

MULTIBAND CORP  
Form 10-K  
April 01, 2013  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

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

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.)

5605 Green Circle Drive Minnetonka, MN 55343  
(Address of principal executive offices)

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

The Company's Internet Address: [www.multibandusa.com](http://www.multibandusa.com)

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

Securities registered pursuant to Section 12 (b) of the Act: None

Securities registered pursuant to Section 12 (g) of the Act:

Common Stock (no par value)

Indicated by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by a check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K § 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by references in Part III of this Form 10-K or any amendment to this Form 10-K

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).   
Yes  No

As of June 30, 2012, (the most recently completed fiscal second quarter), the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was \$47,238,587, based on the average bid and asked price of such common equity of \$2.32, on such date.

As of March 11, 2013, there were 21,788,834 outstanding shares of the registrant's common stock, no par value, and 281,696 outstanding shares of the registrant's convertible preferred stock.

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PART I

Item 1

Business

Multiband Corporation (the Company), is a Minnesota corporation formed in September 1975.

The Company has three operating segments as follows: (1) Field Services (FS), where the Company provides installation services to pay television (satellite and broadband cable) providers, internet providers and commercial customers, (2) Multi-Dwelling Unit (MDU), where the Company bills voice, internet and video services to subscribers as owner/operator and also acts as a master service operator for DIRECTV, receiving net cash payments for managing video subscribers through its network of system operators; and (3) Engineering, Energy & Construction (EE&C) where the Company provides engineering and construction services for the wired and wireless telecommunications industry, including public safety networks. This segment also provides renewable energy services including wind and solar applications and other design and construction services, usually done on a project basis. All segments encompass a variety of different corporate entities.

The Company completed an initial public offering in June 1984. In November 1992, the Company became a non-reporting company under the Securities Exchange Act of 1934. In July 2000, the Company regained its reporting company status. In December 2000, the Company's 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.

The Company's website is located at: [www.multibandusa.com](http://www.multibandusa.com). The information on the Company's website is not part of this or any other report the Company files with, or furnishes to, the SEC.

From its inception until December 31, 1998, the Company operated as a telephone interconnect company only. Effective December 31, 1998, the Company 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, the Company, 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. The Company's MDU segment (formally known as MCS) began in February 2000. MDU provides voice, data and video services to multi-dwelling units, 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. (MNMDU), which made the Company the largest master system operator in MDU's for DIRECTV satellite television in the United States. During 2006 and 2007, the Company strategically sold certain assets at multi-dwelling properties where only video services were primarily deployed. The Company continues to operate properties where multiple services are deployed. To remain competitive, the Company intends to continue to own and operate properties at locations where multiple services can be deployed and manage properties where one or more services are deployed. Consistent with that strategy, from 2006 to the present, the Company expanded its servicing of third party clients (other system operators) through its call center. On March 1, 2013, the Company had approximately 159,000 owned and managed subscribers, with an additional 36,000 independent subscribers supported by its call center.

During 2008, the Company became involved in the business of installing video services in single family homes by acquiring 51% of the outstanding stock of Multiband NC Incorporated (NC) (formerly Michigan Microtech, Incorporated), from DirecTECH Holding Company Inc. (DTHC), a fulfillment agent for a DIRECTV, a national

satellite television company. In 2009, this acquisition was followed up by the acquisition of an 80% interest in another group of companies from DTHC, (Multiband NE Incorporated (NE), Multiband SC Incorporated (SC), Multiband EC Incorporated (EC), Multiband DV Incorporated (DV), Multiband MDU (MBMDU), and Multiband Security Incorporated (Security)). The Company also purchased an additional 29% ownership interest in NC . The remaining 20% of these operating entities were purchased in December 2009. As of December 31, 2011, the NC, SC, EC and NE entities were merged together with NE being the surviving entity. Effective February 20, 2012, NE has been renamed Multiband Field Services, Incorporated (MBFS). As of December 31, 2012, Security was merged into MBMDU and DV was merged into MBFS. The Company is currently the second largest independent DIRECTV field services provider in the United States.

