

TELKONET INC
Form 10-Q
August 14, 2014

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, 2014

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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20800 Swenson Drive, Suite 175, Waukesha, WI

(Address of Principal Executive Offices)

53186

(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 July 31, 2014 is 125,035,612.

TELKONET, INC.

FORM 10-Q for the Six Months Ended June 30, 2014

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

	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,097,859	\$ 572,672
Restricted cash on deposit	63,000	382,000
Accounts receivable, net	1,494,148	1,659,756
Inventories	870,809	939,382
Prepaid expenses	113,877	171,216
Total current assets	3,639,693	3,725,026
Property and equipment, net	149,959	44,638
Other assets:		
Goodwill	5,796,430	5,796,430
Intangible assets, net	1,137,777	1,258,617
Deposits	34,238	34,238
Total other assets	6,968,445	7,089,285
Total Assets	\$ 10,758,097	\$ 10,858,949
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,994,817	\$ 1,843,589
Notes payable – current	272,482	265,985
Accrued liabilities and expenses	1,667,333	1,997,157
Deferred revenues	288,488	111,291
Customer deposits	541,868	77,405
Total current liabilities	4,764,988	4,295,427
Long-term liabilities:		
Deferred lease liability	148,117	130,920

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Notes payable – long term	256,750	394,502
Deferred income taxes	437,899	335,275
Total long-term liabilities	842,766	860,697
Redeemable preferred stock:		
15,000,000 shares authorized, par value \$.001 per share		
Series A; 215 shares issued, 185 shares outstanding at June 30, 2014 and December 31, 2013, respectively, preference in liquidation of \$1,266,539 and \$1,229,832 as of June 30, 2014 and December 31, 2013, respectively	1,237,349	1,165,625
Commitments and contingencies		
Stockholders' Equity		
Series B preferred stock; 538 shares issued, 55 shares outstanding at June 30, 2014 and December 31, 2013, preference in liquidation of \$360,925 and \$350,005 as of June 30, 2014 and December 31, 2013, respectively	349,023	324,063
Common stock, par value \$.001 per share; 190,000,000 shares authorized; 125,035,612 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	125,035	125,035
Additional paid-in-capital	125,946,906	126,036,949
Accumulated deficit	(122,507,970)	(121,948,847)
Total stockholders' equity	3,912,994	4,537,200
Total Liabilities and Stockholders' Equity	\$10,758,097	\$10,858,949

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,	
	2014	2013	2014	2013
Revenues, net:				
Product	\$3,419,956	\$2,659,751	\$5,129,600	\$4,825,251
Recurring	933,392	935,745	1,856,365	1,897,879
Total Net Revenue	4,353,348	3,595,496	6,985,965	6,723,130
Cost of Sales:				
Product	1,978,291	1,848,081	3,326,318	3,277,627
Recurring	263,083	270,517	517,385	536,680
Total Cost of Sales	2,241,374	2,118,598	3,843,703	3,814,307
Gross Profit	2,111,974	1,476,898	3,142,262	2,908,823
Operating Expenses:				
Research and development	318,815	287,291	615,505	589,433
Selling, general and administrative	1,445,627	1,806,351	2,828,346	3,266,944
Depreciation and amortization	69,525	64,729	136,186	128,847
Total Operating Expenses	1,833,967	2,158,371	3,580,037	3,985,224
Income (Loss) from Operations	278,007	(681,473)	(437,775)	(1,076,401)
Other Income (Expenses):				
Interest income (expense), net	(7,610)	18,061	(18,724)	1,423
Gain on sale of product line	–	41,902	–	41,902
Total Other Income (Expense)	(7,610)	59,963	(18,724)	43,325
Income (Loss) Before Provision for Income Taxes	270,397	(621,510)	(456,499)	(1,033,076)
Provision for Income Taxes	51,312	–	102,624	280
Net Income (Loss)	219,085	(621,510)	(559,123)	(1,033,356)
Accretion of preferred dividends and discount	(35,963)	(127,989)	(71,724)	(300,886)
Net income (loss) attributable to common stockholders	\$183,122	\$(749,499)	\$(630,847)	\$(1,334,242)
Net income (loss) per common share:				
	\$0.00	\$0.00	\$(0.01)	\$(0.01)

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Net income (loss) attributable to common stockholders per common share - basic				
Net income (loss) attributable to common stockholders per common share - diluted	\$0.00	\$0.00	\$(0.01) \$(0.01
Weighted Average Common Shares Outstanding - basic	125,035,612	108,179,079	125,035,612	108,141,250
Weighted Average Common Shares Outstanding - diluted	127,412,878	108,179,079	125,035,612	108,141,250

See accompanying notes to the unaudited condensed consolidated financial statements.

TELKONET, INC.**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)****SIX MONTHS FROM JANUARY 1, 2014 THROUGH JUNE 30, 2014**

	Series B Preferred Stock Shares	Series B Preferred Stock Amount	Common Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
Balance at January 1, 2014	55	\$324,063	125,035,612	\$125,035	\$126,036,949	\$(121,948,847)	\$4,537,200
Stock-based compensation expense related to employee stock options	—	—	—	—	6,641	—	6,641
Accretion of redeemable preferred stock discount	—	14,040	—	—	(49,056)	—	(35,016)
Accretion of redeemable preferred stock dividends	—	10,920	—	—	(47,628)	—	(36,708)
Net loss	—	—	—	—	—	(559,123)	(559,123)
Balance at June 30, 2014	55	\$349,023	125,035,612	\$125,035	\$125,946,906	\$(122,507,970)	\$3,912,994

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2014	2013
Cash Flows from Operating Activities:		
Net loss	\$(559,123)	\$(1,033,356)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Gain on sale of product line	–	(41,902)
Stock-based compensation expense	6,641	85,519
Depreciation	15,346	8,007
Amortization	120,840	120,840
Provision for doubtful accounts	5,787	64,543
Deferred income taxes	102,624	–
Changes in assets and liabilities:		
Accounts receivable	159,821	560,471
Inventories	68,573	(258,874)
Prepaid expenses	57,339	77,057
Accounts payable	151,228	(12,692)
Accrued liabilities and expenses	(329,824)	(286,880)
Deferred revenue	177,197	321,100
Customer deposits	464,463	406,981
Deferred lease liability	17,197	(547)
Net Cash Provided By Operating Activities	458,109	10,267
Cash Flows From Investing Activities:		
Purchase of property and equipment	(120,667)	(18,633)
Change in restricted cash	319,000	(382,000)
Net Cash Provided By (Used In) Investing Activities	198,333	(400,633)
Cash Flows From Financing Activities:		
Payments on note payable	(131,255)	(58,276)
Net Cash Used In Financing Activities	(131,255)	(58,276)
Net increase (decrease) in cash and cash equivalents	525,187	(448,642)
Cash and cash equivalents at the beginning of the period	572,672	1,163,758
Cash and cash equivalents at the end of the period	\$1,097,859	\$715,116

See accompanying notes to the unaudited condensed consolidated financial statements.

TELKONET, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(UNAUDITED)

Six
Months
Ended
June 30,
2014 2013

Supplemental Disclosures of Cash Flow Information:

Cash transactions:

Cash paid durin