

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act

August 30, 2000
Date of Report
(Date of Earliest Event Reported)

TELKONET, INC.
(formerly known as Comstock Coal Company, Inc.)
(Exact Name of Registrant as Specified in its Charter)

670 Ritchie Highway, 2nd Floor
Severna Park, Maryland 21146
(Address of principal executive offices)

410/544-1044
Registrant's telephone number

Utah
(State of Incorporation)

87-0627421
(IRS Employer Identification No.)

ITEM 1. CHANGES IN CONTROL OF REGISTRANT

(a) Pursuant to an Agreement and Plan of Reorganization (the "Agreement") dated as of August 30, 2000 by and among Comstock Coal Company, Inc. (the "Company"), a Utah corporation, Comstock Acquisition Corporation ("CAC"), a Utah corporation and a wholly-owned subsidiary of the Company, and Telkonet Communications, Inc. ("TCI"), a Delaware corporation, CAC merged with and into TCI, with TCI emerging as the surviving corporation. In consideration of such merger transaction, the common stock of TCI's shareholders was converted into and exchanged for 19,795,337 shares of Company common stock and outstanding warrants of various holders for TCI common stock were converted into warrants for an additional 1,397,098 shares of Company common stock. In addition, by operation of law, CAC's common stock was converted into TCI common stock. Furthermore, as of the effective date of the Agreement the Company changed its name to "Telkonet, Inc." As a result of the execution of the transactions set forth in the Agreement, TCI has become a wholly-owned subsidiary of the Company.

The Agreement was adopted by the unanimous consent of the Board of Directors of the Company on August 30, 2000. The Agreement was adopted by the unanimous consent of the Board of Directors of CAC and approved by consent of the sole shareholder of CAC on August 30, 2000. The Agreement was adopted by the unanimous consent of the Board of Directors of TCI and by the consent of a majority of the shareholders of TCI on August 30, 2000.

Upon effectiveness of the Agreement, the Company had an aggregate of 21,775,337 shares of common stock outstanding. Immediately prior to the effectiveness of the Agreement (I.E. the moment before the effective date of the Agreement) the Company had 1,980,000 shares of common stock outstanding. By virtue of the merger, and their receipt of 19,795,337 shares of the Company common stock, TCI's shareholders acquired 90.90% of the issued and outstanding common stock of the Company.

The directors of the Company, prior to the effectiveness of the Agreement, have, as part of and as a result of the reorganization, elected new officers and directors of the Company and immediately thereafter (upon the effectiveness of the Agreement) resigned as directors of the Company. As a result, the pre-merger shareholders of TCI, who acquired 90.90% of the issued and outstanding common stock of Company in the reorganization, control the Company and TCI's officers and directors have become the officers and directors of the Company. See "Management" below.

The officers and directors of TCI shall remain and be the officers and directors of TCI after the effective date of the Agreement.

A copy of the Agreement is filed as an exhibit to this Form 8-K and is incorporated in its entirety herein, with the exception of the schedules to the Agreement. The foregoing description is modified by such reference.

(b) The following table contains information regarding the shareholdings of the 3 (three) current directors and executive officers and those persons or entities who beneficially own more than 5% of its common stock (giving effect to the exercise of the warrants held by each such person or entity):

Name	Amount of Common Stock Beneficially Owned (1)	Percent of Common Stock Beneficially Owned
Officers and Directors		
David W. Grimes Chairman and Chief Technology Officer 670 Ritchie Highway, 2nd Floor Severna Park, Maryland 21146	4,971,917	21.5%
L. Peter Larson President and Chief Executive Officer 670 Ritchie Highway, 2nd Floor Severna Park, Maryland 21146	1,505,285	6.5%
Stephen L. Sadle Chief Operating Officer 670 Ritchie Highway, 2nd Floor Severna Park, Maryland 21146	5,722,694	24.7%
Others		
Donald Erat 670 Ritchie Highway, 2nd Floor Severna Park, Maryland 21146	2,861,347	12.3%
Ronald Pickett 2321 Ocean Point Drive Wilmington, NC 28405	2,658,964	11.5%
FERST for St. Mary's, Inc. P.O. Box 167 Mechanicsville, MD 20658	1,958,549*	8.5%

* Includes 652,850 immediately exercisable warrants to purchase shares of common stock at \$1.00 per share

(1) Based upon 21,775,337 outstanding shares of common stock (subsequent to the effectiveness of the reorganization) plus 1,397,098 immediately exercisable warrants to purchase shares of common stock.

