br>Corp. | MDU          | MCS          | Discon<br>Opera |
|-----------------------------------|--------------------|--------------|--------------|-----------------|
| Three months ended June 30, 2004: |                    |              |              |                 |
| Revenues                          | \$ --              | \$ 1,875,664 | \$ 1,035,597 | \$              |
| Income (loss) from operations     | (859,186)          | 124,351      | (536,776)    |                 |
| Identifiable assets               | 4,322,547          | 10,271,773   | 10,943,051   | 4,9             |
| Depreciation and amortization     | 389,663            | 400,495      | 360,519      |                 |
| Capital expenditures              | --                 | --           | 128,947      |                 |

|                                 | Multiband<br>Corp. | MDU          | MCS          | Discon<br>Opera |
|---------------------------------|--------------------|--------------|--------------|-----------------|
| Six months ended June 30, 2005: |                    |              |              |                 |
| Revenues                        | \$                 | \$ 4,013,963 | \$ 3,876,519 | \$              |
| Income (loss) from operations   | (2,280,292)        | 1,339,296    | (2,620,190)  |                 |
| Identifiable assets             | 8,072,968          | 8,807,922    | 12,072,166   |                 |
| Depreciation and amortization   | 71,771             | 802,158      | 1,493,805    |                 |
| Capital expenditures            | 5,429              | --           | 371,278      |                 |

|                                 | Multiband<br>Corp. | MDU        | MCS        | Discon<br>Opera |
|---------------------------------|--------------------|------------|------------|-----------------|
| Six months ended June 30, 2004: |                    |            |            |                 |
| Revenues                        | \$ --              | 1,875,664  | 1,798,252  | \$              |
| Income (loss) from operations   | (1,544,148)        | 124,351    | (894,991)  |                 |
| Identifiable assets             | 4,322,547          | 10,271,773 | 10,943,051 | 4,9             |
| Depreciation and amortization   | 520,294            | 400,495    | 582,133    |                 |
| Capital expenditures            | 6,690              | --         | 135,082    |                 |

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MULTIBAND CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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Segment disclosures are provided by entity to the extent practicable under the Company's accounting system. Depreciation and amortization above does not include depreciation and amortization related to discontinued operations. The

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cash flow statements presentation of depreciation and amortization includes the depreciation and amortization from discontinued operations.

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### NOTE 7 - Commitments and Contingencies

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#### Legal Proceedings

The Company, in June 2005, settled its legal action with Private Investor's Equity Group (PIEG). The terms of the settlement require Multiband to pay PIEG \$150,000 over an eleven month period and issue PIEG 33,334 shares of restricted Multiband common stock. The shares were valued at \$36,000 using the market value on the settlement date. As of June 30, 2005, with the exclusion of the aforementioned PIEG matter, Multiband 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.

The Company is involved in legal actions in the ordinary course of its business. Management believes that there are 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.

#### Significant Relationship

The Company is a master agent for DirecTV pursuant to a system operator agreement with DirecTV dated May 22, 2003. The initial term of the agreement is for three years and provides for two additional two-year renewals if the Company has a minimum number of paying video subscribers in its system operator network. Termination of the Company's DirecTV agreement would have a material adverse impact on the Company's on-going operations. Revenues generated from DirecTV were 50.3 % and 50.9% of total revenues for the three and six months ended June 30, 2005, respectively. Revenues generated from DirecTV for the three and six months ended June 30, 2004 were 64.4% and 51.0% of total revenues.

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### NOTE 8 - Related Party

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The Company, during the six months ended June 30, 2005 received payment for accounts receivable of approximately \$131,000 from companies that are associated with a board director. In addition, the Company had accounts receivable outstanding from these companies of approximately \$9,000, and \$140,000 at June 30, 2005, and December 31, 2004, respectively.

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### NOTE 9 -Sale of Multiband Business Services segment

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After the close of business on March 31, 2005, the Company completed the sale of certain assets and liabilities relating to its Multiband Business Services (MBS, a/k/a Corporate Technologies USA) division. The buyer was North Central Equity, LLC ("Buyer").

