

TELKONET INC
Form 10-Q
November 09, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10Q

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

OR

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

For the transition period from _____ to _____.

For the period ended September 30, 2006

Commission file number 000-27305

TELKONET, INC.

(Exact name of Issuer as specified in its charter)

Utah
(State of Incorporation)

87-0627421
(IRS Employer Identification No.)

20374 Seneca Meadows Parkway, Germantown, MD 20876
(Address of Principal Executive Offices)

(240) 912-1800
Issuer's Telephone Number

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, and accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act, (check one).

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

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Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 56,850,634 shares of Common Stock (\$.001 par value) as of November 1, 2006.

TELKONET, INC.

FORM 10-Q for the Quarter Ended September 30, 2006

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TELKONET, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

| | (Unaudited) September 30, 2006 | December 31, 2005 |
|--|--------------------------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 5,623,287 | \$ 8,422,079 |
| Restricted certificate of deposit | -- | 10,000,000 |
| Accounts Receivable: net of allowance for doubtful accounts of \$60,000 and \$30,000 at September 30, 2006 and December 31, 2005, respectively | 479,428 | 119,191 |
| Inventory | 1,303,765 | 1,475,806 |
| Prepaid expenses and deposits | 209,011 | 360,880 |
| Total current assets | 7,615,491 | 20,377,956 |
| Property and Equipment: | | |
| Furniture and equipment, at cost | 2,184,746 | 1,041,137 |
| Less: accumulated depreciation | 569,305 | 323,667 |
| Total property and equipment, net | 1,615,441 | 717,470 |
| Equipment under Operating Leases: | | |
| Capitalized equipment, at cost | 2,823,221 | 789,099 |
| Less: accumulated depreciation | 360,506 | 124,669 |
| Total equipment under operating leases, net | 2,462,715 | 664,430 |
| Other Assets: | | |
| Long-term investments | 193,044 | 231,000 |
| Intangible assets, net of accumulated amortization of \$217,793 and \$0 at September 30, 2006 and December 31, 2005, respectively | 2,246,134 | - |
| Financing costs, net of accumulated amortization and write-off of \$1,219,410 and \$73,499 at September 30, 2006 and December 31, 2005, respectively | - | 1,145,911 |
| Goodwill | 1,977,767 | - |
| Deposits and other | 202,384 | 154,216 |
| Total other assets | 4,619,329 | 1,531,127 |
| Total Assets | \$ 16,312,976 | \$ 23,290,983 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 2,579,413 | \$ 1,821,872 |
| Senior notes payable | - | 100,000 |
| Senior convertible notes, net of discounts | - | 6,250,000 |
| Deferred revenue | 165,153 | 59,020 |
| Note payable under subsidiary acquisition | 900,000 | - |
| Customer deposits and other | 13,595 | 86,257 |
| Total current liabilities | 3,658,161 | 8,317,149 |
| Long Term Liabilities: | | |
| Senior convertible notes, net of discounts | - | 9,616,521 |

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| | | |
|--|----------------------|--------------|
| Deferred Revenue | 55,657 | - |
| Deferred lease liability | 42,561 | 42,317 |
| Total long term liabilities | 98,218 | 9,658,838 |
| Commitments and Contingencies | - | - |
| Minority Interest | - | - |
| Stockholders' Equity : | | |
| Preferred stock, par value \$.001 per share; 15,000,000 shares authorized; none issued and outstanding at September 30, 2006 and December 31, 2005 | - | - |
| Common stock, par value \$.001 per share; 100,000,000 shares authorized; 56,625,434 and 45,765,171 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively | 56,625 | 45,765 |
| Additional paid-in-capital | 77,790,454 | 48,256,784 |
| Accumulated deficit | (65,290,482) | (42,987,553) |
| Stockholders' equity | 12,556,597 | 5,314,996 |
| Total Liabilities And Stockholders' Equity | \$ 16,312,976 | |