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

FORM 10QSB
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the period ended September 30, 2001

Commission file number 333-47986

TELKONET, INC.
(Name of Small Business Issuer in Its Charter)

Utah 87-0627421
(State of Incorporation) (IRS Employer Identification No.)

902 A Commerce Road Annapolis, Maryland 21401
(Address of Principal Executive Offices)

(410) 897-5900
Issuer's Telephone Number

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 [x] No [ ]

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 22,115,371 shares of Common Stock ($.001 par value) as of November 12, 2001.

Transitional small business disclosure format: Yes [ ] No [x]

TELKONET, INC.

Quarterly Report on Form 10-QSB for the
Quarterly Period Ending September 30, 2001

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Item 1. Financial Statements (Unaudited)

TELKONET, INC
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED BALANCE SHEETS

<CAPTION>

ASSETS	Unaudited September 30,2001	December 31, 2000
<S>	<C>	<C>
Current assets:		
Cash and equivalents	$ 423,916	$ 10,450
Deposits	4,625	4,625
Total current assets	428,541	15,075
Property & Equipment - at cost		
Furniture, Equipment, & Leasehold Improvements	93,658	89,029
Less: Accum. Depreciation	45,689	22,080
	47,969	66,949
Total Assets	$ 476,510	$ 82,024
LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	$ 145,892	$ 253,586
Due to Shareholders	97,500	10,000
Line of Credit - Citizen's Bank	150,000	-
Note Payable - 1st Mariner Bank	250,000	-
	643,392	263,586
Convertible Debenture	903,000	-
Deficiency in Stockholders' equity:		
Preferred stock, par value $.001 per share; 15,000,000 shares authorized; none issued at September 30, 2001 and December 31, 2000	-	-
Common stock, par value $.001 per share; 100,000,000 shares authorized; 22,115,411 issued at September 30, 2001 and 21,815,371 issued at December 31, 2000	22,115	21,815
Additional paid-in-capital	910,016	760,316
Retained earnings	(2,002,013)	(963,693)
Total deficiency in stockholder's equity	(1,069,882)	(181,562)
	$ 476,510	$ 82,024

See accompanying footnotes to the unaudited consolidated financial statements

</TABLE>

<TABLE>

TELKONET, INC
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENT OF LOSSES

<CAPTION>

	Three months ended September 30, 2001	Three months ended September 30, 2000	Nine months ended September 30 2001	Nine months ended September 30 2000	For the period from November 3, 1999 (date of inception) thru September 30, 2001
<S>	<C>	<C>	<C>	<C>	<C>
Operating expenses:					
Selling, general and administrative	$ 270,431	$ 217,425	$ 691,921	$ 519,659	$ 1,499,230
Research & Development	143,821	3,138	300,636	48,000	419,636
Depreciation	7,882	3,034	23,609	13,266	45,417
Interest	6,444	5,604	22,154	13,168	37,730
Operating expenses	428,578	229,201	1,038,320	594,093	2,002,013
Net loss before taxes	(428,578)	(229,201)	(1,038,320)	(594,093)	(2,002,013)
Provision for income taxes	-	-	-	-	-
Net loss	$ (428,578)	$ (229,201)	$ (1,038,320)	$ (594,093)	$ (2,002,013)
Earnings per common share	$ (0.02)	$ (0.01)	$ (0.05)	$ (0.03)	$ (0.09)
(basic and assuming dilution)					
Weighted average shares outstanding					
Basic	21,841,593	21,775,345	21,925,075	21,775,345	21,337,004

See accompanying footnotes to the unaudited consolidated financial statements

</TABLE>

<TABLE>

TELKONET, INC
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENT OF CASH FLOWS

<CAPTION>

	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000	For the period from November 3, 1999 (date of inception) thru September 30, 2001
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net loss from operating activities	$(1,038,320)	$ (594,093)	$(2,002,013)
Adjustments to reconcile net income to net cash:			
Common stock issued in exchange for services rendered	-	21,775	11,387
Depreciation	23,609	13,538	45,417
Change in:			
Deposits	-	-	(4,625)
Marketable Securities	-	(444,632)	-
Accounts payable and accrued expenses	(107,694)	185,516	167,979
Net cash from operating activities	(1,122,405)	(817,896)	(1,781,855)