Effective September 1, 2011, the Company purchased from WPCS International, Inc. (WPCS), two of their subsidiary corporations named WPCS International- Sarasota, Inc. and WPCS International-St. Louis, Inc. Effective November 1, 2011, these entities have been renamed Multiband Engineering and Wireless, Southeast, Inc. (SE) and Multiband Engineering and Wireless, Midwest, Inc. (MW). These entities provide engineering and construction services for the wired and wireless telecommunications industry,

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including public safety networks, renewable energy services including wind and solar applications and other design and construction services. Later in 2011, and in early 2012, the Company also purchased certain assets from Groupware International, Inc. and entered the cable television fulfillment business.

At March 1, 2013, the Company currently has operations in 19 states with 37 offices.

### Field Services Segment (FS)

The Company, through its FS segment, generates revenue from the installation and service of DIRECTV video programming for residents of single family homes under a contract with DIRECTV. DIRECTV is the largest provider of satellite television services in the United States with approximately 20 million subscribers. These video subscribers are owned and billed by DIRECTV. The FS segment functions as a fulfillment arm for DIRECTV. As a result, the Company does not directly compete with other providers for DIRECTV's business. Although DIRECTV competes with DISH, the other leading satellite television provider and incumbent providers of phone and telephone services for pay television customers, DIRECTV has its own marketing and competitive programs of which the Company is merely an indirect and passive recipient. The FS segment also provides similar installation services for certain broadband cable and internet providers and commercial customers.

The United States markets for satellite television subscribers and cable television viewers are significant. According to the Satellite Broadcasting and Communications Association, there were approximately 34.1 million paying satellite television subscribers in December 2012. According to the National Cable and Telecommunications Association, as of September 2012, the cable industry had approximately 56.8 million basic video customers and approximately 49.7 million high speed internet customers. The Company believes that the demand for its outsourced installation and maintenance services will remain steady as leading national providers continue to upgrade technology and invest in competitive marketing efforts.

### Multi-Dwelling Unit Segment (MDU)

The Company, through its MDU segment, bills customers for the voice, internet and video services it provides to residents of MDU facilities as an owner/operator of those subscribers. In addition, since 2004, the Company serves as a master system operator for DIRECTV, which allows it to offer satellite television services to residents of multi-dwelling-units through a network of affiliated operators.

As discussed above, the Company offers voice, data and video services directly to residents of the MDU market. Our experience in this market suggests that property owners and managers are always looking for a solution that will satisfy two market demands from customers. The first market demand from customers 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, television and internet services. Our service offering addresses these demands and provides the consumer several benefits, including:

- Lower Cost Per Service
- Blended Satellite and Cable Television Package
- Multiple Feature Local Phone Services (features such as call waiting, call forwarding and three-way calling)
- Better than Industry Average Response Times
- One Number for Billing and Service Needs
- One Bill for Local, Long Distance Cable Television and Internet
- "Instant On" Service Availability

In late 2005, the Company began to use its internal support center and billing platform to service third party clients.

In late 2006, DIRECTV provided the Company with the right to bill DIRECTV services directly to end users.

As we develop and market this package, we keep a marketing focus on two levels of customers for this product. The primary decision-makers are the property owners/managers. Their concerns are focused on delivering their residents reliability, quality service, short response times, minimized disruptions on the property, minimized alterations to the property and value added services. Each of these concerns is addressed in our contracts with the property owner, which includes annual reviews and 10 year terms as service providers on the property. The secondary customer is the end-user. We provide the property with on-going marketing support for their leasing agents to deliver clear, concise and timely information about 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 the Company'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, with an estimated 26 million households

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living in MDUs. We believe these statistics indicate stable markets with demand that is likely to deliver significant value to businesses that can obtain a subscriber base of any meaningful size.

### MDU Consumer Industry Analysis and Strategy

The Company offers video and, in some cases, data and voice to residents of multi-dwelling units primarily throughout the Midwest and the Southeast. Our primary competition in this market comes from the local incumbent providers of telephone and cable television services. The leading competitors in these services are the former Bell System Companies such as Verizon Communications (Verizon) and CenturyLink Telecommunications, Inc. (Century) and national cable companies such as Comcast Corporation (Comcast) and Time Warner (TW). These regional and national rivals have significant resources and are strong competitors. Nonetheless, we believe as a largely unregulated entity, we can be competitive on both price and service.

