

MULTIBAND CORP  
Form 10-Q  
November 14, 2007

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

FORM 10-Q

- (Mark One)
- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES AND  
EXCHANGE ACT OF 1934  
FOR THE PERIOD ENDING SEPTEMBER 30, 2007  
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.)

**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](http://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

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act:

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

On November 8, 2007 there were 7,420,404 shares outstanding of the registrant's common stock, no par value, and 374,345 outstanding shares of the registrant's convertible preferred stock.

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**PART I. FINANCIAL INFORMATION****ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**

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

	Three Months Ended		Nine Months Ended	
	September 30, 2007 (unaudited)	September 30, 2006 (unaudited)	September 30, 2007 (unaudited)	September 30, 2006 (unaudited)
<b>REVENUES</b>	\$ 3,653,600	\$ 4,524,885	\$ 11,960,281	\$ 13,430,666
<b>COSTS AND EXPENSES</b>				
Cost of products and services (exclusive of depreciation and amortization shown separately below)	2,345,895	2,087,643	6,395,179	6,082,068
Selling, general and administrative	2,360,254	2,915,463	7,057,936	8,796,724
Depreciation and amortization	770,215	1,404,855	2,814,981	4,015,925
<b>Total Costs and Expenses</b>	<b>5,476,364</b>	<b>6,407,961</b>	<b>16,268,096</b>	<b>18,894,717</b>
<b>LOSS FROM OPERATIONS</b>	<b>(1,822,764)</b>	<b>(1,883,076)</b>	<b>(4,307,815)</b>	<b>(5,464,051)</b>
<b>OTHER EXPENSE</b>				
Interest expense	(108,847)	(306,672)	(430,264)	(936,876)
Other income (expense)	13,267	27,220	177,361	104,606
<b>Total Other Expense</b>	<b>(95,580)</b>	<b>(279,452)</b>	<b>(252,903)</b>	<b>(832,270)</b>
<b>LOSS FROM CONTINUING OPERATIONS</b>	<b>(1,918,344)</b>	<b>(2,162,528)</b>	<b>(4,560,718)</b>	<b>(6,296,321)</b>
<b>INCOME FROM DISCONTINUED OPERATIONS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,200</b>
<b>NET LOSS</b>	<b>(1,918,344)</b>	<b>(2,162,528)</b>	<b>(4,560,718)</b>	<b>(6,294,121)</b>
Preferred Stock Dividends	(1,793,297)	(302,990)	(2,153,698)	(3,088,438)
<b>LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS</b>	<b>\$ (3,711,641)</b>	<b>\$ (2,465,518)</b>	<b>\$ (6,714,416)</b>	<b>\$ (9,382,559)</b>
<b>BASIC AND DILUTED - LOSS PER COMMON SHARE</b>				
Loss from continuing operations	(.50)	(.36)	(.94)	(1.41)
Income from discontinued operations	.00	.00	.00	.00
<b>LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS</b>	<b>(.50)</b>	<b>(.36)</b>	<b>(.94)</b>	<b>(1.41)</b>
	7,356,413	6,893,702	7,177,435	6,677,676

**WEIGHTED AVERAGE SHARES  
OUTSTANDING – BASIC AND  
DILUTED**

See notes to condensed consolidated financial statements

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**MULTIBAND CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

*ASSETS*

	September 30, 2007 (unaudited)	December 31, 2006 (audited)
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,083,939	\$ 1,020,975
Accounts receivable, net	1,742,626	2,018,393
Inventories	149,447	343,815
Prepaid expenses and other	207,836	181,767
Current portion of notes receivable	6,463	6,116
Total Current Assets	3,190,311	3,571,066
<b>PROPERTY AND EQUIPMENT, NET</b>	<b>1,904,071</b>	<b>3,359,842</b>
<b>OTHER ASSETS</b>		
Goodwill	62,394	509,086
Intangible assets, net	4,833,992	9,124,980
Assets held for sale	-	1,244,236
Notes receivable – long-term, net	58,591	63,740
Other assets	126,157	113,106
Total Other Assets	5,081,134	11,055,148
<b>TOTAL ASSETS</b>	<b>\$ 10,175,516</b>	<b>\$ 17,986,056</b>

*LIABILITIES AND STOCKHOLDERS' EQUITY*

<b>CURRENT LIABILITIES</b>		
Checks issued in excess of cash in bank	\$ -	\$ 319,244
Current portion of long-term debt	1,686,356	1,255,994
Current portion of note payable – stockholder	-	24,739
Current portion of capital lease obligations	236,291	444,921
Accounts payable	3,201,033	2,557,409
Accrued liabilities	2,260,696	2,977,356
Customer deposits	60,582	61,332
Current liabilities of discontinued operations	-	125,000
Deferred service obligations and revenue	195,194	819,316
Mandatory redeemable preferred stock, 22,726 and 28,000 Class F preferred shares	227,256	280,000
Total Current Liabilities	7,867,408	8,865,311
<b>LONG-TERM LIABILITIES</b>		
Long-term debt, net	96,536	2,969,764
Capital lease obligations, net of current portion	298,121	491,672
Total Liabilities	8,262,065	12,326,747
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Cumulative convertible preferred stock, no par value:		
8% Class A (25,428 and 26,658 shares issued and outstanding, \$266,994 and \$279,909 liquidation preference)	382,208	400,657
10% Class B (4,070 and 7,470 shares issued and outstanding, \$42,735 and \$78,435 liquidation preference)	40,700	49,700
10% Class C (121,050 and 124,130 shares issued and outstanding, \$1,210,500 and \$1,241,300 liquidation preference)	1,557,710	1,593,476

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10% Class F (150,000 shares issues and outstanding, \$1,500,000 liquidation preference)	1,500,000	1,500,000
8% Class G (38,195 shares issued and outstanding, \$381,950 liquidation preference)	161,431	161,431
6% Class H (2.0 shares issued and outstanding, \$200,000 liquidation preference)	-	-
Variable rate % Class I (39,500 and 57,500 shares issued and outstanding, \$3,950,000 and \$5,750,000 liquidation preference)	-	-
Common stock, no par value (7,396,064 and 7,033,632 shares issued and outstanding)	29,268,635	26,873,255
Stock subscriptions receivable	(185,268)	(229,927)
Options and warrants	45,684,735	45,093,001
Accumulated deficit	(76,496,700)	(69,782,284)
Total Stockholders' Equity	1,913,451	5,659,309
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 10,175,516</b>	<b>\$ 17,986,056</b>