Cash flows used in investing activities:			
Capital expenditures, net of disposals	(4,629)	(77,460)	(93,658)
Net cash used in investing activities	(4,629)	(77,460)	(93,658)
Cash flows (used in)/provided by financing activities:			
Proceeds from sale of common stock, net of costs	150,000	726,846	898,929
Proceeds from Loans	400,000	235,000	400,000
Proceeds from stockholder advances	87,500	-	97,500
Proceeds from Convertible Debenture	903,000	-	903,000
Repayment of stockholder advances	-	-	
Proceeds from stockholder loans	-	-	235,000
Repayment of stockholder loans	-	-	(235,000)
Net cash used in financing activities	1,540,500	961,846	2,299,429
Net increase in cash and cash equivalents	413,466	66,490	423,916
Cash and cash equivalents at January 1	10,450	-	-
Cash and cash equivalents at September 30	$ 423,916	$ 66,490	$ 423,916
Supplemental Disclosures of Cash Flow Information			
Cash paid during the period for interest	$ -	$ -	$ -
Income taxes paid	-	-	-
Common stock issued for services	-	-	11,387
Acquisition:			
Assets Acquired	-	-	1
Accumulated Deficit	-	-	2,643
Liabilities Assumed	-	-	(2,642)
	$ -	$ -	$ 1

See accompanying footnotes to the unaudited consolidated financial statements

</TABLE>

TELKONET, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2001
(UNAUDITED)

NOTE A - SUMMARY OF ACCOUNTING POLICIES

General

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-QSB, and therefore, do not include all the information necessary for a fair presentation of financial position, results of operations and cash flows in conformity with generally accepted accounting principles.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results from developmental stage operations for the nine-month period ended September 30, 2001 are not necessarily indicative of the results that may be expected for the year ended December 31, 2001. The unaudited consolidated financial statements should be read in conjunction with the consolidated December 31, 2000 financial statements and footnotes thereto included in the Company's SEC Form 10-KSB dated April 16, 2001.

The Registrant began operations on November 3, 1999, and accordingly, income statements and statements of cash flows for the comparable periods of the preceding fiscal years have not been presented.

NOTE B-BUSINESS COMBINATION

On August 25, 2000, Telkonet Communications, Inc. ("TCI") completed an Agreement and Plan of Reorganization ("Agreement") with Comstock Coal Company, Inc. ("Comstock") in a transaction accounted for using the purchase method of accounting. The total purchase price and carrying value of net assets acquired of the Comstock was $ 1. From Comstock's inception, until the date of the merger, Comstock was an inactive corporation with no assets and liabilities. As a result of the acquisition, there was a change in control of the public entity. Subsequent to the date of the merger, Comstock Coal Company, Inc. changed its name to Telkonet, Inc. ("Company"), with Telkonet Communications, Inc. becoming a wholly owned subsidiary of the Company.

Effective with the Agreement, all previously outstanding common stock, preferred stock, options and warrants owned by former Common stock stockholders were exchanged for an aggregate of 1,980,000 shares of Telkonet Communications, Inc.'s common stock. The value of the stock that was issued was the historical cost of Comstock's net tangible assets, which did not differ materially from their fair value. The results of operations subsequent to the date of acquisition are included in the Company's consolidated statement of losses. In accordance with Accounting Principles Opinion No. 16, Telkonet Communications, Inc. is the acquiring entity.

NOTE B-BUSINESS COMBINATION (Continued)

The total purchase price and carrying value of net assets acquired of Comstock was $ 1. The net assets acquired were as follows:

Net assets	$ 1
Accumulated deficit	2,643
Net liabilities	(2,642)
	$ 1

In accordance with Statement of Position No. 98-5, the Company expensed, as organization costs, in the three months ended September 30, 2000, $ 1,980, which represents the excess of the purchase price of Comstock over the net assets acquired.

