MULTIBAND CORP
Form 10-Q
May 20, 2009

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
x EXCHANGE ACT OF 1934
FOR THE PERIOD ENDING MARCH 31, 2009
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

(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 x No ¨

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 o Accelerated filer o
Non-accelerated filer x (do not check if a smaller reporting company) Smaller reporting company o

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

Yes o No x

On, May 15, 2009 there were 9,650,690 shares outstanding of the registrant's common stock, no par value, and 291,618 outstanding shares of the registrant's convertible preferred stock.

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

MULTIBAND CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Three Months Ended March 31, 2009 (unaudited)	Three Months Ended March 31, 2008 (unaudited)
REVENUES	$ 62,158	$ 5,714
COSTS AND EXPENSES		
Cost of products and services (exclusive of depreciation and amortization shown separately below)	47,316	3,820
Selling, general and administrative	13,740	1,855
Depreciation and amortization	3,285	738
Impairment of assets	-	58
Total costs and expenses	64,341	6,471
LOSS FROM OPERATIONS	(2,183)	(757)
OTHER EXPENSE		
Interest expense	(855)	(100)
Interest income	7	-
Other income	250	40
Total other expense	(598)	(60)
NET LOSS BEFORE INCOME TAXES AND NONCONTROLLING INTEREST IN SUBSIDIARIES	(2,781)	(817)
PROVISION FOR INCOME TAXES	100	29
NET LOSS	(2,881)	(846)
LESS: NET INCOME (LOSS) ATTRIBUTABLE TO THE NONCONTROLLING INTEREST IN SUBSIDIARIES	(296)	18
NET LOSS ATTRIBUTABLE TO MULTIBAND CORPORATION AND SUBSIDIARIES	(2,585)	(864)
Preferred stock dividends	73	3,881
LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (2,658)	$ (4,745)
LOSS PER COMMON SHARE – BASIC AND DILUTED:		
LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (0.28)	$ (0.56)

Weighted average common shares outstanding – basic and diluted	9,650	8,498

See accompanying notes to the unaudited condensed consolidated financial statements

MULTIBAND CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)

	Three Months Ended March 31, 2009 (unaudited)	Three Months Ended March 31, 2008 (unaudited)
NET LOSS	$ (2,585)	$ (864)
OTHER COMPREHENSIVE INCOME, NET OF TAX:		
Unrealized gains on securities:		
Unrealized holding gains arising during period	30	209
COMPREHENSIVE LOSS	$ (2,555)	$ (655)

See accompanying notes to the unaudited condensed consolidated financial statements

MULTIBAND CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS
(in thousands)

	March 31, 2009 (unaudited)	December 31, 2008 (audited)
CURRENT ASSETS		
Cash and cash equivalents	$ 3,640	$ 4,346
Securities available for sale	76	46
Accounts receivable, net	12,099	3,437
Other receivable – related party	2,290	7,666
Inventories	16,241	1,903
Prepaid expenses and other	4,310	1,273
Current portion of notes receivable	61	61
Total Current Assets	38,717	18,732
PROPERTY AND EQUIPMENT, NET	8,217	2,033
OTHER ASSETS		
Goodwill	36,817	1,095
Intangible assets, net	28,674	3,668
Notes receivable – long-term, net of current portion	63	39
Other assets	2,119	476
Total Other Assets	67,673	5,278
TOTAL ASSETS	$ 114,607	$ 26,043

See accompanying notes to the unaudited condensed consolidated financial statements

MULTIBAND CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY
(in thousands, except share and liquidation preference amounts)

