

TELKONET INC
Form 10-Q
May 05, 2016

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 March 31, 2016

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

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 April 30, 2016 is 132,266,390.

TELKONET, INC.

FORM 10-Q for the Three Months Ended March 31, 2016

Index

	Page
PART I. FINANCIAL INFORMATION	3
Item 1. Financial Statements	3
Condensed Consolidated Balance Sheets (Unaudited):	
March 31, 2016 and December 31, 2015	3
Condensed Consolidated Statements of Operations (Unaudited):	
Three Months Ended March 31, 2016 and 2015	4
Condensed Consolidated Statement of Stockholders' Equity (Unaudited):	
January 1, 2016 through March 31, 2016	5
Condensed Consolidated Statements of Cash Flows (Unaudited):	
Three Months Ended March 31, 2016 and 2015	6
Notes to Condensed Consolidated Financial Statements (Unaudited)	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	20
Item 4. Controls and Procedures	26
PART II. OTHER INFORMATION	27
Item 1. Legal Proceedings	27
Item 1A. Risk Factors	27
Item 6. Exhibits	27

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

	March 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$964,825	\$951,249
Restricted cash on deposit	31,277	31,277
Accounts receivable, net	2,798,776	2,263,347
Inventories	702,144	812,052
Prepaid expenses and other current assets	235,563	157,500
Total current assets	4,732,585	4,215,425
Property and equipment, net	136,333	142,004
Other assets:		
Goodwill	5,796,430	5,796,430
Intangible assets, net	714,837	775,257
Deposits	34,001	34,001
Deferred financing costs, net	9,896	14,633
Total other assets	6,555,164	6,620,321
Total Assets	\$ 11,424,082	\$ 10,977,750
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$1,688,473	\$1,754,566
Accrued liabilities and expenses	1,203,260	882,041
Notes payable – current	39,746	93,340
Line of credit	1,061,771	901,771
Deferred revenue	242,716	291,965
Deferred lease liability - current	16,804	15,214
Customer deposits	271,602	309,840

Edgar Filing: TELKONET INC - Form 10-Q

Total current liabilities	4,524,372	4,248,737
Long-term liabilities:		
Deferred lease liability – long term	99,316	103,804
Deferred income taxes	785,359	734,047
Total long-term liabilities	884,675	837,851
Commitments and contingencies		
Stockholders' Equity		
Series A, par value \$.001 per share; 215 shares issued, 185 shares outstanding at March 31, 2016 and December 31, 2015, preference in liquidation of \$1,396,340 and \$1,377,886 as of March 31, 2016 and December 31, 2015, respectively	1,340,566	1,340,566
Series B, par value \$.001 per share; 538 shares issued, 55 shares outstanding at March 31, 2016 and December 31, 2015, preference in liquidation of \$399,545 and \$394,055 as of March 31, 2016 and December 31, 2015, respectively	382,951	382,951
Common stock, par value \$.001 per share; 190,000,000 shares authorized; 127,054,848 shares issued and outstanding at March 31, 2016 and at December 31, 2015	127,054	127,054
Additional paid-in-capital	126,139,463	126,135,712
Accumulated deficit	(121,974,999)	(122,095,121)
Total stockholders' equity	6,015,035	5,891,162
Total Liabilities and Stockholders' Equity	\$ 11,424,082	\$ 10,977,750

See accompanying notes to the unaudited condensed consolidated financial statements

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

	For The Three Months Ended	
	March 31,	
	2016	2015
Revenues, net:		
Product	\$3,546,683	\$1,575,367
Recurring	1,077,423	999,179
Total Net Revenues	4,624,106	2,574,546
Cost of Sales:		
Product	1,787,454	1,089,824
Recurring	278,035	238,264
Total Cost of Sales	2,065,489	1,328,088
Gross Profit	2,558,617	1,246,458
Operating Expenses:		
Research and development	426,814	359,529
Selling, general and administrative	1,874,714	1,489,464
Depreciation and amortization	68,834	69,302
Total Operating Expenses	2,370,362	1,918,295
Income (Loss) from Operations	188,255	(671,837)
Other (Expenses) Income:		
Interest income (expense), net	(16,196)	(20,054)
Total Other (Expense) Income	(16,196)	(20,054)
Income (Loss) Before Provision for Income Taxes	172,059	(691,891)
Provision for Income Taxes	51,937	52,187
Net Income (Loss)	120,122	(744,078)
Accretion of preferred dividends and discount	-	(18,253)
Net Income (Loss) attributable to common stockholders	\$120,122	\$(762,331)

Edgar Filing: TELKONET INC - Form 10-Q

Net income (loss) per common share:

Net income (loss) attributed to common stockholders per common share – basic	\$0.00	\$(0.01)
Net income (loss) attributed to common stockholders per common share – diluted	\$0.00	\$(0.01)