(c) The holders of restricted "legended" shares of the Company's common stock, prior to the effectiveness of the Agreement, are entitled pursuant to an agreement entered into with the Company (the "Registration Rights Agreement") to piggyback registration rights with other substantially similar securities registered by the Company during a 2 year period following the effectiveness of the Agreement. A copy of the Registration Rights Agreement is filed as an exhibit to this Form 8-K and is incorporated in its entirety herein. The

foregoing description is modified by such reference.

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS

On August 30, 2000, a 90.90% interest in Company was acquired by the shareholders of TCI by way of a reorganization involving a reverse triangular merger (through CAC) by and with TCI, a Delaware corporation. The Company's Board of Directors approved the reorganization set forth in the Agreement. As a result of this reorganization transaction TCI is a wholly-owned subsidiary of Company.

CURRENT OPERATIONS

The Company had no independent business operations prior to the effectiveness of the reorganization. Subsequent to the effectiveness of the reorganization, the Company's only business operation was a holding company for its wholly-owned subsidiary, TCI. TCI is actively engaged in the telephone and Internet businesses. TCI has developed working prototypes for two products designed to provide Internet and telephone service through power line transmission. TCI has developed and applied for patents which cover the technology developed and plans to utilize recently announced advancements in transmission speed to build next generation hardware for field test and marketing demonstrations. TCI intends to expand its design team to produce and deliver a variety of telephony products to provide complete solution sets for its customers.

TCI BUSINESS

TCI was formed to develop applications for emerging power-line carrier technologies. Technology developed will be licensed or sold to companies with vertical markets who could build on TCI's basic expertise to construct power line carrier based systems that enhance their business base and capability. TCI can be characterized as a high technology systems application developer with primary focus on applications in Internet distribution worldwide and telephony systems in developing countries around the globe, where local communications infrastructures are not providing cost-effective service. TCI intends to be a key global supplier of communications products through the development of strategic joint venture and licensing relationships, which will enhance long-term growth and provide a stable platform for market penetration. TCI has developed proprietary products, which are the first of their kind to provide telephony communications solutions.

The first involves the use of the power line infrastructure to distribute telephony using a hybrid system. The central office of a public service telephone network may choose to provide the wide band line for interconnectivity to the TCI power line carrier telephony system. This approach greatly reduces the cost and time required to bring telecommunications services to communities that do not have such services. Alternatively, V-sat connectivity can also be used for distribution to an access point of a public service telephone network.

TCI's second proprietary product provides Internet service via power lines to end users through interfaces with available high-speed landlines or geosynchronous satellite to a Vsat terminal. Use of power lines substantially improves the cost effectiveness of this Internet delivery system, and when used in conjunction with satellite access may avoid the traditional per minute telecom charges that are incurred by users throughout Europe. Using power lines for distribution could make the Internet economically viable for a large population of potential customers. TCI's system avoids the disruption and high cost of new wiring.

PERCEIVED BENEFITS

There are certain perceived benefits to being a reporting company with a class of publicly traded securities. These are commonly thought to include the following:

- * the ability to use registered securities to make acquisitions of assets or businesses;
- * increased visibility in the financial community;

- * the facilitation of borrowing from financial institutions;
- * improved trading efficiency;
- * shareholder liquidity;
- * greater ease in subsequently raising capital;
- * compensation of key employees through stock options;
- * enhanced corporate image;
- * a presence in the United States capital markets.

PROPERTY AND OFFICES

The Company's principal executive office is located at 670 Ritchie Highway, 2nd Floor, Severna Park, Maryland 21146. The Company's registered office in Utah is c/o Richard Lawrence, Suite 1200, Beneficial Life Tower, 36 South State Street, Salt Lake City, Utah 84111. TCI currently has approximately 1000 sq. ft. of office space rented at 670 Ritchie Highway, 2nd Floor, Severna Park, Maryland 21146 and shares laboratory facilities with Space-port access at Windermere Information Technology Systems in Annapolis. The Company is in negotiation for a leased facility that would allow for planned increases in operating activities.

LITIGATION

There is no known litigation pending against either the Company or TCI.