	March 31, 2009 (unaudited)	December 31, 2008 (audited)
CURRENT LIABILITIES		
Mandatory redeemable preferred stock, 5,000 and 15,000 Class F preferred shares	$ 50	$ 150
Line of credit	40	-
Short term debt	764	-
Current portion of long-term debt	1,618	1,609
Current portion of capital lease obligations	420	311
Accounts payable	42,053	8,274
Accrued liabilities	22,549	4,435
Deferred service obligations and revenue	1,530	1,488
Total Current Liabilities	69,024	16,267
LONG-TERM LIABILITIES		
Long-term debt, net of current portion	33,860	346
Capital lease obligations, net of current portion	415	317
Total Liabilities	103,299	16,930
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Cumulative convertible preferred stock, no par value:		
8% Class A (14,171 shares issued and outstanding, $148,796 liquidation preference)	213	213
10% Class B (2,270 and 2,570 shares issued and outstanding, $23,835 and $26,985 liquidation preference)	23	26
10% Class C (113,780 and 114,080 shares issued and outstanding, $1,137,800 and $1,140,800 liquidation preference)	1,478	1,482
10% Class F (150,000 shares issued and outstanding, $1,500,000 liquidation preference)	1,500	1,500
8% Class G (11,595 shares issued and outstanding, $115,950 liquidation preference)	48	48
6% Class H (2.0 shares issued and outstanding, $200,000 liquidation preference)	-	-
Common stock, no par value (9,650,690 and 9,642,374 shares issued and outstanding)	37,771	37,688
Stock subscriptions receivable	(70)	(84)
Options and warrants	46,158	46,038
Accumulated other comprehensive income – unrealized gain on securities available for sale	76	45
Accumulated deficit	(83,578)	(81,314)
Total Stockholders' Equity	3,619	5,642
Noncontrolling interest in subsidiaries	7,689	3,471
Total Equity	11,308	9,113
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 114,607	$ 26,043

See accompanying notes to the unaudited condensed consolidated financial statements

MULTIBAND CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	THREE MONTHS ENDED MARCH 31,	
	2009 (unaudited)	2008 (unaudited))
OPERATING ACTIVITIES		
Net loss	$ (2,881)	$ (846)
Adjustments to reconcile net loss attributable to Multiband Corporation and subsidiaries to net cash provided from operating activities:		
Depreciation and amortization	3,285	738
Amortization of imputed interest discount	35	10
Gain on debt extinguishment	-	(30)
Impairment of goodwill, intangibles and property and equipment	-	58
Change in allowance for doubtful accounts on accounts receivable	(205)	(15)
Change in reserve for stock subscriptions and interest receivable	14	(20)
Expense related to repricing of warrants	29	-
Stock based compensation expense	91	212
Changes in operating assets and liabilities:		
Accounts receivable	(6,348)	294
Inventories	(207)	697
Prepaid expenses and other	(1,076)	(85)
Other assets	(30)	(21)
Accounts payable and accrued liabilities	8,184	(1,711)
Deferred service obligations and revenue	(45)	407
Net cash flows from operating activities	846	(312)
INVESTING ACTIVITIES		
Purchases of property and equipment	(873)	(42)
Checks issued in excess of bank balance with the purchase of 80% of outstanding stock of DirecTECH operating entities	(369)	-
Cash acquired via purchase of NC (formerly Michigan Microtech, Inc. (MMT))	-	4,044
Cash collected on other receivables – related party acquired with the purchase of NC (formerly Michigan Microtech, Inc. (MMT))	-	2,815
Purchase of US Install	-	(101)
Purchases of intangible assets	(26)	-
Collections on notes receivable	5	-
Net cash flows from investing activities	(1,263)	6,716
FINANCING ACTIVITIES		
Payments on long-term debt	(43)	(10)
Payments on capital lease obligations	(107)	(63)
Net repayment on line of credit	(4)	-
Payment on mandatory redeemable preferred stock	(100)	(15)

Proceeds from issuance of long-term debt		-		100
Redemption of preferred stock		(6)		(19)
Preferred stock dividends		(29)		(38)
Net cash flows from financing activities		(289)		(45)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(706)		6,359
CASH AND CASH EQUIVALENTS - Beginning of Period		4,346		944
CASH AND CASH EQUIVALENTS - END OF PERIOD	$	3,640	$	7,303

See accompanying notes to the unaudited condensed consolidated financial statements

