

TELKONET INC
Form 10-Q
November 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 September 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.)

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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 October 31, 2013 is 125,035,612.

TELKONET, INC.

FORM 10-Q for the Three and Nine Months Ended September 30, 2013

Index

	Page
PART I. FINANCIAL INFORMATION	3
Item 1. Financial Statements	3
Condensed Consolidated Balance Sheets (Unaudited):	
September 30, 2013 and December 31, 2012	3
Condensed Consolidated Statements of Operations (Unaudited):	
Three and Nine Months Ended September 30, 2013 and 2012	4
Condensed Consolidated Statement of Stockholders' Equity (Unaudited):	
January 1, 2013 through September 30, 2013	5
Condensed Consolidated Statements of Cash Flows (Unaudited):	
Nine Months Ended September 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 5. Other Information	28
Item 6. Exhibits	28

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

	September 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$799,473	\$1,163,758
Restricted cash on deposit	382,000	–
Accounts receivable, net	1,768,505	3,026,107
Inventories	861,843	654,912
Prepaid expenses	88,490	189,879
Total current assets	3,900,311	5,034,656
Property and equipment, net	42,213	35,898
Other assets:		
Goodwill	8,570,446	8,570,446
Intangible assets, net	1,319,037	1,500,297
Deposits	34,238	34,238
Total other assets	9,923,721	10,104,981
Total Assets	\$13,866,245	\$15,175,535
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$1,678,567	\$1,967,030
Notes payable – current	262,532	74,611
Accrued liabilities and expenses	2,182,107	2,342,047
Deferred revenues	207,390	117,556
Customer deposits	466,698	118,763
Total current liabilities	4,797,294	4,620,007
Long-term liabilities:		
Deferred lease liability	131,991	133,609
Notes payable – long term	462,308	813,928

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Deferred income taxes	292,953	–
Total long-term liabilities	887,252	947,537
Redeemable preferred stock:		
15,000,000 shares authorized, par value \$.001 per share		
Series A; 215 shares issued, 185 shares outstanding at September 30, 2013 and December 31, 2012, respectively, preference in liquidation of \$1,211,172 and \$1,176,076 as of September 30, 2013 and December 31, 2012, respectively	1,129,457	1,041,837
Series B; 538 shares issued, 55 and 493 shares outstanding at September 30, 2013 and December 31, 2012, respectively, preference in liquidation of \$344,453 and \$2,884,833 as of September 30, 2013 and December 31, 2012, respectively	311,491	2,223,752
Total redeemable preferred stock	1,440,948	3,265,589
Commitments and contingencies		
Stockholders' Equity		
Common stock, par value \$.001 per share; 190,000,000 shares authorized; 125,035,612 and 108,103,001 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively		
	125,035	108,103
Additional paid-in-capital	126,083,666	124,188,415
Accumulated deficit	(119,467,950)	(117,954,116)
Total stockholders' equity	6,740,751	6,342,402
Total Liabilities and Stockholders' Equity	\$13,866,245	\$15,175,535

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues, net:				
Product	\$2,606,464	\$2,161,753	\$7,431,715	\$5,481,365
Recurring	901,321	1,127,025	2,799,200	3,197,925
Total Net Revenue	3,507,785	3,288,778	10,230,915	8,679,290
Cost of Sales:				
Product	1,469,104	1,166,848	4,746,731	2,969,512
Recurring	263,068	292,264	799,748	858,988
Total Cost of Sales	1,732,172	1,459,112	5,546,479	3,828,500
Gross Profit	1,775,613	1,829,666	4,684,436	4,850,790
Operating Expenses:				
Research and development	306,559	251,089	895,992	732,154
Selling, general and administrative	1,578,464	1,009,814	4,845,408	3,937,522
Depreciation and amortization	64,731	63,265	193,578	197,341
Total Operating Expenses	1,949,754	1,324,168	5,934,978	4,867,017
Income (Loss) from Operations	(174,141)	505,498	(1,250,542)	(16,227)
Other Income (Expenses):				
Interest income (expense), net	(11,401)	7,712	(9,978)	(57,611)
Gain on sale of product line	–	–	41,902	15,408
Total Other Income (Expense)	(11,401)	7,712	31,924	(42,203)
Income (Loss) Before Provision for Income Taxes	(185,542)	513,210	(1,218,618)	(58,430)
Provision for Income Taxes	294,936	–	295,216	–
Net Income (Loss)	(480,478)	513,210	(1,513,834)	(58,430)
Accretion of preferred dividends and discount	(556,351)	(308,386)	(857,237)	(723,252)
Net income (loss) attributable to common stockholders	\$(1,036,829)	\$204,824	\$(2,371,071)	\$(781,682)
Net loss per common share:				
	\$(0.01)	\$0.00	\$(0.02)	\$0.00

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Net loss attributable to common stockholders per common share – basic				
Net loss attributable to common stockholders per common share – diluted	\$(0.01) \$0.00	\$(0.02) \$0.00
Weighted Average Common Shares Outstanding – basic	117,150,713	106,153,192	111,177,407	105,011,687
Weighted Average Common Shares Outstanding – diluted	117,150,713	107,611,189	111,177,407	105,011,687

See accompanying notes to the unaudited condensed consolidated financial statements.

TELKONET, INC.**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)****NINE MONTHS FROM JANUARY 1, 2013 THROUGH SEPTEMBER 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	—	—	87,542	—	87,542
Shares issued on conversion of preferred stock at approximately \$0.13 per share	16,846,139	16, 846	2,665,032	—	2,681,878
Shares issued for cashless Series B warrants exercised	86,472	86	(86)	—	—
Accretion of redeemable preferred stock discount	—	—	(680,643)	—	(680,643)
Accretion of redeemable preferred stock dividends	—	—	(176,594)	—	(176,594)
Net loss				(1,513,834)	(1,513,834)
Balance at September 30, 2013	125,035,612	\$ 125,035	\$ 126,083,666	\$(119,467,950)	\$ 6,740,751

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2013	2012
Cash Flows from Operating Activities:		
Net loss	\$(1,513,834)	\$(58,430)
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	87,542	206,928
Depreciation	12,318	16,081
Amortization	181,260	181,260
Provision for doubtful accounts	61,606	(14,525)
Deferred income taxes	292,953	-
Changes in assets and liabilities:		
Accounts receivable	1,195,996	(600,489)
Inventories	(206,931)	(447,736)
Prepaid expenses	101,389	