NOTE C- BASIS OF PRESENTATION

Telkonet Communications, Inc., a wholly owned subsidiary of Telkonet, Inc., formerly Comstock Coal Company, Inc., was formed on November 3, 1999 under the laws of the state of Delaware. Telkonet Communications, Inc. is a development stage enterprise, as defined by Statement of Financial Accounting Standards No. 7 ("SFAS No. 7") and is seeking to develop, produce and market proprietary equipment enabling the transmission of voice and data over electric utility lines. From its inception through the date of these financial statements Telkonet Communications, Inc. has recognized no revenues and has incurred significant operating expenses.

The consolidated financial statements include the accounts of the Company, and its wholly owned subsidiary, Telkonet Communications, Inc. Significant inter-company transactions have been eliminated in consolidation.

Note D-Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. ("FAS") 141, "Business Combinations" ("FAS 141") and FAS 142, "Goodwill and Other Intangible Assets" ("FAS 142"). FAS 141 addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. FAS 142 addresses the initial recognition and measurement of intangible assets acquired outside of a business combination, whether acquired individually or with a group of other assets, and the accounting and reporting for goodwill and other intangibles subsequent to their acquisition. These standards require all future business combinations to be accounted for using the purchase method of accounting.

Goodwill will no longer be amortized but instead will be subject to impairment tests at least annually. The Company is required to adopt FAS 141 and FAS 142 on a prospective basis as of January 1, 2002; however, certain provisions of these new standards may also apply to any acquisitions concluded subsequent to June 30, 2001. As a result of implementing these new standards, the Company will discontinue the amortization of goodwill as of December 31, 2001. The Company does not believe that the adoption of FAS 141 or 142 will have a material impact on its consolidated financial statements

In October 2001, the Financial Accounting Standards Board issued FAS 144,"Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS 144"). FAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supersedes FAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("FAS 121") and related literature and establishes a single accounting model, based on the framework established in FAS 121, for long-lived assets to be disposed of by sale. The Company is required to adopt FAS 144 no later than January 1, 2002. The Company does not believe that the adoption of FAS 144 will have a material impact on its consolidated financial statements.

NOTE E-CONVERTIBLE DEBENTURES
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Throughout the quarter ended September 30, 2001 the Company issued $903,000 of 8% Convertible Debentures due three years from the date of issuance. The debentures may be exchanged at the option of the note holder for the Company's Common Stock at the rate of 20,000 shares of common stock for each $10,000 principal amount of the Debenture converted. For each $10,000 of Debentures purchased, the company granted 10,000 warrants which can be exercised at a share price of $1.00. The warrants expire three years from the date of issuance.

Item 2. Management's Plan of Operation

The following discussion should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto, included elsewhere within this Report.

Description of the Company
- --------------------------

The Company was formed to develop applications for emerging power-line carrier technologies. The Company believes that the power line represents an attractive opportunity to deliver telephony and Internet connectivity to consumers in developing countries and businesses around the world. Because the power line is the most ubiquitous wired network in the home, service providers and consumers avoid the expense, time and inconvenience of installing new wiring.

The Company has applied for patents that cover its unique technology, and intends to utilize recently announced advancements in transmission speeds to build next generation devices for field tests and marketing demonstrations. TCI's technology would be licensed or sold to strategic customers and partners with vertical markets where TCI's products and services would satisfy demand for communication services. TCI has developed working prototypes for two products designed to provide telephony services and Internet connectivity through transmission over existing power line networks: The primary product enables Internet connectivity provided by several options for broadband connectivity, to be accessed along power lines by end user communities. The second product combines digital signaling equipment and voice-over-Internet-protocol (VOIP) to deliver telephony services to end users via existing standard power-line infrastructure.

On July 31 the Company announced that it has completed the initial product development phase of their proprietary communications system, which utilizes the existing electrical wiring infrastructure in residential and commercial buildings for Internet connectivity. The Telkonet System receives the Internet signal in the traditional manner from either a standard telephone line, DSL line or from a satellite connection at your home or office. The telephone line or satellite cable connection is then plugged into the Telkonet Gateway a small appliance not much larger than a box of cereal that is attached to the electrical system. Once the installation of the Gateway is complete the Internet signal is transmitted through the existing electrical wiring to every standard electrical outlet in the building. To access the Internet the user simply plugs the Telkonet Plug-In Internet Modem (the size of a small standard modem) into any electrical outlet and then plugs the computer into the modem for clear connectivity at whatever speeds are offered by the users Internet service Provider.