MULTIBAND CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	THREE MONTHS ENDED MARCH 31, 2009	2008
Cash paid for interest, net of amortization of OID and interest discount	$ 95	$ 67
Cash paid for federal and state income taxes	530	-
Non-cash investing and financing transactions:		
Reduction of stock subscription receivable via cancellation of common stock	-	61
Purchase of 51% of ownership of MMT via issuance of notes payable and common stock, net of discount for imputed interest	-	5,783
Purchase of property and equipment via increase in capital lease obligations	107	13
Purchase of US Install via issuance of common stock	-	103
Acquisition of securities available for sale upon expiration of contingent rights	-	209
Intrinsic value of preferred dividends	1	1
Conversion of Class I preferred stock to common stock	-	3,745
Conversion of Class G preferred stock to common stock	-	100
Conversion of accrued dividends into common stock	83	86
Debt and accrued interest paid with issuance of common stock	-	20
Increase in short term debt via offset to accounts payable	159	-
Purchase of 80% of outstanding stock of DirecTECH operating entities via issuance of short and long term notes payable	39,900	-
Purchase of 80% of outstanding stock of DirecTECH operating entities via issuance of accrued contingent consideration	1,608	-
Reduction of notes payable via reduction of related party receivable in connection with the purchase of 80% of outstanding stock of DirecTECH operating entities	5,844	-
Reduction of notes payable with issuance notes payable in connection with acquisition	300	-
Purchase of 29% of outstanding stock of NC (formerly MMT) via issuance of short and long term notes payable	1,660	-
Purchase of 80% of outstanding stock of DirecTECH operating entities via payment to escrow in 2008	500	-

See accompanying notes to the unaudited condensed consolidated financial statements

MULTIBAND CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2009 AND 2008
(in thousands, except for share amounts)

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 unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2008, 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 and single family home 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 three months ended March 31, 2009 and 2008, the Company incurred net losses of $2,585 and $864, respectively. At March 31, 2009, the Company had an accumulated deficit of $83,578. The Company's ability to continue as a going concern is dependent on it maintaining profitability and/or raising additional capital. Management may sell, if prudent, 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 2009:

1. Initiate and grow its Home Service Provider (HSP) business by eliminating competitive HSP providers from certain of its core markets.
2. Reduction of operating expenses by reducing training costs through the lowering of technician turnover, managing professional fees and other general and administrative expenses.
3. Evaluation and reduction of excess inventory including such factors as anticipated usage, inventory turnover, inventory levels and product demand levels.
4. Obtain additional debt financing.
5. 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.

6. Solicit additional equity investment in the Company by either issuing preferred or common stock.

Principles of Consolidation

The 2008 consolidated financial statements include the accounts of Multiband Corporation (MBCorp) and its wholly owned subsidiaries, Minnesota Digital Universe, Inc. (MDU), Multiband Subscriber Services, Inc. (MBSS), and Multiband USA, Inc. (MBUSA). In addition, effective March 1, 2008, the Company acquired a 51% interest in Multiband nc, inc. (NC) ((formerly Michigan Microtech, Inc. (MMT)) and have also included NC's results of operations and cash flow for the one month ended March 31, 2008 and the financial position as of March 31, 2008 in the consolidated financial statements for that period.

In addition, effective January 2, 2009, the Company purchased 80% of the issued and outstanding shares of common stock of all of the DirecTECH Holding Co. (DTHC) operating subsidiaries (DirecTECH) (an additional 29% of Multiband nc, inc. (NC) (formerly Michigan Microtech, Inc. (MMT)), 51% of which was previously purchased effective March 1, 2008 (see Note 3) and 80% of Multiband ne, inc. (NE), Multiband sw, inc. (SW), Multiband ec, inc. (EC), Multiband mdu, inc. (MBMDU), Multiband dc, inc. (DC) and Multiband Security, Inc. (Security) (see Note 3)). The noncontrolling interest in subsidiaries on the unaudited condensed consolidated balance sheet (formerly Minority Interest) and statement of operations represents DTHC's 20% ownership of Multiband ne, inc. (NE), Multiband sw, inc. (SW), Multiband ec, inc. (EC), Multiband nc, inc. (NC), Multiband mdu, inc. (MBMDU), Multiband dc, inc. (DC) and Multiband Security, Inc. (Security). The 2009 consolidated financial statements include the accounts of all wholly owned subsidiaries and the newly acquired companies (DirecTECH). All significant intercompany transactions and balances have been eliminated in consolidation.