Regarding video services, we believe we have a significant consumer benefit in that we are establishing private rather than public television systems, which allows us to deliver a package 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. The pricing of our service is also untariffed which allows for flexible and competitive "bundling" of services.

Regarding data services, the general concern among consumers is the quality of the connection and the speed of the download. We believe our design provides the highest broadband connection speeds currently available. The approach we 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.

### Number of MDU Units/Customers

At March 11, 2013, the Company had approximately 159,000 owned and managed subscribers, with an additional 36,000 independent subscribers supported by its call center.

### Energy, Engineering & Construction Segment (EE&C)

Under this segment of the business, the Company provides engineering and construction services for the wired and wireless telecommunications industry, including public safety networks, renewable energy services including wind and solar applications and other design and construction services which are usually done on a project basis. We believe growth in public safety networks will continue as security and safety concerns, driven by, among other things, terrorism threats and weather emergencies, require further infrastructure buildouts. We also believe that research, development and investment in alternative and renewable energy sources will provide work for the Company as the United States looks to reduce its dependence on foreign oil imports.

### EE&C Backlog (in thousands)

As of December 31, 2012, we had a backlog of unfilled orders of approximately \$1,680 compared to approximately \$1,817 at December 31, 2011. We define backlog as the value of work-in-hand to be provided for customers as of a specific date where the following conditions are met (with the exception of engineering change orders): (i) the price of the work to be done is fixed; (ii) the scope of the work to be done is fixed, both in definition and amount; and (iii) there is an executed written contract, purchase order, agreement or other documentary evidence which represents a firm commitment by the customer to pay us for the work to be performed. These backlog amounts are based on contract values and purchase orders and may not result in actual receipt of revenue in the originally anticipated period or at all. We have experienced variances from time to time in the realization of our backlog because of project delays or cancellations resulting from external market factors and economic factors beyond our control and we may experience such delays or cancellations in the future. Backlog does not include new firm commitments which may be awarded to us by our customers from time to time in future periods. These new project awards could be started and



completed in this same future period. Accordingly, our backlog does not necessarily represent the total revenue that could be earned by us in future periods.

#### Employees

As of March 1, 2013, FS employed 2,956 full-time employees consisting of 57 management employees, 32 operational support personnel, 208 customer service employees, 2,551 technicians and 108 warehouse employees. As of that same date, MDU had 137 full-time employees, consisting of 3 in sales and marketing, 7 technicians, and 127 in customer service and related support. EE&C employed 71 full-time employees consisting of 47 technicians and 24 employees in operational support positions. In addition, the Company employed 148 full-time employees, including 8 management employees, 42 finance personnel, 43 information technology employees, 19 employees in human resources, 10 in marketing and 26 employees in operational support positions.

The Company has approximately 24% of its labor force covered by a collective bargaining agreement that expires in May 2013. The Company has a union contract with 757 full and regular part-time technicians employed at its Illinois, Indiana, Iowa,

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Kentucky (excluding Maysville) and Ohio (excluding Columbus) facilities which expires on May 11, 2013. The Company also has a contract with 68 union employees at its Boston South location which expires on November 14, 2014. The Company utilizes a contractor base for seasonality and work overflow but it cannot be certain that it could cover all jobs during a work outage, if one should occur. A reduction in productivity in any given period or our inability to meet guaranteed schedules may adversely affect our profitability; however, we have never experienced any employment-related work stoppages and consider our employee relations to be good.

### Item 1A

#### Risk Factors (in thousands)

##### General

Our business is subject to a number of risks discussed under the heading “Risk Factors” and elsewhere in this report. The principal risks facing our business include, among others, our dependence on DIRECTV, changes in technology, and economic conditions limiting the ability of DIRECTV’s customers to purchase upgrades and installations. There are also risks relating to the ownership of our common stock. You should carefully consider these factors, as well as all of the other information set forth in this Annual Report on Form 10-K. See “Risk Factors.”

##### Net Income Attributable to Multiband Corporation and Subsidiaries

The Company had net income attributable to Multiband Corporation and subsidiaries of \$2,606, \$7,044 and \$14,694 for the years ended December 31, 2012, 2011, and 2010 respectively.