See notes to condensed consolidated financial statement

**MULTIBAND CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**NINE MONTHS ENDED**  
**SEPTEMBER 30,**

	<b>2007</b>	<b>2006</b>
	(unaudited)	(unaudited)
<b>OPERATING ACTIVITIES</b>		
Net loss	\$ (4,560,718)	\$ (6,294,121)
Adjustments to reconcile net loss to net cash flows from operating activities		
Depreciation and amortization	2,829,277	4,158,716
Amortization of deferred compensation	-	29,480
Amortization of original issue discount	29,746	358,725
Loss(gain) on sale of property and equipment and intangible assets	150,582	(105,782)
Gain on sale of URON Inc. subsidiary	-	(26,669)
Warrants issued for services	42,300	12,085
Gain on debt extinguishment	(118,040)	
Common stock issued for services	-	1,156
Stock based compensation expense	549,434	655,367
Change in allowance for doubtful accounts on accounts receivable	(97,500)	(165,130)
Change in reserve for stock subscriptions and interest receivable		36,434
Changes in operating assets and liabilities:		
Accounts receivable	373,588	533,336
Inventories	191,933	17,996
Prepaid expenses and other	182,272	63,868
Other assets	(13,051)	34,488
Change in allowance for notes receivable	45,000	-
Accounts payable and accrued liabilities	(320,485)	187,560
Deferred service obligations and revenue	(591,000)	201,037
Liabilities of discontinued operations	(125,000)	(375,000)
Customer deposits	(750)	(2,454)
Net cash flows from operating activities	(1,432,412)	(678,908)
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(271,588)	(756,706)
Purchases of intangible assets	-	(31,159)
Proceeds from sale of URON Inc. subsidiary	-	75,000
Proceeds from sale of property and equipment and intangible assets	2,639,869	50,000
Collections on notes receivable	4,802	2,478
Net cash flows to(from) investing activities	2,373,083	(660,387)
<b>FINANCING ACTIVITIES</b>		
Checks issued in excess of cash in bank	(319,244)	119,731
Payments on long-term debt	(146,405)	(695,877)
Payments on capital lease obligations	(191,405)	(167,821)
Payments on note payable to stockholder	(24,739)	(3,837)
Payments on mandatory redeemable preferred stock	(52,744)	(53,334)
Payments for stock issuance costs	(25,916)	(21,339)
Payments received on stock subscriptions receivable	62	5,938
Redemption of preferred stock	(77,099)	(25,135)
Preferred stock dividends	(40,217)	(114,496)

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Exercise of stock options	-	18,000
Net cash flows from financing activities	(877,707)	(938,170)
<b>INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>62,964</b>	<b>(2,277,465)</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of period	1,020,975	3,100,427
End of period	\$ 1,083,939	\$ 822,962

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## SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest, net of amortization of original issue discount	\$	411,477	\$	408,244
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## SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES

Conversion of accrued interest into common stock	15,680	-
Conversion of preferred stock into common stock	1,706,400	2,370,000
Current liabilities converted to stock	-	28,653
Conversion of notes payable into common stock	-	200,000
Conversion of accrued dividends into common stock	534,879	416,737
Intrinsic value of preferred dividends	13,884	-
Capital lease obligations related to property and equipment	-	465,242
Note payable issued for prepaid lease	44,407	-
Notes payable and other liens paid by MDUC as part of asset sale	1,713,785	-
Note payable issued in relation to the acquisition of Rand'M	-	127,360
Note payable issued in relation to the acquisition of Extreme Video	-	346,750
Common stock issued in relation to acquisition of Extreme Video	-	162,500
Sale of property and equipment and intangible assets for other current asset	-	361,094
Debt and interest assumed by Directech as part of asset sale	267,143	-
Distribution of URON, Inc. common stock as stock dividends	-	46,989
Deferred revenue related to service agreement with URON, Inc. in exchange for other current assets	-	116,500
Common stock issued for prepaid expense/service	164,337	-

See notes to condensed consolidated financial statements

**Note 1 - Unaudited Consolidated Financial Statements**

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. The consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2006, previously filed with the Securities and Exchange Commission.

**NOTE 2 - Summary of Significant Accounting Policies**

*Nature of Business*

Multiband Corporation 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 nine months ended September 30, 2007 and 2006, the Company incurred net losses from continuing operations of \$4,560,718 and \$6,296,321, respectively. At September 30, 2007, the Company had an accumulated deficit of \$76,496,700. The Company's ability to continue as a going concern is dependent on it ultimately achieving profitability and/or raising additional capital. Management intends to sell certain assets on a strategic basis for prices agreeable to the Company and/or 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 and operating lease obligations and fund the Company's future operations:

- 1.Reduction of operating expenses by controlling payroll, professional fees and other general and administrative expenses.
2. Potential earn-out proceeds from the sale of video subscriber assets completed in 2007.
3. Solicit additional equity investment in the Company by either issuing preferred or common stock.
4. Continue to market Multiband services and acquire additional multi-dwelling unit customers.
- 5.Control capital expenditures by contracting Multiband services and equipment through a landlord-owned equipment program.
6. Establish market for wireless internet services.
- 7.Expansion of call center support via sales of call center services to both existing and future system operators and to buyers of the Company's video subscribers.

*Principles of Consolidation*

The consolidated financial statements include the accounts of Multiband Corporation (MB) and its wholly owned subsidiaries, Minnesota Digital Universe, Inc. (MDU), Rainbow Satellite Group, LLC (Rainbow), Multiband Subscriber Services, Inc. (MBSS), and Multiband USA, Inc. (MBUSA). All significant intercompany transactions and balances have been eliminated in consolidation.

*Revenue 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 as products are shipped based on FOB shipping point terms when title passes to customers.

The Company earns revenues from five sources: 1) Voice, video and data communication products which are sold and installed, 2) Multiband user charges to multiple dwelling units, 3) MBUSA user charges to timeshares, 4) MDU earns revenue primarily through the activation of and residual fees on video programming services, and 5) Revenue generated by the support center for billing and call center services provided to third party customers.

Customers contract for both the purchase and installation of voice and data networking technology products and certain video technologies products. 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.

Revenue generated from activation of 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 reports the aforementioned voice, data, and video 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.

We offer some products and services that are provided by third party vendors. We review the relationship between us, the vendor and the end customer on an individual basis to assess whether revenue should be reported on a gross or net basis. As an example, our resold satellite digital television is reported on a net basis.

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.

Revenue generated by the support center to service third party subscribers by providing billing and call center support services is recognized in the period the related services are provided.