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The purchase price paid by the Buyer was \$2,550,000 which consisted of \$1,682,184 in cash at closing, \$349,817 in assumed vacation pay and warranty liabilities, and the balance of \$517,999 in a note receivable at 7% interest due on December 31, 2005. The amount of the note receivable is subject to adjustment based on certain representations and warranties provided by the Company in the purchase agreement. The Company has recorded a reserve of \$178,948 against this note receivable due to uncertainty of collectibility of the note.

In connection with the purchase agreement, the Company entered into an interim services agreement whereby the Buyer is able to sublease space at no charge at the Company's Minneapolis and Fargo locations and obtain access to certain aspects of the Company's information technology resources for one year. Services provided will be charged by either party at fair value and is estimated by management to be insignificant. In addition the services agreement is explicit that the Company has no control over the buyer's operations. The buyer may receive additional free rent for part or all of a second year depending on the results of a post closing inventory appraisal. It is indeterminable at this time the results of this appraisal, however, the Company estimates the second year option will be exercised and will be accruing the liability as part of the sale transaction.

In conjunction with the sale, the Company reduced its indebtedness to Convergent Capital by \$2,000,000 since part of the collateral of this note payable relates to the assets sold. This \$2,000,000 was borrowed back from Convergent in the 2nd quarter of fiscal 2005. The gain on sale of MBS business services segment is as follows:

|  |             |
|--|-------------|
| Sale Price   |             |
| Cash proceeds  | \$1,682,184 |
| Note receivable, net of reserve of \$178,948         | 339,051     |
| Assumed liabilities                                  | 349,817     |
|  | -----       |
| Total sale price, net of reserve of \$178,948        | 2,371,052   |
|  |             |
| Assets sold  |             |
| Inventory, net of reserve                            | 1,045,110   |
| Property and equipment                               | 52,351      |
|  | -----       |
| Net assets sold                                      | 1,097,461   |
|  |             |
| Less costs and expenses                              |             |
| Broker's fee   | 132,500     |
| Sublease for one year at no charge                   | 500,000     |
| Additional free rent related to inventory adjustment | 500,000     |
| Legal and accounting costs                           | 37,600      |
|  | -----       |
| Total costs  | 1,170,100   |
|  | -----       |
| Net gain on sale                                     | \$ 103,491  |
|  | =====       |

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The following are condensed statements of operations of the discontinued operations for the three and six months ended June 30:

| Statement of Operations                    | Three Months Ended June 30, |              | Six Months End |
|--|-----------------------------|--------------|----------------|
|  | 2005                        | 2004         | 2005           |
| Revenues                                   | \$ 14,052                   | \$ 4,997,608 | \$ 3,698,927   |
| Cost of sales                              | (11,117)                    | 3,733,614    | 2,701,664      |
| Selling, general and administrative        | (106,903)                   | 1,255,069    | 1,307,502      |
| Depreciation and amortization              | --                          | 92,778       | 56,188         |
|  | 132,072                     | (83,853)     | (366,427)      |
| Income (loss) from operations              |                             |              |                |
| Other income (expense)                     | (9,180)                     | (96,010)     | (55,440)       |
|  | 122,892                     | (179,863)    | (421,867)      |
| Net income (loss)                          |                             |              |                |
| Gain on sale                               | --                          | --           | 103,491        |
|  | 122,892                     | (179,863)    | (318,376)      |
| Income (loss) from discontinued operations | \$ 122,892                  | \$ (179,863) | \$ (318,376)   |

The Company has recorded \$1 million in deferred rent liability in relation to the sale of the MBS business segment. This liability is amortized over the 24 month term of the sublease. Amortization has been netted with rent expense and the resulting income of \$29,197 is included in other income (expense) for the three and six months ended June 30, 2005.

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### FORWARD-LOOKING STATEMENTS

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

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

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

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

#### OUR COMPANY

Multiband Corporation (Multiband), (f/k/a Vicom, Incorporated), is a Minnesota corporation formed in September 1975. Multiband has two operating segments: 1) Multiband Consumer Services (MCS, legally known as Multiband Subscriber Services, Inc.), which encompasses the subsidiary corporations, Multiband USA, Inc., URON, Inc., and Rainbow Satellite Group, LLC; and 2) Minnesota Digital Universe, Inc. (MDU)

Multiband completed an initial public offering in June 1984. In November 1992, Multiband became a non-reporting company under the Securities Exchange Act of 1934. In July 2000, Multiband regained its reporting company status. In December, 2000, Multiband stock began trading on the NASDAQ stock exchange under the symbol VICM. In July 2004, the symbol was changed to MBND concurrent with the Company's name change from Vicom, Incorporated to Multiband Corporation.