If we cannot continue to deliver consistent levels of profitability from our operating activities, we may not be able to meet our:

- capital expenditure objectives;
- debt service obligations; or
- working capital needs.

##### Working Capital

On December 31, 2012, the Company had a working capital deficit of \$4,886 due to the amount of debt due over the next twelve months of \$17,396 and positive working capital of \$7,463 as of December 31, 2011. From January 1, 2013 until March 20, 2013, the Company made principal payments totaling \$8,731. On March 20, 2013, the Company entered into a new financing package with Fifth Third Bank, which consists of a \$20,000 term loan and a \$10,000 revolving line of credit. Proceeds from the financing package were used to pay-off its existing secured indebtedness. The Company believes the new debt facility significantly improves its liquidity however, if profitability does not continue into the future, the Company may not have adequate levels of working capital to meet its needs which may cause the need for additional financing.

##### Long-lived Assets

We have a significant amount of long-lived assets. If we should experience a significant decline in future profitability and/or should the market value for our long-lived assets decrease, some impairment to these assets could occur. If impairment occurs, it could materially and adversely affect our results of operations in those future periods.

##### Goodwill

The Company tests for impairment of its goodwill and intangible assets without a defined life. We tested for impairment of the FS and MDU segments which had goodwill as of November 30, 2012 using standard fair value measurement techniques. The Company concluded there was no goodwill impairment as of December 31, 2012. In

2011, there was an impairment charge of \$246 recorded for the FS segment relating to the goodwill with the subsidiary, Security. The installation contract supporting this business was terminated in November 2011. In 2010, the Company recorded an impairment charge of \$25 on the goodwill related to the US Install purchase . Should we experience a significant decline in future profitability, or our stock price declines and remains depressed, and/or should the business climate for satellite providers deteriorate, impairment to our goodwill could occur. If impairment occurs, it could be materially adverse to our results of operations in those periods.

#### Group Health and Workers' Compensation Insurance Coverage

The Company uses a combination of self-insurance and third-party carrier insurance with predetermined deductibles that cover certain insurable risks. The Company records liabilities for claims reported and claims that have been incurred but not reported, based on historical experience and industry data.

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Insurance and claims accruals reflect the estimated cost for group health and workers' compensation claims not covered by insurance. The insurance and claims accruals are recorded at the estimated ultimate payment amounts. Such insurance and claims accruals are based upon individual case estimates and estimates of incurred-but-not-reported losses using loss development factors based upon past experience and industry data.

During 2012 and 2011, the Company was self-insured for workers' compensation claims up to \$100 plus administrative expenses, for each occurrence. During 2010, the Company was self-insured for workers' compensation claims up to \$250 plus administrative expenses.

From 2010 through 2012, the Company was self-insured for health insurance for claims up to \$275 per claim where we expect most claims to occur. If any claim is in excess of \$275, such claims are covered under premium-based policies issued by insurance companies to coverage levels that we consider adequate. If either we exceed our coverage amounts too often and our premiums rise, or if a high number of claims are made for which we are responsible (because they are below the deductible), our profitability and cash flow may be adversely affected.

### Debt

As of December 31, 2012, the Company had a significant amount of debt due within the next twelve months. On March 20, 2013, the Company entered into a new financing arrangement with Fifth Third Bank (see Note 9), which provided the capital necessary to pay off the Company's existing indebtedness and to fund working capital needs. The new financing arrangement, which significantly reduced the amount of debt due within the next twelve months, contains certain financial covenants which are based on the Company's financial performance. If the Company is not able to comply with those covenants, additional financing may become necessary. Sources of financing, if needed, may include additional debt financing or the sale of equity (including the issuance of preferred stock) or other securities. We cannot be sure that any additional sources of financing or new capital will be available to us, available on acceptable terms, or permitted by the terms of our current debt. In addition, if we sell additional equity to raise funds, all shares of common stock currently outstanding will be diluted.