Multiband, Rainbow, MDU and MBUSA user charges are recognized as revenues in the period the related services are provided in accordance with SAB 104. Any amounts billed prior to services being provided are reported as deferred service obligations and revenues.

#### *Goodwill and Other Intangible Assets*

We periodically evaluate goodwill and other intangible and long-lived assets for potential impairment indicators. Our judgments regarding the existence of impairment indicators are based on legal factors, market conditions and operational performance of our business segments. Future events could cause us to conclude that impairment indicators exist and that goodwill and other intangible and long-lived assets are impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations. Goodwill was \$62,394

and \$509,086 at September 30, 2007 and December 31, 2006, respectively, and is recorded as part of our Multiband Corp. segment. The reduction in goodwill during 2007 is due to sales of subscribers to MDU Communications "MDUC" (see Note 3).

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Components of intangible assets are as follows:

	September 30, 2007		December 31, 2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Intangible assets subject to amortization				
Domain name	\$ 83,750	\$ 83,750	\$ 83,750	\$ 83,750
Right of entry contracts	1,474,050	733,187	8,955,558	3,591,598
Subscriber lists	9,697,879	5,605,094	9,697,879	4,411,865
Debt issuance costs	499,837	499,493	499,837	485,198
Total	11,755,516	6,921,524	19,237,024	8,572,411
Impairment of intangibles	-	-	-	1,539,633
Total including impairment	\$ 11,755,516	\$ 6,921,524	\$ 19,237,024	\$ 10,112,044

Amortization of intangible assets was \$519,519 and \$898,539 for the three months ended September 30, 2007 and 2006, respectively. For the nine months ended September 30, 2007 and 2006, amortization of intangible assets was \$1,829,272 and \$2,651,022 respectively. Amortization of debt issuance costs of \$14,296 and \$142,790 for the nine months ended September 30, 2007 and 2006, respectively, is included in interest expense. Estimated amortization expense of intangible assets for the years ending December 31, 2007, 2008, 2009, 2010, 2011 and thereafter is \$2,295,170, \$1,805,035, \$1,760,586, \$623,864, \$48,139, \$144,766, respectively. The weighted average remaining life of the intangibles is 2.9 years with right of entry average life of 4.7 years and customer subscriber lists of 2.6 years as of September 30, 2007. The reduction in intangible value during 2007 is due to sales of subscribers to Directech MDU "Directech" and MDU Communications "MDUC" (see Note 3). The reduction in intangible value during 2006 is due to a sale of subscribers to Consolidated Smart Broadband Systems "CSBS" (see Note 3). During 2006, the Company recorded an impairment charge to intangible assets of \$1,539,633. Assets held for sale at December 31, 2006 do not include intangible assets or goodwill.

#### Share-Based Compensation

The Company recognizes share-based compensation costs on a straight-line basis over the requisite service period of the award, which is generally the option vesting term. For the three months ended September 30, 2007 and 2006, total share-based compensation expense of \$158,001 (\$.02 per share) and \$169,846 (\$.02 per share) was included in selling, general and administrative expenses, respectively. For the nine months ended September 30, 2007 and 2006, total share-based compensation expense of \$549,434 (\$.08 per share) and \$655,367 (\$.10 per share) was included in selling, general and administrative expenses, respectively. Estimated share based compensation expense for the years ending December 31, 2007, 2008, 2009, 2010, 2011 is \$742,479, \$663,608, \$95,061, \$10,543 and \$0, respectively. This is an estimate based on options currently outstanding and therefore this projected expense could be more in the future.

In determining the compensation cost of the options granted during the three and nine months ended September 30, 2007 and 2006, as specified by SFAS No. 123R, 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:

Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006

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Risk-free interest rate	4.50%	4.88%	4.58%	4.73%
Expected life of options granted	10 Years	10 Years	10 Years	10 Years
Expected volatility range	236%	216%	236%	215%
Expected dividend yield	0%	0%	0%	0%

The Company's determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of variables. These variables include, but are not limited to the Company's expected stock price volatility, and actual and projected stock option exercise behaviors and forfeitures.

*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 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 nine months ended September 30, 2007 and 2006 were excluded from the calculation of diluted loss per share as their effects were anti-dilutive due to the Company's net losses for the periods.

*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, MCS, where the Company bills voice, data and video subscribers as a principal; and MDU where the Company as a master service operator for DirecTV receives net cash payments for managing video subscribers through its network of system operators. These video subscribers are billed by DirecTV.

*Recent Accounting Pronouncements*

In February 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115" ("SFAS No. 159"). SFAS No. 159 permits entities to elect to measure many financial instruments and certain other items at fair value. Upon adoption of SFAS No. 159, an entity may elect the fair value option for eligible items that exist at the adoption date. Subsequent to the initial adoption, the election of the fair value option may only be made at initial recognition of the asset or liability or upon a re-measurement event that gives rise to new-basis accounting. The decision about whether to elect the fair value option is applied on an instrument-by-instrument basis, is irrevocable and is applied only to an entire instrument and not only to specified risks, cash flows or portions of that instrument. SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value nor does it eliminate disclosure requirements included in other accounting standards. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS No. 159 on its financial position and results of operations.

**NOTE 3 - Sales Transactions**

The Company had \$1,244,236 of assets held for sale on December 31, 2006 related to video assets located in California. Effective March 1, 2007, the Company, pursuant to an asset purchase agreement entered into October 19, 2006 (the "agreement"), completed the sale of substantially all of its video assets located in California to Consolidated Smart Broadband Systems, LLC (CSBS). The purchase price paid by CSBS was \$1,214,000 at closing plus an additional \$100,000, paid on March 30, 2007. The ultimate purchase price to be paid by the CSBS for the assets will be determined, in part, by an earnout formula detailed in the agreement tied to free subscriber cash flow and length of right of entry contracts. The ultimate price paid for the assets will not be known until February 2008 due to the aforementioned contingencies.

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the Company classified the assets as held for sale, and recorded an impairment charge for the year ended December 31, 2006, that was determined based upon the excess net book value of assets sold over the known proceeds from the sale. Any



consideration received for the assets during future accounting periods based upon the earnout formula will be recognized as a gain on sale of assets in that period. The results of the sale of the California assets resulted in a loss of \$40,110, which is included in the selling, general and administrative expenses of the accompanying consolidated statements of operations for the nine months ended September 30, 2007.