MULTIBAND CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2009 AND 2008
(in thousands, except for share amounts)

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) collectability is reasonably assured; and (iv) product delivery has occurred or services have been rendered. The Company recognizes revenue as services are performed and complete.

The Company earns HSP segment revenue as follows:

- installation and service of DirecTV video programming for residents of single family homes
- installation of home security systems and internet services

The Company has home services provider (HSP) agreements with DirecTV which allow the Company to install and activate DirecTV video programming services for residents of single family homes. As a DirecTV HSP, the Company earns revenue for installing and servicing DirecTV video customers pursuant to predetermined rates set by DirecTV which may vary from time to time. Revenue is recognized upon completion of the delivery and installation of equipment. DirecTV reimburses the Company for substantially all DirecTV equipment used for customer installation related to the HSP segment.

HSP segment installation and services revenues are recognized in the period the related services are provided in accordance with SAB 104. MDU segment 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.

The Company earns MDU segment revenue as follows:

1. from voice, video and data communications products which are sold and installed
2. direct billing to user charges to multiple dwelling units, through the activation of, enhancement of, and residual fees on video programming services provided to residents of multiple dwelling units

Revenue generated from activation of video programming services is earned in the month of activation. According to Multiband's Master System Operator 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, a variable amount depending on the number of activations in a given month, and a variable amount for coordinating improvements of systems used to deliver enhanced programming services. 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 MDU 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.

MULTIBAND CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2009 AND 2008
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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 revenue 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.

MDU segment 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.

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 and has the ability to fulfill the terms of the contract.

The Company applies Emerging Issues Task Force Issue No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)" (EITF 06-3). EITF 06-3 concluded that the presentation of taxes imposed on revenue-producing transactions (sales, use, value added and excise taxes) on either a gross (included in revenues and costs) or a net (excluded from revenues) basis is an accounting policy that should be disclosed. The Company's policy is to present taxes imposed on revenue-producing transactions on a net basis.

Deferred Revenue

The Company invoices for certain installation upgrade projects upon order of project equipment. Revenue is deferred on these projects until the equipment is installed.

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 $36,817 and $1,095 at March 31, 2009 and December 31, 2008, respectively, and is recorded as part of our MDU and HSP segments. The increase in goodwill during 2009 is due to the purchase of DirecTECH (see Note 3).

Goodwill by business segment consists of the following:

	MBCorp	MDU	HSP	Total
Balance, December 31, 2008	$ -	$ 50	$ 1,045	$ 1,095
Acquisitions	-	341	35,381	35,722

Balance, March 31, 2009	$	-	$	391	$	36,426	$	36,817

MULTIBAND CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2009 AND 2008
(in thousands, except for share amounts)

Components of intangible assets are as follows:

	March 31, 2009		December 31, 2008	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Intangible assets subject to amortization				
Right of entry contracts	$ 3,061	$ 785	$ 801	$ 526
Contracts with DirecTV	36,902	10,504	11,502	8,060
Customer contracts	102	102	102	86
Total	40,065	11,391	12,405	8,672
Impairment of intangibles	-	-	-	65
Total including impairment	$ 40,065	$ 11,391	$ 12,405	$ 8,737

Amortization of intangible assets was $2,654 and $517 for the three months ended March 31, 2009 and 2008, respectively. Estimated amortization expense of intangible assets for the remainder of the year ending December 31, 2009 and for the years ending December 31, 2010, 2011, 2012, 2013, 2014 and thereafter is $7,827, $9,147, $8,146, $2,830, $192, $144 and $265, respectively. Right of entry contracts contain $123 of contracts that have not been placed in service, therefore no amortization expense has been recorded. The weighted average remaining life of the intangibles is 3.10 years with right of entry contracts average life of 5.50 years and contracts with DirecTV of 2.91 years as of March 31, 2009.