Multiband's website is located at: [www.multibandusa.com](http://www.multibandusa.com).

From its inception until December 31, 1998, Multiband operated as a telephone interconnect company only. Effective December 31, 1998, Multiband acquired the assets of the Midwest region of Enstar Networking Corporation (ENC), a data cabling and networking company. In late 1999, in the context of a forward triangular merger, Multiband to expand its range of computer products and related services, purchased the stock of Ekman, Inc. d/b/a Corporate Technologies, and merged Ekman, Inc. into the newly formed surviving corporation, Corporate Technologies, USA, Inc. (MBS). MBS provided voice, data and video systems and services to business and government. The MBS business segment was sold effective April 1, 2005. All references to financial information and descriptions of business in this registration have been revised to reflect only our continuing operations and all references to our now discontinued Multiband Business Services have been eliminated. MCS segment began in February 2000. MCS, the Company's continuing operating division, provides voice, data and video services to multiple dwelling units (MDU), including apartment buildings, condominiums and time share resorts. During 2004 the Company purchased video subscribers in a number of separate transactions, the largest one being Rainbow Satellite Group, LLC. During 2004 the Company also purchased the stock of Minnesota Digital Universe, Inc., (MDU segment) which made the Company the largest master service operator in MDU's for DirecTV satellite television in the United States.

At August 15, 2005, MCS had 36,268 subscriptions for its services (1,424 voice subscriptions, 30,792 video subscriptions and 4,052 internet subscriptions). At August 15, 2005, MDU had approximately 72,000 video subscriptions managed through its network of system operators. The Company provides its services to approximately 20 mobile home parks in Florida. Due to the seasonal residency of the mobile home parks, the Company's revenues generated from the mobile home parks decreased by approximately 53% between the first and second quarters of 2005. The Company anticipates regaining these subscriptions during the winter months. However, there is no guarantee these subscriptions will be recovered.

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#### SELECTED CONSOLIDATED FINANCIAL DATA

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|  | DOLLAR AMOUNTS AS A<br>PERCENTAGE OF REVENUES<br>THREE MONTHS ENDED |                              |
|--|---|------------------------------|
|  | June 30, 2005<br>(unaudited)  | June 30, 2004<br>(unaudited) |
| REVENUES   | 100%  | 100%                         |
| COST OF PRODUCTS & SERVICES (Exclusive of depreciation and amortization shown below) | 40.7%   | 58.9%                        |
| SELLING, GENERAL & ADMINISTRATIVE  | 56.8%   | 39.1%                        |
| DEPRECIATION & AMORTIZATION  | 29.1%   | 39.5%                        |
| LOSS FROM OPERATIONS   | -26.6%  | -37.5%                       |
| INTEREST EXPENSE & OTHER, NET  | -7.2%   | -6.2%                        |
| LOSS FROM CONTINUING OPERATIONS  | -33.8%  | -43.7%                       |
| INCOME (LOSS) FROM DISCONTINUED OPERATIONS   | 2.9%  | -6.2%                        |
| NET LOSS   | -30.9%  | -49.9%                       |

RESULTS OF OPERATIONS

Revenues

Company revenues increased 43.7% to \$4,183,606 for the quarter ended June 30, 2005 as compared to \$2,911,261 for the quarter ended June 30, 2004. This increase is primarily due to the acquisition of video subscribers throughout 2004.

Revenues in the second quarter of fiscal 2005 for the MCS segment increased 100.9 % to \$2,081,147 as compared to \$1,035,597 in the second quarter of fiscal 2004. This increase is primarily due to the acquisition of video subscribers throughout 2004.

Revenues in the second quarter of 2005 for the MDU segment increased 12.3% to \$2,102,459 as compared to \$1,875,664 in the second quarter of fiscal 2004. This increase is primarily due to an increase in managed subscribers during the period combined with price increases enacted by DirecTV in 2005 which led to increased residual revenues (payments received as a result of recurring monthly revenues) for MDU during the quarter versus the prior year's quarter. These increased residual revenues for the second quarter of 2005 were material enough to offset lower revenues for one-time activation fees during the second quarter of 2005 which declined versus the prior period in 2004 due to DirecTV's reduction in the payment amount per activation.