MARKET FOR THE COMPANY SECURITIES

The Company has been a reporting public company. The Company's common stock is listed on the OTC Bulletin Board operated by Nasdaq under the symbol CKCC.OB, but has never been publicly traded. Due to this lack of public trading, there is no established market price for the Company's common stock. Following the effectiveness of the Agreement, the Company's common stock will be listed on the OTC Bulletin Board operated by Nasdaq under the symbol TLKO.

MANAGEMENT

Name	Age	Title
---	---	-----
David W. Grimes	63	Chairman & Chief Technology Officer
L. Peter Larson	50	President & Chief Executive Officer
Kevin L. Miller	47	Chief Financial Officer
Stephen L. Sadle	54	Chief Operating Officer
Robert P. Crabb	53	Secretary

DAVID W. GRIMES is the co-founder of TCI. He is also the founder and CEO of Transpace Carriers, Inc., a venture to commercialize the Delta Launch Vehicle. Grimes was the former Senior Executive for the Delta Program at NASA, heading the \$200M per annum program. He was most recently Chief Engineer of Final Analysis, Inc. and led the design and development of the Low Earth Orbit constellation of 38 satellites for use in global store and forward communications. Grimes is a recognized expert in space and ground communications systems and brings this expertise to bear on the implementation of the hybrid telephony technology described herein.

L. PETER LARSON has an extensive background in engineering and finance. After completing his BSEE and MS in Operations Research at Rensselaer Polytechnic, he began his career with General Dynamics Corporation. During his

20+ year career at General Dynamics, he served in various executive positions including Vice President and Controller of their International Services Company and Senior Vice President Finance and CFO for the Cessna Aircraft Company. Mr. Larson was a consultant and has recently served as CFO or COO in several start-up and turn-around assignments in electronics manufacturing, software, Internet application development and telecommunications.

KEVIN L. MILLER has over twenty-six years of experience in finance and business development of which twenty-three years were spent at General Electric Company ("GE"). At GE, he held executive-level positions in such diverse businesses as GE Capital, Information Services, Power Systems, Engineered Materials, Healthcare, Corporate Finance and GE Investments. Mr. Miller began his career at GE on its prestigious three-year Financial Management Program which he completed with honors. Mr. Miller left GE to become a founding partner of the Strategic Ventures Group (SVG), a success-fee based consulting firm to both early-stage technology companies and established global companies. Prior to joining Telkonet, he was the Chief Financial Officer of Internos Corporation, a Dulles, Virginia based Internet company providing electronic commerce services to companies focused in industries such as construction, property management, railroad contracting, and toy manufacturing.

STEPHEN L. SADLE is a co-founder of the company. Mr. Sadle was previously employed as Senior Vice President and General Sales Manager of Internos, a provider of Web based vertical extranet applications and has developed operating extranets in the construction and transportation industries. For 15 years prior, Sadle was Vice President of Business Development and Sales for The Driggs Corporation, a major heavy and infrastructure contracting firm interfacing with government and the private sectors. Also, he was president and founder of a successful construction company and was awarded Small Businessman of the Year Award for the Washington Metropolitan Area. Mr. Sadle brings significant management, contracting and entrepreneurial skills to the company.

ROBERT P. CRABB has over 30 years of sales, marketing and public and private corporate management experience, including 15 years with the Metropolitan Life Insurance Company where he assisted in the development of marketing and training programs. His entrepreneurial expertise includes marketing and financial consulting and commercial and residential real estate development. Mr. Crabb is the President of Susquehanna Development L.L.C., a marketing and business development consulting company. Mr. Crabb serves on the Board of Directors of Medical Advisory Systems, Inc. (AMEX:"DOC"). As a consultant, Mr. Crabb will provide marketing and public company administration services to Telkonet.

EXECUTIVE COMPENSATION

L. PETER LARSON is employed as the TCI's President and Chief Executive Officer and has assumed such positions with the Company. Pursuant to a three (3) year employment agreement by and between Mr. Larsen and TCI, in compensation for the performance of his executive duties, Mr. Larsen shall be compensated in the amount of One Hundred Thirty Thousand Dollars (\$130,000) per annum. Such annual compensation may be increased at TCI's discretion and Mr. Larsen is eligible for yearly bonuses also at TCI's discretion. The base term of Mr. Larsen's employment contract expires on June 18, 2003.