Stock-Based Compensation

The Company applies SFAS No. 123R “Share-Based Payment” (“SFAS 123R”), which requires companies to measure and recognize compensation expense for all stock-based payments at fair value. SFAS 123R is being applied on the modified prospective transition method and therefore the Company has not restated results for prior periods. The financial statements for the three months ended March 31, 2009 and 2008 recognize compensation cost for the portion of outstanding awards which have vested during the year. The Company recognizes stock-based compensation costs on a straight-line basis over the requisite service period of the award, which is generally the option vesting term. The Company recognizes stock-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 March 31, 2009 and 2008 total share-based compensation expense of $91 ($.01 per share) and $212 ($.02 per share), respectively, was included in selling, general and administrative expenses. As of March 31, 2009, there was $226 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 3.31 years. 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 months ended March 31, 2009 and 2008, 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	
	March 31, 2009	March 31, 2008
Risk-free interest rate	1.43%	2.99%
Expected life of options granted	5.0 Years	6.5 Years
Expected volatility range	95%	94%
Expected dividend yield	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. An option's expected term is the estimated period between the grant date and the exercise date of the option. As the expected-term period increases, the fair value of the option and the compensation cost will also increase. The expected-term assumption is generally calculated using historical stock option exercise data. The Company does not have historical exercise data to develop such an assumption. In cases where companies do not have historical data and where the options meet certain criteria, SEC Staff Accounting Bulletin 107 ("SAB 107") provides the use of a simplified expected-term calculation. Accordingly, the Company calculated the expected terms using the SAB 107 simplified method.

In January 2009, the Company issued 80 shares of stock options with a Black-Scholes valuation of $72 to four directors of the Company. These seven year stock options were immediately vested and were issued as long-term incentive compensation pursuant to the Company's 2000 Non-employee Directors Stock Compensation Plan.

In January 2009, the Company issued 214 shares of stock options with a Black-Scholes valuation of $193 to two officers of the Company. These seven year stock options vest over four years and were issued as long-term incentive compensation pursuant to the Company's 1999 Stock Compensation Plan.

MULTIBAND CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2009 AND 2008
(in thousands, except for share amounts)

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 months ended March 31, 2009 and 2008 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, HSP (Home Service Provider), where the Company receives net cash payments for the installation and service of DirecTV (DTV) video programming for residents of single family homes; and MDU, where the Company acts as a master service operator for DirecTV, receives net cash payments for managing video subscribers through its network of system operators who are billed by DirecTV and also directly bills voice, data and video subscribers as a principal. The previously filed Form 10-K business segments disclosed the MCS segment which is now reported within the MDU segment.

Income Taxes

We account for income taxes under the liability method in accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"). Deferred tax liabilities are recognized for temporary differences that will result in taxable amounts in future years. Deferred tax assets are recognized for deductible temporary differences and tax operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the periods in which the deferred tax asset or liability is expected to be realized or settled. We assess the likelihood that our deferred tax assets will be recovered from future taxable income and record a valuation allowance to reduce our deferred tax assets to the amounts we believe to be realizable. We concluded that a full valuation allowance against our U.S. deferred tax assets was appropriate as of March 31, 2009 and December 31, 2008.

Reclassifications

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

MULTIBAND CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2009 AND 2008
(in thousands, except for share amounts)