### Income Taxes

The Company has federal net operating losses of \$47,461 and state net operating losses of approximately \$45,966, at December 31, 2012, which, if not used, will expire from 2013-2032. Changes in the stock ownership of the Company have placed limitations on the use of these net operating loss carryforwards (NOLs). The Company has performed an IRC Section 382 study and determined that a total of five ownership changes had occurred since 1999. As a result of these ownership changes, the Company's ability to utilize its net operating losses is limited. Federal net operating losses are limited to a total of \$19,927, consisting of annual amounts of \$9,909 in 2013 and \$1,101 per year for each of the years 2014-2022 and then \$109 in 2023. State net operating losses are limited to a total of approximately \$44,505. We believe that \$27,534 of federal net operating losses and \$1,461 of state net operating losses will expire unused due to IRC Section 382 limitations. These limitations could be further restricted if additional ownership changes occur in future years. The amount of the deferred tax asset associated with the net operating losses that will expire due to the IRC Section 382 limitation is not included in net deferred tax assets. To the extent our use of net operating loss carryforwards are significantly limited, our income could be subject to corporate income tax earlier than it would be if we were able to use net operating loss carryforwards, which could result in lower profits.

### Pending Acquisition

On July 9, 2012, the Company entered into an Acquisition Agreement (Agreement) with MDU Communications International, Inc. (MDUC), a Delaware corporation. Upon the terms and subject to the conditions set forth in the Agreement, MDUC will merge with and into a wholly owned subsidiary of Multiband, (MBSUB), with MDUC continuing as the surviving corporation (Merger). MDUC would then be a wholly owned subsidiary of the Company.

On December 18, 2012, the Company announced that it had reached a conceptual agreement to amend the terms of the Agreement with MDUC. The terms of the Agreement would be amended to extend the deadline for completion of the acquisition from December 31, 2012 to February 28, 2013. Under the proposed terms of the amendment, the Company would acquire 100% of the outstanding stock of MDUC by issuing \$12,900 of a convertible, redeemable, three year, cumulative preferred stock instrument which would convert to common stock under certain conditions at \$4.00 per share. The preferred stock would carry a cumulative dividend coupon rate of 6.25% with dividends paid quarterly in cash. The preferred stock will be redeemable, in whole or in part, in cash, at par, (i) at any time within three years at the Company's discretion, or (ii) upon closing of a material financing of at least \$30,000, subject to any necessary Company lender consent. In addition, MDUC's current senior debt facility would need to be extended on terms satisfactory to the Company. Subsequently, in spite of the fact that the February 28, 2013 deadline has now expired, the Company and MDUC are continuing to discuss the completion of this transaction as soon as practical.

Deregulation

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Several regulatory and judicial proceedings have recently concluded, are underway or may soon be commenced that address issues affecting our 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, the Company's activities are specifically exempt from the need to tariff our services in MDU's. 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.

### Certain Anti-Takeover Effects

The Company is subject to Minnesota statutes regulating business combinations and restricting voting rights of certain persons acquiring shares of the Company. 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 the Company's securities, or the removal of incumbent management.

The Company's FS segment is highly dependent on its strategic alliance with DIRECTV and a major alteration or termination of that alliance could adversely affect the Company's business

The FS segment currently provides approximately 87.3% of our total revenues and most of these revenues are dependent on our relationship with DIRECTV. Accordingly, we are highly dependent on our relationship with DIRECTV. The Company has a Home Services Provider (HSP) agreement with DIRECTV which was renewed on November 1, 2012 and terminates October 2016. The term of this agreement will automatically renew for additional one year periods unless either DIRECTV or the Company gives written notice of termination at least 90 days in advance of expiration of the then current term. The agreement can be terminated on 180 days' notice by either party. DIRECTV may also change the terms of their agreement with the Company, among other things, to change our service areas and/or pricing, both of which have occurred in the past. The terms of the HSP agreement also contain specific operational requirements that impact how we provide service to and interact with DIRECTV customers, and which requirements directly affect how we budget, strategize and operate as a business. Some of these requirements include, but are not limited to: (a) required uniforms/appearance and tools for technicians; (b) limitations on advertising and signage utilized by us; (c) fleet specifications; (d) call center operations (response times, minimum hours of operation); (e) technician training and education standards; and (f) required hardware. Any adverse alteration or termination of our HSP agreement with DIRECTV would have a material adverse effect on our business. In addition, a significant decrease in the number of jobs the Company completes for DIRECTV could have a material adverse effect on our business, financial condition and results of operations.