STEPHEN L. SADLE is employed as the TCI's Executive Vice-President, Secretary, Treasurer and Chief Operating Officer and has assumed such positions with the Company. Pursuant to a three (3) year employment agreement by and between Mr. Sadle and TCI, in compensation for the performance of his executive duties, Mr. Sadle shall be compensated in the amount of One Hundred Thirty Thousand Dollars (\$130,000) per annum. Such annual compensation may be increased at TCI's discretion and Mr. Sadle is eligible for yearly bonuses also at TCI's discretion. The base term of Mr. Sadle's employment contract expires on June 18, 2003.

DAVID W. GRIMES is employed as TCI's Chairman and has assumed such position with the Company. He has no employment contract with TCI, being an employee at-will, and he is compensated for the performance of his executive duties in the amount of Forty-Eight Thousand Dollars (\$48,000) per annum

KEVIN L. MILLER is employed as TCI's Chief Financial Officer and has

assumed such position with the Company. He has no employment contract with TCI, being an employee at-will, and he is compensated for the performance of his executive duties in the amount of Ninety-Six Thousand Dollars (\$96,000) per annum

RELATED TRANSACTIONS

NOT APPLICABLE

RISK FACTORS

The Company, its business plan and any offering of its securities are subject to numerous risk factors which prospective investors should carefully consider, including the following:

TAXATION. The business combination described herein has been structured so as to minimize the federal and state tax consequences to the Company, TCI and their respective shareholders. No rulings have been requested from the Internal Revenue Service regarding this reorganization and, therefore, there can be no absolute assurance that such business combination have met the statutory requirements of a tax-free reorganization or that the parties will obtain the intended tax-free treatment. A non-qualifying reorganization could result in the imposition of both federal and state taxes, which might have an adverse effect on the parties to the transaction.

POSSIBLE PRICE VOLATILITY. Although it is impossible to predict the nature of any secondary trading market for the Company's common stock in the future, the market prices for securities of emerging companies historically have been highly volatile. Future announcements concerning the Company or its competitors, including the results of testing, technological innovations or new commercial products, government regulations and developments concerning proprietary rights or litigation may have a significant impact on the price of the Company's securities in any such secondary trading.

NO DIVIDENDS ANTICIPATED. The Company has never paid any dividends on its securities and does not anticipate the payment of dividends in the foreseeable future.

CURRENT TRADING MARKET FOR THE COMPANY'S SECURITIES. The Company's common stock is listed on the OTC Bulletin Board operated by Nasdaq under the symbol CKCC.OB. There has been no previous open market trading of the Company's Common Stock.

PENNY STOCK REGULATION. Upon commencement of trading in the Company's stock, if such continues (of which there can be no assurance) the Company's common stock may be deemed a penny stock. Penny stocks generally are equity securities with a price of less than \$5.00 per share other than securities registered on certain national securities exchanges or quoted on the Nasdaq Stock Market, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system. The Company's securities may be subject to "penny stock rules" that impose additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors (generally those with assets in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 together with their spouse). For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of such securities and have received the purchaser's written consent to the transaction prior to the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the "penny stock rules" require the delivery, prior to the transaction, of a disclosure schedule prescribed by the Commission relating to the penny stock market. The broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements must be sent disclosing recent price information on the limited market in penny stocks. Consequently, the "penny stock rules" may restrict the ability of broker-dealers to sell the Company's securities. The foregoing required penny stock restrictions will not apply to the Company's securities if such securities maintain a market price of \$5.00 or greater. There can be no assurance that the price of the Company's securities will reach or maintain such a level.

DEVELOPMENT STAGE COMPANY. Subsequent to the reorganization the Company has become a development stage company, the business of which is subject to all of the risks and uncertainties normally associated with business ventures in the development stage, which historically have a high failure rate. Although members of the management team of the Company have substantial experience in technology development, there can be no assurance that the Company effectively market such developments and that the Company will be profitable in the future.

UNPROVED MARKET ACCEPTANCE. Although the Company believes there is a substantial need for the technologies and products proposed to be offered by the Company, its management is unable to guarantee the level of market acceptance for these products or their performance compared to other existing or future technologies. Furthermore the Company cannot guarantee the level of revenues that will ultimately be generated by these products.

UNCERTAIN MARKETING PARTNERSHIPS. Subsequent to the reorganization, the Company has not yet finalized a contract with any partner to guarantee a minimum level of revenue generation. As such, the Company is unable to gauge the level of acceptance of its technologies. Failure of the Company to establish or retain customer acceptance would have a material adverse effect on the operations of the Company and profits of the Company.