NOTE 3 – Business Acquisitions

Effective January 2, 2009, the Company purchased 80% of the issued and outstanding shares of common stock of all of the DTHC operating subsidiaries (DirecTECH) (an additional 29% of NC (formerly MMT), 51% of which was previously purchased effective March 1, 2008 and 80% of NE, SW, EC, MBMDU, DC and Security. DTHC, a fulfillment agent for a national satellite television company, DirecTV, specializes in the provisioning of satellite TV to single family homes. The purpose of this acquisition was to increase the Company's business of installing video services in single family homes (HSP segment). The purchase price totaled $40,400 plus other consideration valued at $1,608 as of the acquisition date. The $40,400 consists of three parts; 1) $500 in cash which was paid at the initial closing date of January 2, 2009 and in escrow as a deposit at December 31, 2008, 2) a non-interest bearing note of $500 payable without interest as follows: $250,000 on demand on or after April 1, 2009 and $250,000 after the Company's retention of senior financing, as defined, no later than August 31, 2009 and 3) a promissory note in the amount of $39,400, due January 1, 2013, bearing interest at an annual rate of 8.25% (subject to adjustment in the event of a default), plus the remaining $800 note payable from the purchase of 51% of NC. Subsequent to the closing, the Company and DTHC mutually agreed to offset the $40,200 promissory note by the sum of $5,844, for an offsetting receivable on Multiband's books as of December 31, 2008. This reduced the amount of this promissory note to $34,356. As part of the agreement, Multiband has until December 31, 2009 to purchase the remaining 20% of the issued and outstanding shares of common stock of all DirecTECH. The consideration for the 20% purchase will be $10,000 of Multiband Series J Preferred Stock, whose issuance will require Multiband shareholder approval. The closing on the remaining 20% stock transaction is anticipated to occur on or before December 31, 2009.

The Company applied SFAS No. 141(R) "Business Combinations" ("SFAS 141(R)") to evaluate the purchase price allocation based on the fair value of the assets acquired and liabilities assumed. The Company also applied Staff Position No. FSP FAS 141(R)-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies" ("FSP FAS 141 (R)-1") which amends the accounting in FAS 141(R) for assets and liabilities arising from contingencies in a business combination. FSP FAS 141(R)-1 requires that pre-acquisition contingencies be recognized at fair value, if fair value can be reasonably determined. If fair value cannot be reasonably determined, FSP FAS 141(R)-1 requires measurement based on the best estimate in accordance with SFAS No. 5, "Accounting for Contingencies." FSP FAS 141(R)-1 is effective as of January 1, 2009 in connection with the adoption of FAS 141(R).

The Company applied SFAS No. 160 "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS 160") for the presentation and accounting of the noncontrolling 20% interest at March 31, 2009. Because Multiband had previously gained control of NC with its purchase of 51% of NC in March 2008, SFAS 160 required Multiband to recognize the acquisition of additional 29% ownership interest in NC on January 2, 2009 as an equity transaction. The purchase price of $1,660 increased the accumulated deficit and the transfer of $2,054 of noncontrolling interest to controlling interest decreased the accumulated deficit. No increase to goodwill or intangibles was recorded as part of this acquisition.

As it relates to the purchase of the remainder of the DTHC operating subsidiaries, SFAS 141(R) required the Company to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with certain exceptions. It also required the Company to recognize goodwill as of the acquisition date, measured using an income, market or cost approach, which in most types of business combinations will result in measuring goodwill as the excess of the fair value of consideration transferred plus the fair value of any noncontrolling interest in the acquiree at the acquisition date over the fair value of the identifiable net assets acquired or assumed. A qualitative and quantitative analysis of factors that make up recognized goodwill, such as DirecTECH's assets, liabilities and other contingent considerations, such as leases and other off-balance sheet commitments, follows. This analysis is preliminary while the Company is still in its one year measurement period.

A summary of the transaction is as follows:

Cash paid	$	500
Short-term debt		500
Promissory note		39,400
Contingent consideration		1,608
Total consideration		42,008
Less consideration for 29% of NC (recorded separately as an equity transaction)		(1,660)
Consideration for 80% of outstanding stock of EC, NE, SW, MBMDU, DC, and Security	$	40,348
Assets	$	27,193
Intangible assets		27,839
Goodwill		35,722
Liabilities		(43,838)
Noncontrolling interest		(6,568)
	$	40,348

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The fair value of the noncontrolling interest of $6,568 was obtained by management, using significant level 3 unobservable inputs, as defined in Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements" ("SFAS 157") including discount rates of 15%, a terminal value of $28,200, as well as a noncontrolling discount of 30%.