Effective March 31, 2007, the Company completed the sale of substantially all of its video assets located in Ohio to Directech MDU (“Dtech”). The purchase price paid by Dtech was \$745,790. The purchase price consisted of the assumption of a note payable for the gross value of \$329,036 and \$416,754 cash paid at closing on April 20, 2007. The sale of the Ohio assets resulted in a gain on sale in the amount of \$324,626, which is included in the selling, general and administrative expenses of the accompanying consolidated statements of operations for the nine months ended September 30, 2007. The proceeds of \$683,897, including assumed liabilities of \$267,143, less the net book value of the MCS segment assets sold amounted to a gain on sale of \$324,626.

As of September 30, 2007, the Company had sold to MDU Communications “MDUC” approximately 9,000 subscribers and the related assets located in 174 multi-family properties located throughout Florida, Illinois, New York, Colorado, New Jersey, and Texas. Total proceeds for MCS assets sold amounted to approximately \$2,875,000. The sale resulted in a loss of \$ 436,946 which is included in the selling, general and administrative expenses of the accompanying consolidated statements of operations for the three and nine months ended September 30, 2007. The aforementioned loss primarily resulted from fewer multi-family properties being sold to MDUC than was originally intended in the party’s asset purchase agreement. Certain properties could not be sold due to the Company’s inability to obtain some property owners consent to assignment. The difference in the mix of properties ultimately transferred to MDUC increased the loss on sale compared to what the Company originally estimated upon execution of the asset purchase agreement in July 2007.

Effective October 16, 2007, the Company sold to MDUC approximately 800 subscribers and the related assets located in 7 multi-family properties located in Illinois and New York. Total proceeds for the MCS assets amounted to \$312,490.

These sales were not reported as a discontinued operation because the assets sold did not constitute a segment or component of the Company’s business, and the Company retained assets and on-going service rights associated with the video subscribers.

#### **NOTE 4 - Stock Transactions**

Stock warrants activity is as follows for the nine months ended September 30, 2007:

	<b>Number of Warrants</b>	<b>Weighted - Average Exercise Price</b>
Outstanding, December 31, 2006	3,488,329	\$ 8.04
Granted	14,202	3.23
Exercised	-	-
Cancelled	(406,074)	(9.29)
Outstanding, September 30, 2007	3,096,457	\$ 7.85

On July 18, 2007, the Company’s Board of Directors authorized a 1 for 5 reverse stock split of the Company’s common stock, effective August 7, 2007. In conjunction therewith, the Company reduced its authorized capital shares from 100 million to 20 million to conform to Minnesota statutory requirements. The Company in accordance with FAS 128 “Earning per Share” gave retroactive effect to the reverse stock split transaction in the accompanying balance sheet and the statement of operations.

#### **NOTE 5 - Accrued Liabilities**

Accrued liabilities consisted of the following:

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Payroll and related taxes	\$ 401,715	\$ 535,919
Accrued preferred stock dividends	668,566	810,249
Accrued liability - vendor chargebacks	630,800	1,103,414
Other	559,615	527,774
<b>Total</b>	<b>\$ 2,260,696</b>	<b>\$ 2,977,356</b>

**NOTE 6 - Business Segments**

The Company has three reporting 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.

Segment disclosures are as follows:

	Multiband Corp.	MDU	MCS	Total
Three months ended September 30, 2007:				
Revenues	\$ -	\$ 2,569,486	\$ 1,084,114	\$ 3,653,600
Income (loss) from operations	(1,038,768)	461,068	(1,245,064)	(1,822,764)
Identifiable assets	1,897,511	5,392,234	2,885,771	10,175,516
Depreciation and amortization	39,846	397,850	332,519	770,215
Capital expenditures	1,987	-	28,720	30,707

	Multiband Corp.	MDU	MCS	Total
Three months ended September 30, 2006:				
Revenues	\$ -	\$ 2,630,299	\$ 1,894,586	\$ 4,524,885
Income (loss) from operations	(1,041,312)	962,819	(1,804,583)	(1,883,076)
Identifiable assets	2,445,687	6,788,833	12,147,891	21,382,411
Depreciation and amortization	56,589	401,079	947,187	1,404,855
Capital expenditures	7,413	-	169,244	176,657

**NOTE 6 - Business Segments (continued)**

	Multiband Corp.	MDU	MCS	Total
Nine months ended September 30, 2007:				
Revenues	\$ -	\$ 7,619,689	\$ 4,340,592	\$ 11,960,281
Income (loss) from operations	(3,220,516)	2,508,408	(3,595,707)	(4,307,815)
Identifiable assets	1,897,511	5,392,234	2,885,771	10,175,516
Depreciation and amortization	139,573	1,208,592	1,466,816	2,814,981
Capital expenditures	1,987	-	269,601	271,588

	Multiband Corp.	MDU	MCS	Total
Nine months ended September 30, 2006:				
Revenues	\$ -	\$ 7,785,688	\$ 5,644,978	\$ 13,430,666
Income (loss) from operations	(3,246,183)	3,016,733	(5,234,601)	(5,464,051)

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Identifiable assets	2,445,687	6,788,833	12,147,891	21,382,411
Depreciation and amortization	175,594	1,203,234	2,637,097	4,015,925
Capital expenditures	32,332	-	724,374	756,706

Segment disclosures are provided by entity to the extent practicable under the Company's accounting system.

**NOTE 7 - Commitments and Contingencies**

*Legal Proceedings*

The Company is involved in legal actions in the ordinary course of its business. As of September 30, 2007, 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 August 2005. 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 70.3% and 63.7% of total revenue for the three and nine months ended September 30, 2007, respectively. Revenues generated from DirecTV for the three and nine months ended September 30, 2006 were 58.1% and 58.0% of total revenue, respectively.

*Gain on extinguishment of debt*

Effective June 30, 2007, the Company revised its debt agreement with Lexus Tower I, L.P. to pay for certain leasehold improvements at its Fargo, ND location, resulting in a reduction of the outstanding principal in the amount of \$118,040. The note is payable in 37 monthly installments of \$2,737 including interest at 4%. This modification was accounted for as a gain on extinguishment of debt in accordance with EITF 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments". The gain of \$118,040 for the nine months ended September 30, 2007 was included in other income of the consolidated statement of operations.

*Current portion of long-term debt*

As of September 30, 2007, the Company failed to meet the compliance covenants of its lender, Convergent Capital, with respect to having minimum net worth of three million dollars and positive EBITDA for the quarter ended September 30, 2007 of \$150,000. Convergent Capital provided the company with a waiver for both covenants for the quarter ended September 30, 2007. The Company's management believes it is probable that the violation will not be cured at measurement dates that are within the next twelve months. In accordance with EITF 86-30 "Classification of obligations when a violation is waived by the creditor", the Company has classified the debt as current as of September 30, 2007.

