

TELKONET INC
Form 10-Q
August 14, 2013

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from _____ to _____.

Commission file number 001-31972

TELKONET, INC.

(Exact name of Registrant as specified in its charter)

Utah

(State or Other Jurisdiction of Incorporation or Organization)

87-0627421

(I.R.S. Employer Identification No.)

Edgar Filing: TELKONET INC - Form 10-Q

10200 Innovation Drive, Suite 300, Milwaukee, WI
(Address of Principal Executive Offices)

53226
(Zip Code)

(414) 223-0473

(Registrant's Telephone Number, Including Area Code)

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares outstanding of the registrant's common stock, par value \$0.001 per share, as of August 1, 2013 is 114,526,073.

TELKONET, INC.

FORM 10-Q for the Three and Six Months Ended June 30, 2013

Index

	Page
PART I. FINANCIAL INFORMATION	3
Item 1. Financial Statements	3
Condensed Consolidated Balance Sheets (Unaudited):	
June 30, 2013 and December 31, 2012	3
Condensed Consolidated Statements of Operations (Unaudited):	
Three and Six Months Ended June 30, 2013 and 2012	4
Condensed Consolidated Statement of Stockholders' Equity (Unaudited):	
January 1, 2013 through June 30, 2013	5
Condensed Consolidated Statements of Cash Flows (Unaudited):	
Six Months Ended June 30, 2013 and 2012	6
Notes to Condensed Consolidated Financial Statements (Unaudited)	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Item 4. Controls and Procedures	27
PART II. OTHER INFORMATION	27
Item 1. Legal Proceedings	27
Item 1A. Risk Factors	28
Item 6. Exhibits	28

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****TELKONET, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(UNAUDITED)**

	June 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$715,116	\$1,163,758
Restricted cash on deposit	382,000	–
Accounts receivable, net	2,401,093	3,026,107
Inventories	913,786	654,912
Prepaid expenses	112,822	189,879
Total current assets	4,524,817	5,034,656
Property and equipment, net	46,524	35,898
Other assets:		
Goodwill	8,570,446	8,570,446
Intangible assets, net	1,379,457	1,500,297
Deposits	34,238	34,238
Total other assets	9,984,141	10,104,981
Total Assets	\$14,555,482	\$15,175,535
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$1,954,338	\$1,967,030
Notes payable – current	259,129	74,611
Accrued liabilities and expenses	2,055,167	2,342,047
Deferred revenues	438,656	117,556
Customer deposits	525,744	118,763
Total current liabilities	5,233,034	4,620,007
Long-term liabilities:		
Deferred lease liability	133,062	133,609
Notes payable – long term	529,232	813,928
Total long-term liabilities	662,294	947,537
Redeemable preferred stock:		
15,000,000 shares authorized, par value \$.001 per share		

Edgar Filing: TELKONET INC - Form 10-Q

Series A; 215 shares issued, 185 shares outstanding at June 30, 2013 and December 31, 2012, respectively, preference in liquidation of \$1,192,512 and \$1,176,076 as of June 30, 2013 and December 31, 2012, respectively	1,093,289	1,041,837
Series B; 538 shares issued, 483 and 493 shares outstanding at June 30, 2013 and December 31, 2012, respectively, preference in liquidation of \$2,903,019 and \$2,884,833 as of June 30, 2013 and December 31, 2012, respectively	2,423,186	2,223,752
Total redeemable preferred stock	3,516,475	3,265,589
Commitments and contingencies		
Stockholders' Equity		
Common stock, par value \$.001 per share; 190,000,000 shares authorized; 108,487,616 and 108,103,001 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	108,488	108,103
Additional paid-in-capital	124,022,663	124,188,415
Accumulated deficit	(118,987,472)	(117,954,116)
Total stockholders' equity	5,143,679	6,342,402
Total Liabilities and Stockholders' Equity	\$ 14,555,482	\$ 15,175,535

See accompanying notes to the unaudited condensed consolidated financial statements