Our FS segment revenues could be negatively affected by reduced support from DIRECTV

DIRECTV conducts promotional and marketing activities on national, regional and local levels. Due to our substantial dependence on DIRECTV, our revenues depend, in significant part, on: (i) the overall reputation and success of DIRECTV; (ii) the incentive and discount programs provided by DIRECTV and its promotional and marketing efforts for its products and services; (iii) the goodwill associated with DIRECTV trademarks; (iv) the introduction of new and innovative products by DIRECTV; (v) the manufacture and delivery of competitively-priced, high quality equipment and parts by DIRECTV in quantities sufficient to meet customers' requirements on a timely basis; (vi) the quality, consistency and management of the overall DIRECTV system; and (vii) the ability of DIRECTV to manage its risks and costs. If DIRECTV does not provide, maintain or improve any of the foregoing, if DIRECTV changes the terms of its incentive and discount programs, or if DIRECTV were sold or reduced or ceased operations, there could be a material adverse effect on our financial condition and results of operations even though alternate providers of satellite television services exist.

The Company's Multi-Dwelling unit (MDU) business strategy is also highly dependent on its strategic alliance with DIRECTV

Our master system operator agreement with DIRECTV was signed with an effective date of August 22, 2011. The initial term of the agreement is four years. The initial term will automatically renew thereafter for additional, individual one-year periods, unless either the Company or DIRECTV gives written notice of non-renewal at least ninety (90) days in advance of expiration of the then-current term. In October 2012, the initial term of the agreement was extended to a term of five years and the agreement now expires in August 2016. Similar to the terms of the HSP agreement, material terms of the MSO agreement regarding term, termination, pricing and service areas are subject to change, oftentimes in DIRECTV's discretion. Any adverse alteration or any termination of our current relationship with DIRECTV with respect to our MDU segment would have a material adverse effect on our business, financial condition and results of operations.

Our MDU segment growth initiative may not be successful or profitable

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The Company has a strategy for growth for our MDU segment and we have invested significant time, effort, and capital into developing our MDU infrastructure. If the Company is unable to generate consistent profitability in the MDU segment, it could have a material adverse effect on our business, financial condition and results of operations.

The Company may require additional debt financing or will be limited to stock-funded acquisitions in order to complete any material strategic acquisitions

The Company may require additional debt financing or will be limited to stock-funded acquisitions in order to complete any material strategic acquisitions. There is no assurance that additional financing will be available in the amounts or at the times required, or if it is, on terms acceptable or favorable to us. There is also no assurance that a target company would agree to a stock exchange or that our stock would not be diluted by such a stock exchange. If we are unable to obtain additional financing when and if needed or to do a stock exchange, our ability to grow through acquisitions will be limited.

Marketplace pressures could curtail our operations

The Company faces competition from others who are competing for a share of the FS and MDU markets, including other satellite companies, cable companies, telephone companies and other installers. Some of these companies have significantly greater assets and resources than we do. If we are unable to compete successfully with these companies, our market share could decrease which could have a material adverse effect on our business, financial condition and results of operations.

Changes in technology or consumer preference and demand could weaken the Company's competitiveness in the marketplace

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 our control. In addition, newer technologies, such as video-on-demand and delivery of programming content over the internet, are being developed, which could have a material adverse effect on our competitiveness in the marketplace if we are unable to adopt or deploy such technologies.

In addition, our business and operating results depend upon the overall appeal of DIRECTV's products and services to consumers. A decline in the popularity of existing products and services or the failure of new products and services to achieve and sustain market acceptance could result in reduced overall revenues, which could have a material adverse effect on our business, financial condition and results of operations. Consumer preferences with respect to entertainment are continuously changing, are difficult to predict and can vary over time. There can be no assurance that any of DIRECTV's current products and services will continue to be popular for any significant period of time or that any new products and services will achieve commercial acceptance. As such, changes in consumer preferences may cause our revenues and net income to vary, possibly significantly, between comparable periods.