The contingent consideration recorded on the acquisition is related to the acquisition agreement which requires a 20% cash payout on all earnings in 2009 until the remaining 20% of the Company is acquired. The Company estimated this consideration based on significant level 3 inputs as defined in SFAS 157 and the probability adjusted cash flow.

As part of the acquisition, the Company preliminarily assessed a $5,015 contingent legal accrual related to an existing litigation. In connection with the purchase of the operating subsidiaries of DTHC, the Company has the right to offset 50% of certain claims against the note to DTHC once those claims are settled and paid. The Company has recorded a receivable of $2,290 as of March 31, 2009 which represents an estimate of the amount that can be recovered from DTHC based on the current legal estimate. At present, the litigation is proceeding through a discovery stage. While the parties have made some preliminary attempts to settle the matter there is no guarantee that the matter can be settled out of court. As a result there is no current timeline under which the amount of the aforementioned accrual can be finalized. The Company intends to adjust the purchase price allocation should more information become available as to the fair value of the legal contingency during the measurement period.

The Company acquired $25,400 of intangible assets relating to contracts with DirecTV as well as right of entry contracts of $2,439. The weighted average remaining life of the intangibles acquired is 2.57 years based on terms without renewals, with right of entry average contracts life of 5.44 years and contracts with DirecTV of 2.33 years. Assuming one year term renewals on the contracts with DirecTV, the weighted average remaining life of the intangibles acquired is 3.49 years and contracts with DirecTV of 3.33 years. The Company capitalizes material costs incurred to renew or extend terms of intangible assets. No costs have been incurred to renew or extend the terms of intangible assets during the three months ended March 31, 2009. Goodwill and intangible assets acquired are not expected to be deductible for tax purposes.

The Company's report on Form 10-K for the year ended December 31, 2008 contained a preliminary estimated fair value of all the aforementioned assets and liabilities related to the purchase. At the time of the preliminary estimate DirecTech had not completed its audit for the year ended December 31, 2008. Nor at this time had the Company completed its procedures to value and allocate the final purchase price to intangible and tangible assets acquired in the acquisition. The Company's subsequent receipt of final balance sheet information to the aforementioned Form 10-K filing, necessitated a revision of the DirecTech purchase price valuation. This revision is reflected in this footnote. The revision consists of reallocations of goodwill and other intangible assets related to the purchase. More specifically, goodwill assets were increased by $16,474 and intangible assets were decreased by $8,851 from the original estimate, due to the additional purchase of 29% of NC being treated as an equity transaction under SFAS 160 and therefore no additional assets (including goodwill) or liabilities were allocated for NC in the purchase price (see Note 4).

Since the transaction was effective January 2, 2009, there is not a change in the March 31, 2009 balance sheet or income statement for the three months ended March 31, 2009. The unaudited pro forma information for the three months ended March 31, 2008 does not purport to represent what the Company's results of operations would actually have been if such transactions in fact had occurred at such date or to project the Company's results of future operations.

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	2008 Consolidated as reported	2008 Pro Forma
Three months ended March 31, 2008		
Revenues	$ 5,714	$ 58,907
Loss from operations	(757)	(6,395)
Net loss attributable to Multiband Corp and subsidiaries	(864)	(4,538)
Preferred stock dividends	3,881	3,881
Loss attributable to common shareholders	$ (4,745)	$ (8,418)
Loss attributable to common shareholders per common share – basic and diluted	$ (0.56)	$ (0.99)
Weighted average shares outstanding – basic and diluted	8,498	8,498

NOTE 4 – Noncontrolling Interest

	March 31, 2009	December 31, 2008
Equity of noncontrolling interest (previously minority interest) in subsidiaries:		
Noncontrolling interest in subsidiaries, beginning balance	$ 3,471	$ -
Purchase of 51% of NC	-	2,819
Purchase of 80% of NE, SC, EC, MBMDU, DC & Security	6,568	-
Purchase of NC from noncontrolling interest	(2,054)	-
Net income(loss) attributable to the noncontrolling interest in subsidiaries	(296)	652
Noncontrolling interest (previously minority interest) in subsidiaries, ending balance	$ 7,689	$ 3,471