*Guaranty*

On March 1, 2006, Corporate Technologies, LLC (CTLLC), a subsidiary of North Central Equity, LLC (the purchaser of the MBS business segment) signed a lease with Lexstar Tower I Limited Partnership whereby CTLLC assumed the lease obligation for substantially all of the first floor space the Company is renting in Fargo, North Dakota for the period beginning March 1, 2006 to February 28, 2011. Pursuant to the aforementioned lease, the Company entered into a guaranty whereby the Company, in the event of a default or early termination of the lease by CTLLC, is obligated to perform CTLLC's lease obligation during months 43-60 of the lease. The Company remains obligated to provide free rent to CTLLC through March 31, 2007 as defined in the purchase agreement of MBS. This guaranty has no effect on the Company's consolidated financial statements for the periods ended September 30, 2007 and 2006. However, should Multiband eventually have to perform on the guaranty in the future, it could be liable for \$348,881 worth of rent payments plus any associated charges such as property taxes and common area maintenance.



**NOTE 8 - Income Taxes**

At September 30, 2007, the Company's federal and state net operating loss carryforwards were estimated to be approximately \$41,000,000 and \$32,700,000, respectively.

Effective January 1, 2007, the Company adopted FASB Interpretation 48 (FIN 48), "Accounting for Uncertainty in Income Taxes" to address the non-comparability in reporting tax assets and liabilities resulting from a lack of specific guidance in FASB Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes" on the uncertainty in income taxes recognized in an enterprise's financial statements. Specifically, FIN 48 prescribes (a) a consistent recognition threshold and (b) a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides related guidance on derecognition, classification, interest and penalties, accounting interim periods, disclosure and transition. To the extent interest and penalties would be assessed by taxing authorities on any underpayment of income taxes, such amounts would be accrued and classified as a component of income tax expenses on the consolidated statement of operations. The adoption of FIN 48 did not impact the consolidated financial statements for the three and nine months ended September 30, 2007. The Company's federal and state tax returns are potentially open to examinations for fiscal years 2004-2006.

**NOTE 9 - Subsequent Events**

Effective October 16, 2007, the Company sold to MDUC approximately 800 subscribers and the related assets located in 7 multi-family properties located in Illinois and New York. Total proceeds for the MCS assets were \$312,490 (Note 3). The Company anticipates the loss from this sale to be immaterial.

On October 31, 2007, Multiband Corporation and DirecTech Holding Co (DTHC) entered into a Plan of Merger and Share Exchange Agreement whereby each common stock share of DTHC will be exchanged for 24.9308 shares of Multiband Common Stock. DTHC currently has approximately one million common shares outstanding. Subsequent to the merger, if completed, DTHC will be a wholly owned subsidiary of Multiband Corporation.



## **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. Words such as “anticipates”, “may”, “will”, “should”, “believes”, “estimates”, “expects”, “intends”, “plans”, “predicts”, “will likely result”, “will continue”, or similar expressions are used in forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements including those made in this statement. In order to comply with the terms of the Private Securities Litigation Reform Act, the Company notes that a variety of factors could cause the Company's actual results and experience to differ materially from the anticipated results or Company's forward-looking statements.

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

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

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

### **OUR COMPANY**

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

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 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).

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 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. As of September 30, 2007, the Company has sold 24,000 owned subscriptions. Multiband's call center, pursuant to the terms of the applicable asset purchase agreements related to those sales, will continue to support these subscribers by performing billing, dispatch, call center and other services. At September 30, 2007, the Company had approximately 94,000 owned and managed subscriptions with an additional 24,300 subscribers supported by the call center. In October 2007, the Company sold an additional 800 owned subscribers, and together with the previously sold subscribers, effectively disposed of the remainder of the Rainbow Satellite Group, LLC assets.

**SELECTED CONSOLIDATED FINANCIAL DATA**

	DOLLAR AMOUNTS AS A PERCENTAGE OF REVENUES THREE MONTHS ENDED		DOLLAR AMOUNTS AS A PERCENTAGE OF REVENUES NINE MONTHS ENDED	
	September 30, 2007 (unaudited)	September 30, 2006 (unaudited)	September 30, 2007 (unaudited)	September 30, 2006 (unaudited)
REVENUES	100%	100%	100%	100%
COST OF PRODUCTS & SERVICES (Exclusive of depreciation and amortization shown below)	64.2%	46.1%	53.5%	45.3%
SELLING, GENERAL & ADMINISTRATIVE	64.6%	64.4%	59.0%	65.5%
DEPRECIATION & AMORTIZATION	21.1%	31.0%	23.5%	29.9%
LOSS FROM OPERATIONS	-46.5%	-41.5%	-36.0%	-40.7%
INTEREST EXPENSE & OTHER, NET	-2.6%	-6.2%	-2.1%	-6.2%
LOSS FROM CONTINUING OPERATIONS	-52.5%	-47.7%	-38.1%	-46.9%
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	-	-	-	-
NET LOSS	-52.5%	-47.7%	-38.1%	-46.9%

**RESULTS OF OPERATIONS***Revenues*

Total revenues decreased 19.3% to \$3,653,600 for the quarter ended September 30, 2007 as compared to \$4,524,885 for the quarter ended September 30, 2006. Revenues for the nine month period ended September 30, 2007 decreased 10.9% to \$11,960,281 from \$13,430,666 for the same period in 2006. This decrease is primarily due to sales of approximately 28,000 owned subscriptions between the comparable periods. The Company expects revenues to continue to decrease in 2007 over 2006 due to sales of subscribers in the MCS portfolio. The Company throughout 2007 intends to continue to strategically sell unprofitable owned assets as prudent and redeploy the proceeds from those assets into facilitating growth of its managed subscriber services including its support center and its master system operator program. The Company believes it can ultimately increase revenues by selling its support center services to its network of system operators and by providing ancillary programs for voice and data services to that same network.

Revenues in the third quarter of fiscal year 2007, for the MCS segment, decreased 42.8% to \$1,084,114 as compared to \$1,894,586 in the third quarter of fiscal 2006. Revenues for the nine month period ended September 30, 2007, for the MCS segment, decreased 23.1% to \$4,340,592 from \$5,644,978 for the same period in 2006. These decreases are primarily due to sales of 28,000 owned subscriptions during the comparable periods offset by an increase in call center revenue.

Revenues in the third quarter of 2007 for the MDU segment decreased 2.3% to \$2,569,486 as compared to \$2,630,299 in the third quarter of fiscal 2006. Revenues for the nine month period ended September 30, 2007, for the MDU segment, decreased 2.1% to \$7,619,689 from \$7,785,688 for the same period in 2006. These decreases are primarily due to the aforementioned decrease in the number of owned subscribers and a related decrease in agent fees during the comparable period.