On August 2, 2001 Telkonet announced successful system tests were recently performed in the Washington D.C. metropolitan area, where Telkonet's Plug-In connectivity solution was demonstrated in a 28-unit residential apartment building and a 5-story commercial office building. Clear and unrestricted high-speed data connectivity was successfully achieved from the basements to the furthest receptacles on the top floors.

There are many commercial applications for the Telkonet technology, especially in older structures such as hotels, schools and office buildings where Internet service is desired, but new wiring that would allow for satisfactory high-speed communication is cost prohibitive. Sales and marketing activities have resulted in initial hardware orders and significant opportunities for ongoing revenue generation. Beta test sites have been identified for installation to begin in the fourth quarter of 2001 with production deliveries scheduled to begin in the first quarter of 2002.

Forward Looking Statements

CERTAIN STATEMENTS INCLUDED HEREIN OR INCORPORATED BY REFERENCE CONSTITUTE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 (THE "REFORM ACT"). THE COMPANY DESIRES TO TAKE ADVANTAGE OF CERTAIN "SAFE HARBOR" PROVISIONS OF THE REFORM ACT AND IS INCLUDING THIS SPECIAL NOTE TO ENABLE THE COMPANY TO DO SO. FORWARD-LOOKING STATEMENTS INCLUDED OR INCORPORATED BY REFERENCE IN THIS PART INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH WOULD CAUSE THE COMPANY'S ACTUAL RESULTS, PERFORMANCE (FINANCIAL OR OPERATING) OR ACHIEVEMENTS TO DIFFER MATERIALLY FROM THE FUTURE RESULTS, PERFORMANCE (FINANCIAL OR OPERATING) OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD LOOKING STATEMENTS.

Plan of Operation

The Company is still in the development stage and is yet to earn revenues from operations. The Company may experience fluctuations in operating results in future periods due to a variety of factors including, but not limited to, market acceptance of the Internet and power line communication technologies as a medium for customers to purchase the Company's products, the Company's ability to acquire and deliver high quality products at a price lower than currently available to consumers, the Company's ability to obtain additional financing in a timely manner and on terms favorable to the Company, the Company's ability to successfully attract customers at a steady rate and maintain customer satisfaction, Company promotions, branding and sales programs, the amount and timing of operating costs and capital expenditures relating to the expansion of the Company's business, operations and infrastructure and the implementation of marketing programs, key agreements and strategic alliances, the number of products offered by the Company, the number of returns experienced by the Company, and general economic conditions specific to the Internet, power-line communications, and the communications industry.

Revenues

The Company generated no revenues from operations from its inception. The Company believes it will begin earning revenues from operations within the next twelve months as it transitions from a development stage company to that of an active growth and acquisition stage company.

Costs and expenses
- ------------------

From its inception on November 3, 1999 through September 30, 2001, the Company has not generated any revenues. The Company has incurred expenses of $ 2,002,013 during this period. These expenses were associated principally with compensation to employees, product development costs and professional services. During the first nine months of 2001, expenses increased by 75% over the first nine months of 2000. Such an increase is due to increase in development activity associated with the completion of its powerline systems for both Internet distribution and Telephony, the beginning of the system demonstration phase, and an increase in sales and marketing activities.

Liquidity and Capital Resources
- -------------------------------

As of September 30, 2001, the Registrant had a working capital deficit of $ 214,851. As a result of the Company's operating losses from its inception through September 30, 2001, the Registrant generated a cash flow deficit of $ 1,781,855 from operating activities. Cash flows from financing totaled $ 1,540,500 during the period January 1,2001 through September 30, 2001. The Company met its cash requirements during this period through two lines of Credit, a $ 150,000 Private Equity Placement, $ 87,500 in loans from shareholders and a $ 903,000 Private Placement of Convertible Debentures.

While the Company has raised capital to meet its working capital and financing needs in the past, additional financing is required in order to meet the Company's current and projected cash flow deficits from operations and development. The Company continues to seek financing in the form of Convertible Debentures to provide additional operating funds. The Company is still accepting subscription agreements for additional financing. There are no assurances the Company will be successful in raising all the funds required.