Our business segment, Energy, Engineering and Construction (EE&C), faces uncertainty and unpredictable profitability.

We recently have focused on a new business segment called Energy, Engineering and Construction (EE&C), which provides engineering and construction services for the wired and wireless telecommunications industry, including public safety networks, renewable energy services including wind and solar applications and other design and construction services, mostly done on a project basis. We face intense competition from other providers of these services, which competitors may have more resources, and more dedicated, trained staff than we do, may have more customers, and may be able to provide these services at a higher volume or at lower rates than we do. If this new segment is not profitable, this could negatively impact our results of operations.

The Company's operations historically have fluctuated due to a number of seasonal factors. As a result, the Company's results of operations may fluctuate significantly from quarter to quarter.



Variations in our revenues and operating results occur quarterly 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 our expenses are relatively fixed, a variation in the number of customer engagements or the timing of the initiation or completion of those engagements can cause significant fluctuations in our operating results from quarter to quarter.

Amounts included in our EE&C backlog may not result in actual revenue or translate into profits.

As of December 31, 2012 and December 31, 2011, we had a backlog of unfilled orders of approximately \$1,680 and \$1,817 respectively. This backlog amount is based on contract values and purchase orders and may not result in actual receipt of revenue in the originally anticipated period or at all. In addition, contracts included in our backlog may not be profitable. We have from time to time experienced variances in the realization of our backlog because of project delays or cancellations resulting from

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external market factors and economic factors beyond our control and we may experience delays or cancellations in the future. If our backlog fails to materialize, we could experience a further reduction in revenue, profitability and liquidity.

The Company's operating results can be negatively affected by weather conditions

We perform a significant amount of our services outdoors. Adverse weather conditions may affect productivity in performing services or may temporarily prevent us from performing services for our customers. The effect of weather delays on projects that are under fixed price arrangements may be greater if we are unable to adjust the project schedule for such delays. A reduction in productivity in any given period or our inability to meet guaranteed schedules may adversely affect the profitability of our projects and operations.

Nationwide economic conditions may limit consumers' abilities to purchase our products and services in the future. While we believe the present status of the United States economy may actually assist us because consumers may stay home more for entertainment, if economic conditions deteriorate, there is no guarantee that consumers will continue to purchase DIRECTV at current levels or at all, and the need for our services may diminish, possibly materially. A significant decline in the need for our services could have a material adverse effect on our business, financial condition and results of operations.

The Company relies on key employees and needs skilled and trained personnel to conduct its operations. Excessive employee turnover could materially weaken its operations and/or reduce profitability

Our success depends on the continued employment of certain key personnel, including our executive officers. In particular, the loss of James L. Mandel, our Chief Executive Officer, or Steve M. Bell, our Chief Financial Officer and General Counsel, would harm our business and the employment relationships with both Mr. Mandel and Mr. Bell are terminable by us or each of them upon 90 days' written notice for any reason. If we were unable to continue to attract and retain a sufficient number of qualified key personnel, including key executives, our business, operating results and financial condition could be materially and adversely affected. In addition, our success depends on our ability to attract, develop, motivate and retain highly skilled 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. We have traditionally experienced material technician churn, which can have a significant impact on operations if we have an insufficient number of technicians at any given time to complete our current outstanding jobs. If we experience high levels of churn and are unable to attract, train and retain a sufficient number of qualified personnel, our business, operating results and financial condition could be materially and adversely affected.

Adverse results in legal proceedings could have a material adverse effect on our operations

We are subject to claims, regulatory processes and lawsuits that arise in the ordinary course of business. We accrue for such matters when a loss is considered probable and the amount of such loss or range of loss can be reasonably estimated. Some of these claims, if resolved or determined adversely, may be material to our results of operations and may have an adverse effect on our cash position or financial results.