Revenues for the six month period ended June 30, 2005 increased 114.8% to \$7,890,482 from \$3,673,916 for the same period in 2004. Again, this revenue increase is primarily due to the acquisition of video subscribers throughout 2004 and DirecTV price increases.

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Cost of Products and Services (Exclusive of depreciation and amortization)

The Company's cost of products and services, exclusive of depreciation and amortization, decreased slightly to \$1,703,517 for the quarter ended June 30,

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2005 as compared to \$1,712,280 for the similar quarter last year.

Costs of products and services for the MCS segment for the quarter were \$1,209,389 compared to \$539,436 in the same quarter last year, a 124.1% increase. This increase in costs of services is directly related to a material increase in revenues.

Costs of products and services for the MDU segment for the quarter were \$494,128 compared to \$1,172,844 in the same quarter last year, a 57.7% decrease. This reduction in costs reflects reduced payments to system operators for activation fees and a decrease of \$554,299 in accrued liabilities for vendor chargebacks.

For the six month period ended June 30, 2005, costs of products and services, exclusive of depreciation and amortization were \$3,583,025 compared to \$2,123,242 in the prior year. This overall increase in costs of products and services over the prior year resulted primarily from an increase in overall revenues.

### Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 109.0% to \$2,377,575 in the quarter ended June 30, 2005, compared to \$1,137,780 in the prior year quarter. This increase is primarily a result of increased personnel expenses related to the acquisition of video subscribers throughout 2004 and resulting subscriber growth. Selling, general and administrative expenses were, as a percentage of revenues, 56.8% for the quarter ended June 30, 2005 and 39.1% for the similar period a year ago.

For the six month period ended June 30, 2005, these expenses increased 130.1% to \$4,524,487 as compared to \$1,965,933 for the six months ended June 30, 2004. As a percentage of revenue, selling, general and administrative expenses are 57.3% for the six month period ended June 30, 2005 as compared to 53.5% for the same period in 2004.

### Interest Expense

Interest expense was \$373,013 for the quarter ended June 30, 2005, versus \$188,986 for the similar period a year ago, reflecting an increase in the Company's debt and original issue discount expense. Amortization of original issue discount was \$164,882 and \$159,199 for the three months ended June 30, 2005 and 2004.

Interest expense was \$1,058,714 for the six months ended June 30, 2005 and \$418,320 for the same period last year. Amortization of original issue discount was \$664,980 for the six months ended June 30, 2005 and \$348,178 for the same period last year.

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### Income(loss) from Operations

The Company, in the second quarter of 2005, incurred a loss from operations for its combined operating business segments of \$1,419,246 versus a loss of \$1,271,611 during the prior year's period. Loss from operations from said segments was \$3,561,186 during the first six months of 2005 versus \$2,314,788 during the same period in 2004. The MDU segment showed a profit from operations of \$1,029,527 during the second quarter of 2005 and \$1,339,296 for the six months ended June 30, 2005 versus profits of \$124,351 for the three and six months ended June 30, 2004. For the second quarter of 2005, the MCS segment showed a loss from operations of \$1,390,278 versus a loss of \$536,776 for the

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prior year period. For the six months ended June 30, 2005, the MCS segment showed a loss from operations of \$2,620,190 versus a loss of \$894,991 for the prior year period. The Multiband Corporation segment, which has no revenues, showed a loss from operations of \$1,058,495 for the three months ended June 30, 2005 and \$2,280,292 for the six months ended June 30, 2005 versus losses of \$859,186 and \$1,544,148 for the same period last year.

### Net Loss

In the second quarter of fiscal 2005, the Company incurred a net loss of \$1,296,354 compared to a net loss of \$1,451,474 for the second fiscal quarter of 2004. For the six months ended June 30, 2005, the Company recorded a net loss of \$3,879,562 as compared to \$2,968,339 for the six months ended June 30, 2004.