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

The Company's cost of products and services, increased by 12.4% to \$2,345,895 for the quarter ended September 30, 2007 as compared to \$2,087,643 for the similar quarter last year. For the nine months ended September 30, 2007, cost of products and services were \$6,395,179 compared to \$6,082,068 in the prior year, a 5.1% increase. Overall costs of products and services as a percentage of revenue did increase between the nine months ended September 30, 2007 and the nine months ended September 30, 2006 due to specific vendor price increases without corresponding increase in price to customers, certain commission payments, and allocation of certain support center costs to costs of products and services. In 2006 those support center costs were immaterial due to the small number of subscribers supported by the call center.

Costs of products and services for the MCS segment for the quarter were \$772,985 compared to \$992,614 in the same quarter last year, a 22.1% decrease. For the nine months ended September 30, 2007, cost of products and services were \$2,865,173 for the MCS segment, compared to \$3,010,770 in the prior year, a 4.8% decrease. In 2007, the decrease in costs of products and services in the MCS segment is directly related to a decrease in programming and circuit charges between the comparable periods due to a decreased subscriber number.

Costs of products and services for the MDU segment for the quarter were \$1,572,910 compared to \$1,095,029 in the same quarter last year, a 43.6% increase. For the nine months ended September 30, 2007, cost of products and services were \$3,530,006 for the MDU segment, compared to \$3,071,298 in the prior year, a 14.9% increase. The increase of costs of products and services in the MDU segment for the quarter and year to date is primarily related to an increase in bulk subsidy and promotional commission costs due to system operators.

*Selling, General and Administrative Expenses*

Selling, general and administrative expenses decreased 19.0% to \$2,360,254 in the quarter ended September 30, 2007, compared to \$2,915,463 in the prior year's quarter. Selling, general and administrative expenses were, as a percentage of revenues, 64.6% for the quarter ended September 30, 2007 and 64.4% for the similar period a year ago. This decrease is primarily a result of decreases in payroll and employee expenses, property maintenance expenses and stock option expense between the comparable periods. The Company anticipates that selling, general and administrative expenses, exclusive of stock option expenses, will continue to decrease in 2007 due to reduced payroll expenses from the sale of subscribers in the MCS portfolio.

For the nine months ended September 30, 2007, these expenses decreased 19.8% to \$7,057,936 compared to \$8,796,724 for the nine months ended September 30, 2006. As a percentage of revenue, selling general and administrative expenses were 59.0% for the nine months ended September 30, 2007, compared to 65.5% for the same period in 2006. This percentage decrease is primarily due to the decreases in payroll and employee expenses, property maintenance expenses, stock option expense and a gain on sale of assets between the comparable periods.

*Depreciation and Amortization*

Depreciation and amortization expense decreased 45.2% to \$770,215 for the quarter ended September 30, 2007 compared to \$1,404,855 in the prior year's quarter. For the nine months ended September 30, 2007, depreciation and amortization expense decreased 29.9% to \$2,814,981 compared to \$4,015,925 for the nine months ended September 30, 2006. This decrease in depreciation and amortization is due to the sale of tangible and intangible assets in various states. (Note 3).

### *Loss from Operations*

The Company, in the third quarter of 2007, incurred a loss from operations for its combined operating business segments of \$1,697,764 versus a loss of \$1,883,076 during the prior year's period. Loss from operations from said segments was \$4,182,815 during the first nine months of 2007, compared to \$5,464,051 during the first nine months of 2006. The MDU segment showed a profit from operations of \$461,068 and \$2,508,408, for the three and nine months ended September 30, 2007 compared to profits of \$962,819 and \$3,016,733 for the three and nine months ended September 30, 2006. For the third quarter of 2007, the MCS segment showed a loss from operations of \$1,120,064 compared to a loss of \$1,804,583 for the same quarter last year. For the nine months ended September 30, 2007, the MCS segment showed a loss from operations of \$3,470,707 compared to a loss of \$5,234,601 for the same period in 2006. The Multiband Corporation segment, which has no revenues, showed a loss from operations of \$1,038,768 for the three months ended September 30, 2007 and \$3,220,516 for the nine months ended September 30, 2007 compared to losses of \$1,041,312 and \$3,246,183 for the same periods last year. The Multiband Corporation loss is expected to remain constant in future periods as corporate overhead is expected to be consistent with current levels. The Company expects the MDU segment profitability in future periods to stabilize as the year to date reduction in profits for this segment has been significantly impacted by the loss of agent fees tied to owned subscriber sales. These sales have now largely been completed. In addition to the sale of subscribers, the Company hopes that it can continue to mitigate its loss in the MCS segment by reducing related payroll expenses. At the same time, the Company will look to add subscribers in its MDU division since the on-going selling, general and administrative expenses to service those subscribers can be more variable than fixed.

### *Interest Expense*

Interest expense was \$108,847 for the quarter ended September 30, 2007, versus \$306,672 for the similar period a year ago, primarily reflecting a decrease in the Company's debt and original issue discount expense. Amortization of original issue discount was \$13,157 and \$111,907 for the three months ended September 30, 2007 and 2006.

Interest expense was \$430,264 for the nine months ended September 30, 2007 and \$936,876 for the same period last year, primarily reflecting the aforementioned decrease in the Company's debt and original issue discount expense. Amortization of original issue discount was \$29,746 for the nine months ended September 30, 2007 and \$358,725 for the same period last year.

### *Net Loss*

In the third quarter of fiscal 2007, the Company incurred a net loss of \$1,918,344 compared to a net loss of \$2,162,528 for the third fiscal quarter of 2006. For the nine months ended September 30, 2007, the Company recorded a net loss of \$4,560,718 compared to \$6,294,121 for the nine months ended September 30, 2006.

### **Liquidity and Capital Resources**

During the nine months ended September 30, 2007 and 2006, the Company recorded a net loss of \$4,560,718 and \$6,294,121 respectively. Net cash used by operations during the nine months ended September 30, 2007 was \$1,432,412 as compared to cash used by operations during the nine months ended September 30, 2006 of \$678,908. Principal payments on current long-term debt over the next 12 months are expected to total \$186,356. As of September 30, 2007, the Company failed to meet the compliance covenants of its lender, Convergent Capital, with respect to having minimum net worth of three million dollars and positive EBITDA for the quarter ended September 30, 2007 of \$150,000. Convergent Capital provided the company with a waiver for both covenants for the quarter ended September 30, 2007. The Company's management believes it is probable that the violation will not be cured at measurement dates that are within the next twelve months. In accordance with EITF 86-30 "Classification of obligations when a violation is waived by the creditor", the Company has classified the debt as current as of September

30, 2007.