NOTE 5 – Inventories

	March 31, 2009	December 31, 2008
Inventories consisted of the following:		

DirecTV – serialized	$	5,476	$	813
DirecTV – nonserialized		7,725		670
Other		3,040		420
Total	$	16,241	$	1,903

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The Company's inventories are segregated into three major categories. Serialized DirecTV inventories consist primarily of satellite receivers and similar devices. Non-serialized DirecTV inventories consist primarily of satellite dishes, poles and similar devices which are supplied by DirecTV. Other inventory consists primarily of cable, switches and various small parts used in the installation of DirecTV satellite dishes. The large increase in inventory is due to the purchase of DirecTECH (see Note 3).

NOTE 6 – Securities Available for Sale

As of December 31, 2007, Multiband had the voting rights for and was holding in trust 58,161 common shares of URON for various contingent rights holders whose rights were tied to potential future warrant exercises or preferred stock conversions. Effective January 1, 2008, FASB issued Statement No. 157, "Fair Value Measurements" ("SFAS 157"), which provides a framework for measuring, reporting and disclosing fair value under generally accepted accounting principles. SFAS 157 applies to all assets and liabilities that are measured, reported and/or disclosed on a fair value basis.

As defined in SFAS 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company values and records all investment securities transactions on a trade date basis. Securities listed on a national or regional securities exchange are valued at their last reported sales price on the last business day of the period. Securities which are not traded on a major exchange or for which no sale was reported on that date are valued at the average of their last quoted "bid" price and "asked" price. Short positions are valued at the last quoted "asked" price. Inputs used in the valuation methods can be either readily observable, market corroborated, or generally unobservable inputs. Whenever possible the Company attempts to utilize valuation methods that maximize the use of observable inputs and minimizes the use of unobservable inputs. The Company's investments in available-for-sale securities was determined based on quoted market prices in active markets for identical assets and liabilities (Level 1). As of February 4, 2008, certain aforementioned contingent rights were not exercised by the various holders; therefore Multiband owns 37,994 shares of URON. As a result, Multiband recorded the fair value of URON shares based on quoted market prices as an unrealized gain. URON subsequently changed their name to Western Capital Resources, Inc. At March 31, 2009 and December 31, 2008 the balance in securities available for sale was $76 and $46, respectively.

Securities available for sale consisted of the following:

	Cost	Unrealized Gain(Loss)	Fair Value at Period End
March 31, 2009	$ -	$ 76	$ 76
December 31, 2008	$ -	$ 46	$ 46

NOTE 7 – Accrued Liabilities

Accrued liabilities consisted of the following:

	March 31, 2009	December 31, 2008
Payroll and related taxes	$ 8,028	$ 1,354
Accrued legal settlements and contingencies	5,014	960
Accrued preferred stock dividends	583	622
Accrued income taxes	37	499
Other	8,887	1,000
Total Accrued Liabilities	$ 22,549	$ 4,435

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NOTE 8 - Business Segments

The Company has three reporting segments. Multiband Corp segment (MBCorp) includes corporate expenses (e.g. corporate administrative costs), interest income, interest expense, depreciation and amortization. The MDU segment (MDU, MBSS, MBMDU and MBUSA) represents results as the master service operator for DirecTV and provides voice, data and video services to residential multi-dwelling units as the principal to subscribers. The HSP segment (NE, SW, EC, NC, DC and Security) provides the installation and service of DirecTV (DTV) video programming, internet and home security systems for residents of single family homes. Segment disclosures by entity are provided to the extent practicable under the Company's accounting system.

Segment disclosures are as follows:

	MBCorp	MDU	HSP	Total
Three months ended March 31, 2009:				
Revenues	$ -	$ 5,325	$ 56,833	$ 62,158
Loss from operations	(977)	(257)	(949)	(2,183)
Identifiable assets	4,122	14,362	96,123	114,607