Weighted Average Common Shares Outstanding – basic	127,054,848	125,035,612
Weighted Average Common Shares Outstanding – diluted	129,335,871	125,035,612

See accompanying notes to the unaudited condensed consolidated financial statements

TELKONET, INC.**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)****THREE MONTHS FROM JANUARY 1, 2016 THROUGH MARCH 31, 2016**

	Series A Preferred Stock Shares	Series A Preferred Stock Amount	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, 2016	185	\$1,340,566	55	\$382,951	127,054,848	\$127,054	\$126,135,712	\$(122,095,121)	\$5,891,162
Stock-based compensation expense related to employee stock options	—	—	—	—	—	—	3,751	—	3,751
Net income	—	—	—	—	—	—	—	120,122	120,122
Balance at March 31, 2016	185	\$1,340,566	55	\$382,951	127,054,848	\$127,054	\$126,139,463	\$(121,974,999)	\$6,015,035

See accompanying notes to the unaudited condensed consolidated financial statements

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

	Three Months	
	Ended March 31,	
	2016	2015
Cash Flows From Operating Activities:		
Net income (loss)	\$ 120,122	\$(744,078)
Adjustments to reconcile net income (loss) from operations to cash used in operating activities:		
Stock-based compensation expense	3,751	4,203
Amortization of deferred financing costs	4,737	4,737
Depreciation	8,414	8,882
Amortization	60,420	60,420
Provision for doubtful accounts, net of recoveries	18,796	(3,991)
Deferred income taxes	51,312	51,312
Changes in assets and liabilities:		
Accounts receivable	(554,225)	546,695
Inventories	109,908	(130,992)
Prepaid expenses and other current assets	(78,063)	(37,556)
Deposits and other long term assets	-	238
Accounts payable	(66,093)	(278,636)
Accrued liabilities and expenses	321,219	53,271
Deferred revenue	(49,249)	60,824
Customer deposits	(38,238)	(10,529)
Deferred lease liability	(2,898)	97
Net Cash Used In Operating Activities	(90,087)	(415,103)
Cash Flows From Investing Activities:		
Purchase of property and equipment	(2,743)	-
Net Cash Used In Investing Activities	(2,743)	-
Cash Flows From Financing Activities:		
Payments on notes payable	(53,594)	(82,528)
Net proceeds (payments) from line of credit	160,000	(75,000)
Net Cash Provided By (Used In) Financing Activities	106,406	(157,528)

Edgar Filing: TELKONET INC - Form 10-Q

Net increase (decrease) in cash and cash equivalents	13,576	(572,631)
Cash and cash equivalents at the beginning of the period	951,249	1,128,072
Cash and cash equivalents at the end of the period	\$964,825	\$555,441

See accompanying notes to the unaudited condensed consolidated financial statements

TELKONET, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(UNAUDITED)

	Three Months Ended	
	March 31,	
	2016	2015
Supplemental Disclosures of Cash Flow Information:		
Cash transactions:		
Cash paid during the period for interest	\$ 11,684	\$ 19,937
Non-cash transactions:		
Accretion of dividends on redeemable preferred stock	–	23,684

See accompanying notes to the unaudited condensed consolidated financial statements

TELKONET, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2016

(UNAUDITED)

NOTE A – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying condensed consolidated financial statements follows.

General

The accompanying unaudited condensed consolidated financial statements of Telkonet, Inc. (the “Company”, “Telkonet”) have been prepared in accordance with Rule S-X of the Securities and Exchange Commission (the “SEC”) and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. However, the results from operations for the three months ended March 31, 2016, are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated December 31, 2015 financial statements and footnotes thereto included in the Company's Form 10-K filed with the SEC.

Business and Basis of Presentation

Telkonet, formed in 1999 and incorporated under the laws of the state of Utah, is made up of two synergistic business divisions, EcoSmart Energy Management Technology and EthoStream High Speed Internet Access (HSIA) Network.

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Telkonet Communications, Inc., and EthoStream, LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company operates in one reportable segment based on management's view of its business for purposes of evaluating performance and making operating decisions. The Company utilizes shared services including but not limited to, human resources, payroll, finance, sales, support services, as well as certain shared assets and sales, general and administrative costs. The Company's approach is to make operational decisions and assess performance based on delivering products and services that together provide solutions to its customer base, utilizing a functional management structure and shared services where possible. Based upon this business model, the chief operating decision maker only reviews consolidated financial information.

Liquidity and Financial Condition

The Company reported net income of \$120,122 for the three months ended March 31, 2016, had cash used in operating activities of \$90,087, had an accumulated deficit of \$121,974,999 and a working capital surplus of \$208,213 as of March 31, 2016. Since inception, the Company's primary sources of ongoing liquidity for operations have come through private and public offerings of equity securities, and the issuance of various debt instruments and asset-based lending.

As discussed in Note G, the Series A preferred stock became redeemable at the option of the preferred stock holders on November