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Cash and cash equivalents totaled \$1,083,939 at September 30, 2007 versus \$1,020,975 at December 31, 2006. Working capital deficit for the nine months ended September 30, 2007 decreased to \$4,677,097 as compared to \$5,294,245, at December 31, 2006, primarily due to net proceeds received from the sale of video assets to CSBS, Dtech and MDUC (see Note 3), during 2007. Total debt was reduced in the nine months ended September 30, 2007 as the Company continued to retire financing debt and certain notes were paid off in conjunction with asset sales. The Company had a material decrease in accounts receivable for the period ended September 30, 2007 versus the period ended December 31, 2006 due to sales of assets. Accounts payable and accrued liabilities combined remained relatively constant in total from December 31, 2006 to September 30, 2007. Net cash flows from investing activities totaled \$2,373,083 compared to (\$660,387) for the comparable period reflecting the sale of video assets to CSBS, Dtech and MDUC, previously mentioned herein.

The Company experienced a material decrease in revenues between the quarter ended September 30, 2007 and the quarter ended September 30, 2006. For the remainder of 2007, the Company intends to continue to strategically sell unprofitable owned assets as prudent and redeploy the proceeds from those assets into facilitating growth of its managed subscriber services including its support center and its master system operator program. The Company believes it can increase revenues by selling its support center services to its network of system operators and by providing ancillary programs for voice and data services to that same network.

Management intends to sell certain assets on a strategic basis for prices agreeable to the Company and/or 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 and operating lease obligations and fund the Company's operations through 2007:

1. Reduction of operating expenses by controlling payroll, professional fees and other general and administrative expenses.
2. Potential earn-out proceeds from the sale of video subscriber assets completed in 2007.
3. Solicit additional equity investment in the Company by either issuing preferred or common stock.
4. Continue to market Multiband services and acquire additional multi-dwelling unit customers.
5. Control capital expenditures by contracting Multiband services and equipment through a landlord-owned equipment program.
6. Establish market for wireless internet services.
7. Expansion of call center support via sales of call center services to both existing and future system operators and to buyers of the Company's video subscribers.

Management of the Company believes that cash on hand, as of September 30, 2007, combined with capital resources and the ability to monetize intangible subscriber assets, as was done in the sale of assets to MDUC, is adequate to meet the anticipated liquidity and capital resource requirements of its business for the next 12 months.

#### *Capital Expenditures*

The Company used \$271,588 for capital expenditures during the nine months ended September 30, 2007, as compared to \$756,706 in the similar period last year. Capital expenditures consisted of project build-outs and equipment



acquired for internal use. Overall capital expenditures in 2007 are expected to decrease significantly as the Company intends to build out fewer services in 2007 than in 2006.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

### Impairment of Long-Lived Assets

The Company's long-lived assets include property, equipment and leasehold improvement. At September 30, 2007, the Company had net property and equipment of \$1,904,071, which represents approximately 18.7% 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, which may be material. During the nine months ended September 30, 2007 and 2006, the Company did not record any impairment losses related to long-lived assets.

### Impairment of Goodwill

At year end, we test goodwill for impairment. If indicators of impairment are determined to exist, we test goodwill for impairment quarterly. Our judgments regarding the existence of impairment indicators are based on legal factors, market conditions and operational performance of our operating segments. Future events could cause us to conclude that impairment indicators exist and that goodwill associated with our operating segments which amounts to \$62,394 as of September 30, 2007, may be impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations. During the three months ended September 30, 2007 and 2006, the Company did not record any impairment losses related to goodwill.

### Impairment of Intangible Assets

The intangible assets consist of rights of entry contracts, customer cable lists, debt issuance costs, domain name and access contracts. These intangibles are being amortized over their estimated useful lives ranging from 18 to 180 months. If significant changes would occur to the estimated future cash flows associated with these intangibles, the Company would determine if there is impairment and reduce the value of intangibles based on the discounted present value of such cash flows. At September 30, 2007, the Company had net intangibles of \$4,833,992 which represented approximately 47.5% of the Company's total assets. During the nine months ended September 30, 2007 and 2006, the Company did not record any impairment losses related to intangible assets.

### Inventories

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

### Share-Based Payments

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standard No. 123 (revised 2004), *Share-Based Payment* (SFAS 123(R)), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options based on fair values. The Company's determination of fair value of share-based payment awards is based on the date of grant using an option-pricing model which incorporates a number of highly complex and subjective variables. These variables include, but are not limited to, the Company's expected stock price volatility and estimates regarding projected employee stock option exercise behaviors and forfeitures. The Company recognizes the expense related to the fair value of the award straight-line over the vesting period.



### Revenue 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. Discontinued operations revenues were recognized as products were shipped based on FOB shipping point terms when title passes to customers.

The Company earns revenues from four sources: 1) Voice, video and data communication products which are sold and installed, 2) Multiband user charges to multiple dwelling units, 3) MBUSA user charges to timeshares, and 4) MDU earns revenue primarily through the activation of and residual fees on video programming services.

Customers contract for both the purchase and installation of voice and data networking technology products and certain video technologies products. 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.

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 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 MBUSA user charges are recognized as revenues in the period the related services are provided in accordance with SAB 104. Any amounts billed prior to services being provided are reported as deferred service obligations and revenues.

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

The Company is not subject to any material interest rate risk as any current lending agreements are at a fixed rate of interest except for the Convergent Capital note of \$2,500,000, which varies from 11% to 14%, dependent on the

Company's common stock price. On July 21, 2007, \$1,000,000 of the Convergent Capital note was paid in conjunction with the sale of subscribers to MDU Communications (see Note 3). Each 1% change in interest impacts the statement of operations \$15,000 annually.

Multiband also has variable rate percentage of Class I convertible preferred stock which pays dividends based on a basis of prime plus one percent (8.75% at September 30, 2007).

## **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. There was no change in the Company's internal control over financial reporting during the Company's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

The Company is involved in legal actions in the ordinary course of its business. As of September 30, 2007, 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.

### **ITEM 1A. RISK FACTORS**

Our operations and our securities are subject to a number of risks, including but not limited to those described below. If any of the following risks actually occur, the business, financial condition or operating results of Multiband and the trading price or value of our common stock could be materially adversely affected.

#### **General**

Multiband, since 1998, has taken several significant steps to reinvent and reposition itself to take advantage of opportunities presented by a shifting economy and industry environment.