Rising fuel costs could impact the Company's profitability

The Company cannot predict the price of the fuel it needs to operate its fleet. Price fluctuations are common and are outside of our control. These fluctuations are based on, among other things, political developments, supply and demand, and actions by oil and gas producers. Violence and political instability in oil producing countries can also impact prices. The Company has implemented programs and technologies that monitor fuel usage and employee driving habits, all done in an effort to maximize efficiencies. During 2011, DIRECTV implemented a fuel subsidy program which provided the Company with \$2,183 of additional revenue in 2012 and \$2,330 in 2011 to lessen the impact of increased fuel costs. As of the date of this report, the fuel subsidy program has not been initiated for 2013. There is no guarantee that this program will ever resume in the future. Any increase in fuel costs, or the elimination of the DIRECTV fuel subsidy program, could have a material adverse effect on our business, financial position or results

of operations.

#### Collective bargaining agreement

The Company has approximately 24% of its labor force covered by collective bargaining agreements that expires in May 2013. The Company utilizes a contractor base for seasonality and work overflow but it cannot be certain that it could cover all jobs during a work outage, if one should occur. A reduction in productivity in any given period or our inability to meet guaranteed schedules may adversely affect our profitability.

The Company's inability to adequately protect the confidential aspects of its technology and the products and services it sells could materially weaken its operations

We rely on a combination of trade secret, copyright and trademark laws, license agreements, and contractual arrangements with certain key employees to protect our proprietary rights and the proprietary rights of third parties from whom we license intellectual property. There can be no assurance that the legal protections afforded to us or the steps that we take will be adequate to prevent misappropriation of our intellectual property. We also rely on agreements with owners of multi-dwelling units who grant us the

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right of access to the premises for a specific period whereby we are allowed to offer our voice, data, and video services to individual residents of the properties. If it was determined that we have infringed or are infringing on the intellectual property rights of others, we 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 our business, financial condition and results of operations. Also, there can be no assurance that we would be able to develop non-infringing technology or that we could obtain a license on commercially reasonable terms, if at all. Our success depends in part on our ability to protect the proprietary and confidential aspects of our technology and the products and services that we sell or utilize.

### Diversification efforts may fail

In 2011, the Company entered the cable television fulfillment business and the engineering and specialty construction business. These new ventures were unprofitable in 2012 and may continue to be unprofitable in 2013.

### Risks Related to Our Financial Condition and Capital Requirements

The Company has a significant amount of accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts.

Within the EE&C segment, the Company extends credit to its customers as a result of performing work under contracts prior to billing for that work. At December 31, 2012 and 2011, in the EE&C segment, we had net accounts receivable of approximately \$951 and \$1,535 and costs and estimated earnings in excess of billings on uncompleted contracts of \$1,540 and \$998, respectively. The Company periodically assesses the credit risk of its customers and regularly monitors the timeliness of payments. Slowdowns in the industries the Company serves or bankruptcies or financial difficulties within the markets the Company serves, may impair the financial condition of one or more of its customers and may hinder their ability to pay the Company on a timely basis or at all. If any of these difficulties are encountered, the Company's cash flows and results of operations could be adversely impacted. Additionally, the Company could incur losses in excess of the current bad debt allowances provided as of December 31, 2012.

If the Company fails to accurately estimate costs associated with fixed-price contracts using the percentage-of-completion method, results may vary from previous estimates, which may adversely impact profitability and liquidity.

A substantial portion of revenue derived in the EE&C segment is from fixed price contracts. Under these contracts, the Company sets the price of services on an aggregate basis and assumes the risk that the costs associated with performance may be greater than anticipated. Revenue and profit on these contracts is recognized as the work progresses on a percentage-of-completion basis.

The percentage-of-completion method relies on estimates of total expected contract costs. These costs may be affected by a variety of factors, such as lower than anticipated productivity, conditions at work sites differing materially from what was anticipated at the time we bid on the contract and higher costs of materials and labor. Contract revenue and total cost estimates are reviewed and revised monthly as the work progresses, such that adjustments to profit resulting from revisions are made cumulative to the date of the revision. Adjustments are reflected in contract revenue for the period affected by these revised estimates. If estimates of costs to complete long-term contracts indicate a loss, we immediately recognize the full amount of the estimated loss.

If the Company fails to accurately estimate costs associated with fixed price contracts using the percentage-of-completion method, reported results may materially differ from previous estimates which could adversely impact profitability and liquidity.

The Company has limited working capital, which may require additional financing  
On December 31, 2012, the Company had a working capit