Product Research and Development
- --------------------------------

Company-sponsored research and development costs related to both present and future products are expensed in the period incurred. Total expenditures on research and product development for the first nine months of 2001 were $ 300,636 compared to $ 48,000 for the nine months of 2000.

Acquisition or Disposition of Plant and Equipment
- ---

The Company does not anticipate the sale of any significant property, plant or equipment during the next twelve months. The Company does not anticipate the acquisition of any significant property, plant or equipment during the next 12 months, other than computer equipment and peripherals used in the Company's day-to-day operations.

Number of Employees
- -------------------

During the period ended September 30, 2001, the Company had nine (9) employees. In order for the Company to attract and retain quality personnel, the Company anticipates that it will continue to offer competitive salaries to current and future employees. In addition, the Company anticipates increasing its employment base by ten (10) to fifteen (15) employees during the next 12 months. As the Company continues to expand, the Company will incur additional costs for personnel. This projected increase in personnel is dependent upon the Company generating revenues and obtaining sources of financing. There are no assurances the Company will be successful in raising the funds required or generating revenues sufficient to fund the projected increase in the number of employees.

Trends, Risks and Uncertainties
- -------------------------------

The Company has sought to identify what it believes to be the most significant risks to its business, but cannot predict whether or to what extent any of such risks may be realized nor can there be any assurances that the Company has identified all possible risks that might arise. Investors should carefully consider all of such risk factors before making an investment decision with respect to the Company's stock. The Company's prospects must be evaluated with a view to the risks encountered by a company in an early stage of development, particularly in light of the uncertainties relating to the new and evolving power line modulation and transmission technologies. The Company will be incurring costs to develop, introduce and enhance its products, to establish marketing relationships, to acquire and develop products that will compliment each other and to build an administrative organization. To the extent that such expenses are not subsequently followed by commensurate revenues, the Company's business, and the results of operations and financial condition will be materially adversely affected. There can be no assurance that the Company will be able to generate sufficient revenues from the sale of their first product and other product candidates. The Company expects negative cash flow from operations to continue for the next 6 months as it continues to develop and market its business. The Company will be required to sell additional equity or debt securities. The sale of additional equity or convertible debt securities will result in additional dilution to the Company's stockholders.

Potential fluctuations in quarterly operating results
- ---

The Company's quarterly operating results may fluctuate significantly in the future as a result of a variety of factors, most of which are outside the Company's control, including: the level of use of the Internet; the demand for high-tech goods; trends in broadband service provisioning, the amount and timing of capital expenditures and other costs relating to the expansion of the Company's operations; price competition or pricing changes in the industry; technical difficulties; general economic conditions, and economic conditions specific to the Internet and Communications Industry.

Limited public market, possible volatility of share price
- ---

The Company's Common Stock is currently quoted on the NASD OTC Bulletin Board under the ticker symbol TLKO.OB. As of September 30, 2001, there were approximately 22,115,371 shares of Common Stock outstanding. There can be no assurance that a trading market will be sustained in the future. Factors such as, but not limited to, technological innovations, new products, acquisitions or strategic alliances entered into by the Company or its competitors, failure to meet security analysts' expectations, government regulatory action, patent or proprietary rights developments, and market conditions for technology stocks in general could have a material effect on the volatility of the Company's stock price.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In July 2000 the Company entered into a consulting agreement with Kevin Miller which was terminated in February 2001. A dispute arose over amounts owed and in August 2001, Kevin Miller filed a compliant against the Company in the District Court of Maryland for Anne Arundel County, Maryland. The complaint sought payment of $25,000 and was settled in October 2001, in the amount of $20,000 cash plus 50,000 stock warrants, exerciseable at $1.00 for a period of three years. The Company has settled all debts with the plaintiff as of October 20, 2001.

Item 2 - Changes in Securities and Use of Proceeds

(a) None

(b) None

(c) None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K filed during the three months ended September 30, 2001

None

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Telkonet, Inc.
Registrant

November 12, 2001 By: /s/ L. Peter Larson
- ----------------- -------------------------
Date L. Peter Larson
President and
Chief Executive Officer