Recognizing that voice, data and video technologies in the late twentieth century were beginning to systematically integrate as industry manufacturers were evolving technological standards from "closed" proprietary networking architectures to a more "open" flexible and integrated approach, Multiband, between 1998 and 2001, purchased three competitors which, in the aggregate, possessed expertise in data networking, voice and data cabling and video distribution technologies.

In early 2000, Multiband created its MCS division, employing the aforementioned expertise, to provide communications and entertainment services (local dial tone, long distance, high-speed internet and expanded satellite television services) to residents in MDUs on one billing platform, which the Company developed internally.

#### **Net Losses**

The Company had net losses of \$4,560,718 for the nine months ended September 30, 2007, \$10,183,723 for the year ended December 31, 2006, and \$7,475,000 for the year ended December 31, 2005. The Company may never be profitable.

The prolonged effects of generating losses without additional funding may restrict our ability to pursue our business strategy. Unless our business plan is successful, an investment in our common stock may result in a complete loss of an investor's capital.

If we cannot achieve profitability from operating activities, we may not be able to meet:

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

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## **Goodwill**

In June 2001, the Financial Accounting Standards Board (FASB) adopted Statement of Financial Accounting Standards (SFAS) 142, "Goodwill and Other Intangible Assets" which changed the amortization rules on recorded goodwill from a monthly amortization to an annual test of "impairment" for fiscal years beginning after December 15, 2001. In 2006, the Company recorded an impairment charge to goodwill of \$417,465 related to the sale of video assets to CSBS (see Note 3). As of September 30, 2007, the Company had remaining recorded goodwill of \$62,394 primarily related to the purchase of Rainbow Satellite Group, LLC. At September 30, 2007 the Company did not note any indications of impairment related to goodwill.

## **Deregulation**

Several regulatory and judicial proceedings have recently concluded, are underway or may soon be commenced that address issues affecting operations and those of our competitors, which may cause significant changes to our industry. We cannot predict the outcome of these developments, nor can we assure you that these changes will not have a material adverse effect on us. Historically, we have been a reseller of products and services, not a manufacturer or carrier requiring regulation of its activities. Pursuant to Minnesota statutes, our Multiband activity is specifically exempt from the need to tariff our services in 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.

## **Dependence on Strategic Alliances**

Several suppliers or potential suppliers of Multiband, such as McLeod, WorldCom, WS Net, XO Communications and others have filed for bankruptcy in recent years. While the financial distress of its suppliers or potential suppliers could have a material adverse effect on Multiband's business, Multiband believes that enough alternate suppliers exist to allow the Company to execute its business plans. The Company is also highly dependent on its Master System Operator agreement with DirecTV. The initial term of the agreement, expires in August 2008, and provides for two additional two-year renewals if the Company has a minimum number of paying video subscribers in its system operator network. Although an alternate provider of satellite television services, Echostar, exists, the termination of its agreements with DirecTV could have a material adverse effect on Multiband's business.

## **Changes in Technology**

A portion of our projected future revenue is dependent on public acceptance of broadband and expanded satellite television services. Acceptance of these services is partially dependent on the infrastructure of the internet and satellite television which is beyond Multiband's control. In addition, newer technologies, such as video-on-demand, are being developed which could have a material adverse effect on the Company's competitiveness in the marketplace if Multiband is unable to adopt or deploy such technologies.

## **Attraction and Retention of Employees**

Multiband's success depends on the continued employment of certain key personnel, including executive officers. If Multiband were unable to continue to attract and retain a sufficient number of qualified key personnel, its business, operating results and financial condition could be materially and adversely affected. In addition, Multiband's success depends on its ability to attract, develop, motivate and retain highly skilled and educated professionals with a wide variety of management, marketing, selling and technical capabilities. Competition for such personnel is intense and is expected to increase in the future.





## **Intellectual Property Rights**

Multiband relies on a combination of trade secret, copyright and trademark laws, license agreements, and contractual arrangements with certain key employees to protect its proprietary rights and the proprietary rights of third parties from which Multiband licenses intellectual property. Multiband also relies on agreements with owners of MDUs which grant the Company rights of access for a specific period to MDU premises whereby Multiband is allowed to offer its voice, data, and video services to individual residents of the MDUs. If it was determined that Multiband infringed the intellectual property rights of others, it could be required to pay substantial damages or stop selling products and services that contain the infringing intellectual property, which could have a material adverse effect on Multiband's business, financial condition and results of operations. Also, there can be no assurance that Multiband would be able to develop non-infringing technology or that it could obtain a license on commercially reasonable terms, or at all. Multiband's success depends in part on its ability to protect the proprietary and confidential aspects of its technology and the products and services it sells. There can be no assurance that the legal protections afforded to Multiband or the steps taken by Multiband will be adequate to prevent misappropriation of Multiband's intellectual property.

## **Variability of Quarterly Operating Results**

Variations in Multiband's revenues and operating results occur from quarter to quarter as a result of a number of factors, including customer engagements commenced and completed during a quarter, the number of business days in a quarter, employee hiring and utilization rates, the ability of customers to terminate engagements without penalty, the size and scope of assignments and general economic conditions. Because a significant portion of Multiband's expenses are relatively fixed, a variation in the number of customer projects or the timing of the initiation or completion of projects could cause significant fluctuations in operating results from quarter to quarter.

## **Certain Anti-Takeover Effects**

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

## **Volatility of Multiband's Common Stock**

The trading price of our common stock has been and is likely to be volatile. The stock market has experienced extreme volatility, and this volatility has often been unrelated to the operating performance of particular companies. Investors may not be able to sell the common stock at or above the price they paid for their common stock, or at all. Prices for the common stock will be determined in the marketplace and may be influenced by many factors, including variations in our financial results, changes in earnings estimates by industry research analysts, investors' perceptions of us and general economic, industry and market conditions.

## **Future Sales of Our Common Stock May Lower Our Stock Price**

If our existing shareholders sell a large number of shares of our common stock, the market price of the common stock could decline significantly. The perception in the public market that our existing shareholders might sell shares of common stock could depress our market price.

## **Competition**

We face competition from others who are competing for a share of the MDU market, including other satellite companies, cable companies and telephone companies. Some of these companies have significantly greater assets and resources than we do.

**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.

**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: November 14, 2007

By: /s/ James L. Mandel

\_\_\_\_\_  
*Chief Executive Officer*

Date: November 14, 2007

By: /s/ Steven M. Bell

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*Chief Financial Officer*  
*(Principal Financial and Accounting Officer)*