TELKONET, INC.**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(UNAUDITED)**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Revenues, net:				
Product	\$2,659,751	\$2,401,683	\$4,825,251	\$3,319,612
Recurring	935,745	1,060,228	1,897,879	2,070,900
Total Net Revenue	3,595,496	3,461,911	6,723,130	5,390,512
Cost of Sales:				
Product	1,848,081	1,201,855	3,277,627	1,802,664
Recurring	270,517	276,815	536,680	566,724
Total Cost of Sales	2,118,598	1,478,670	3,814,307	2,369,388
Gross Profit	1,476,898	1,983,241	2,908,823	3,021,124
Operating Expenses:				
Research and development	287,291	250,501	589,433	481,065
Selling, general and administrative	1,806,351	1,495,927	3,266,944	2,927,708
Depreciation and amortization	64,729	61,478	128,847	134,076
Total Operating Expenses	2,158,371	1,807,906	3,985,224	3,542,849
Income (Loss) from Operations	(681,473)	175,335	(1,076,401)	(521,725)
Other Income (Expenses):				
Interest income (expense), net	18,061	(33,559)	1,423	(65,323)
Gain on sale of product line	41,902	15,408	41,902	15,408
Total Other Income (Expense)	59,963	(18,151)	43,325	(49,915)
Income (Loss) Before Provision for Income Taxes	(621,510)	157,184	(1,033,076)	(571,640)
Provision for Income Taxes	–	–	280	–
Net Income (Loss)	(621,510)	157,184	(1,033,356)	(571,640)
Accretion of preferred dividends and discount	(127,989)	(224,113)	(300,886)	(414,866)
Net loss attributable to common stockholders	\$(749,499)	\$(66,929)	\$(1,334,242)	\$(986,506)
Net loss per common share:				
Net loss attributable to common stockholders per common share – basic	\$0.00	\$0.00	\$(0.01)	\$(0.01)
	\$0.00	\$0.00	\$(0.01)	\$(0.01)

Edgar Filing: TELKONET INC - Form 10-Q

Net loss attributable to common stockholders per
common share – diluted

Weighted Average Common Shares Outstanding – basic	108,179,079	104,518,000	108,141,250	104,434,663
Weighted Average Common Shares Outstanding – diluted	108,179,079	104,518,000	108,141,250	104,434,663

See accompanying notes to the unaudited condensed consolidated financial statements

TELKONET, INC.**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)****SIX MONTHS FROM JANUARY 1, 2013 THROUGH JUNE 30, 2013**

	Common Shares	Common Stock Amount	Additional Paid-in- Capital	Accumulated Deficit	Total Stockholders' Equity
Balance at January 1, 2013	108,103,001	\$ 108,103	\$ 124,188,415	\$(117,954,116)	\$ 6,342,402
Stock-based compensation expense related to employee stock options	—	—	85,519	—	85,519
Shares issued on conversion of preferred stock at approximately \$0.13 per share	384,615	385	49,615	—	50,000
Accretion of redeemable preferred stock discount	—	—	(216,264)	—	(216,264)
Accretion of redeemable preferred stock dividends	—	—	(84,622)	—	(84,622)
Net loss				(1,033,356)	(1,033,356)
Balance at June 30, 2013	108,487,616	\$ 108,488	\$ 124,022,663	\$(118,987,472)	\$ 5,413,679

See accompanying notes to the unaudited condensed consolidated financial statements

TELKONET, INC.**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)**

	Six Months Ended June 30,	
	2013	2012
Cash Flows from Operating Activities:		
Net loss	\$(1,033,356)	\$(571,640)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Gain on sale of product line	(41,902)	(15,408)
Stock-based compensation expense	85,519	174,669
Depreciation	8,007	13,236
Amortization	120,840	120,840
Provision for doubtful accounts	64,543	11,850
Changes in assets and liabilities:		
Accounts receivable	560,471	(116,646)
Inventories	(258,874)	(350,612)
Prepaid expenses	77,057	26,039
Accounts payable	(12,692)	173,548
Accrued liabilities and expenses	(286,880)	272,040
Deferred revenue	321,100	51,243
Customer deposits	406,981	55,691
Deferred lease liability	(547)	10,682
Net Cash Provided By (Used In) Operating Activities	10,267	(144,468)
Cash Flows From Investing Activities:		
Purchase of property and equipment	(18,633)	(34,119)
Deposit of restricted cash	(382,000)	-
Net Cash Used In Investing Activities	(400,633)	(34,119)
Cash Flows From Financing Activities:		
Payments on note payable	(58,276)	(36,878)
Net Cash Used In Financing Activities	(58,276)	