### Liquidity and Capital Resources

During the six months ended June 30, 2005 and 2004, the Company recorded a net loss of \$3,879,562 and \$2,968,339, respectively. We had negative cash flows from operating activities of \$2,842,499 and \$1,517,424 during the period ended June 30, 2005 and 2004, respectively. Reduction of accounts payables and accrued liabilities and retirement of a wholesale line of credit totaled \$2,613,829 for the period ended June 30, 2005. Management believes that over the next 12 months there will be no significant reduction in accounts payable or the wholesale line of credit which had a zero balance at June 30, 2005.

Cash and cash equivalents totaled \$5,407,000 at June 30, 2005 versus \$726,553 at December 31, 2004. Available working capital, for the six months ended June 30, 2005 increased significantly compared to December 31, 2004 primarily due to the 10 million dollar sale of Class I preferred stock. Short term debts were reduced in the six months ended June 30, 2005 as the Company continued to retire financing debt and debt related to acquisitions. Long term debt increased two million dollars as the Company re-borrowed two million dollars from Convergent Capital under an existing debt facility. The Company had a material decrease in both accounts receivables and accounts payable for the period ended June 30, 2005 reflecting the sale and wind down of the Multiband business services segment. Net cash flows from investing activities totaled \$770,844 for the period ended June 30, 2005.

The Company continues to experience significant growth, primarily due to increased subscriber related recurring revenues acquired via various transactions previously mentioned herein.

Management of Multiband believes that, for the near future, cash on hand, as of June 30, 2005, is adequate to meet the anticipated liquidity and capital resource requirements of its business for the next 12 months.

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### Capital Expenditures

The Company used \$415,065 for capital expenditures during the six months ended June 30, 2005, as compared to \$240,413 in the similar period last year. Capital expenditures consisted of equipment acquired for internal use. We estimate capitalized expenditures for the remainder of 2005 will be approximately \$300,000.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

#### Impairment of Long-Lived Assets



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The Company's long-lived assets include property, equipment and leasehold improvement. At June 30, 2005, the Company had net property and equipment of \$4,075,534, which represents approximately 14% of the Company's total assets. The estimated fair value of these assets is dependent on the Company's future performance. In assessing for potential impairment for these assets, the Company considers future performance. If these forecasts are not met, the Company may have to record an impairment charge not previously recognized, which may be material. During the three and six months ended June 30, 2005 and 2004, the Company did not record any impairment losses related to long-lived assets.

### Impairment of Goodwill

We periodically evaluate acquired businesses for potential impairment indicators. Our judgements regarding the existence of impairment indicators are based on legal factors, market conditions and operational performance of our acquired businesses. Future events could cause us to conclude that impairment indicators exist and that goodwill associated with our acquired businesses is impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations. During the three and six months ended June 30, 2005 and 2004, the Company did not record any impairment losses related to goodwill.

### Amortization of Intangible Assets

The Company amortizes a domain name over its estimated useful life of five years using the straight-line method. The Company amortizes access contracts and customer cable lists, on an average, over their useful estimated lives ranging from two to five years. The Company is amortizing the right of entry contracts, on an average, over their estimated useful lives ranging from 36 to 73 months.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Multiband is subject to interest rate variations related to its note payable with Laurus Master Fund, Ltd. The Laurus note payable has interest tied to the prime lending rate.

### ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this quarterly report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-14(c) of the Securities Exchange Act of 1934. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in alerting them in a timely basis to material information relating to the Company required to be disclosed in the Company's periodic SEC reports. There have been no significant changes in the Company's internal controls or in other factors which could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

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## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The Company, in the second quarter of 2005, settled its legal action with Private Investor's Equity Group (PIEG) which was brought in the third

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quarter of 2004. The terms of the settlement require Multiband to pay PIEG \$150,000 over an eleven month period and issue PIEG 33,334 shares of restricted Multiband common stock. The shares were valued at \$36,000 using the fair market value on the settlement date. As of June 30, 2005, with the exclusion of the aforementioned PIEG matter, Multiband 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 6. EXHIBITS

#### (a) Exhibits

- 31.1 Certification of Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 of the Exchange Act.
- 31.2 Certification of Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 of the Exchange Act.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.

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### SIGNATURES

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

MULTIBAND CORPORATION  
Registrant  
Date: August 22, 2005 By:

/s/ James L. Mandel  
Chief Executive Officer

Date: August 22, 2005 By:

/s/ Steven M. Bell  
Chief Executive Officer  
(Principal Financial and Accounting Officer)

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