TECHNOLOGICAL FEASIBILITY UNDETERMINED. While the Company is in the process of evaluating its technologies, important specific applications have not yet been designed nor tested for their final intended use. Thus, there is no assurance that the technologies will function as predicted. Failure of the technologies to function as predicted or any delay in the development of the technologies will have a material adverse effect on the Company.

DEPENDENCE ON MANAGEMENT AND LIMITED STAFF. The Company's ability to achieve its objectives is largely dependent upon the services of its key employees. The loss of services of any of those could have a material adverse impact on the Company. The Company has no business interruption insurance or keyman life insurance on any of its employees. The death or disability of any key employees or key independent contractors or the occurrence of any other uninsured event would likely have a material adverse impact on the Company. The Company's future success also depends on its continuing ability to attract and retain highly qualified technical, sales and marketing, customer support, financial and accounting, and managerial personnel. Competition for such personnel in the technology industry is intense, and there can be no assurance that the Company will be able to retain its key personnel or that it can attract, assimilate or retain other highly qualified personnel in the future.

PATENT AND TRADE SECRET PROTECTION. Subsequent to the reorganization, no patent has been issued on the technology to be utilized by the Company, nor has any trademark for the use of the name "Telkonet" been issued to the Company. No assurance can be given that the Company will be able to successfully utilize the name Telkonet nor can any assurance be made that the Company will procure trademark rights to same. Additionally, if the Company proceeds with its product and services under the Telkonet name, the Company may be exposed to liability for the use of the names. As a result of the above, use and/or protection of the Company's products and services from competitors may be limited. There is no assurance that the Company can prevent others from offering similar products or that the Company has or will have sufficient resources to prosecute and defend litigation involving such intellectual property. Although the Company plans to register the appropriate trademarks, there is no assurance that the Company will obtain these trademarks, nor prevent others from using said names.

NEED FOR ADDITIONAL FUNDS - FUTURE DILUTION. The Company will not be able to adequately fund the development, implementation and marketing of its technology without the infusion of additional funds. Acquisition of such funding may occur through the issuance of additional shares of the Company, the effect of which may be the dilution of the ownership interests of its shareholders subsequent to the reorganization. There is no assurance that the Company will be able to continue development and fully implement its marketing plan as currently contemplated without such future issuances.

COMPETITION IN THE INDUSTRY. Competition is intense in the technology field. Moreover, other companies, who may be substantially larger than the Company and with other competitive advantages such as name recognition, an established market presence, legal services, and/or sales organizations, could

develop technologies that would provide identical features to the Company's proposed technologies, or products that are broader in scope or more technologically advanced than those of the Company.

PARTICIPATION OF OTHER CORPORATIONS. A key to success of the Telkonet technologies is the participation of other corporations and sponsors. Subsequent to the reorganization, the Company has not yet signed any participation or sponsor agreements which would generate revenue for the Company. Failure of the Company to establish and retain these sources of revenue would have a material adverse effect on the Company.

CONTROL OF THE COMPANY. Current executive officers and directors of the Company hold stock representing 53.9% of the Common Stock of the Company. These shareholders will continue to determine the outcome of corporate actions requiring shareholder approval, including the election of directors until such time as their shares are diluted through subsequent offerings.

RISKS ASSOCIATED WITH TECHNOLOGICAL CHANGE. The market in which the Company competes is characterized by rapidly changing technology, evolving industry standards, frequent new product announcements, introductions and enhancements, and changing customer demands. Accordingly, the Company's future success will depend on its ability to rapidly adapt to new ideas or scientific findings, its ability to rapidly adapt its solutions to meet evolving industry standards and its ability to continually improve the performance, features and reliability of its product to both changing customer demands and competitive product offerings. The failure of the Company to successfully adapt to such changes in a timely manner could have material adverse effect on the Company's business, results of operations and financial condition. Furthermore, there can be no assurance that the Company will not experience difficulties that could delay or prevent the successful design, development, testing, introduction or marketing of new technologies, or that any new solutions or enhancements to existing technologies will adequately meet the requirements of its prospective customers and achieve any degree of significant market acceptance.

LITIGATION AND LIABILITY INSURANCE. The Company intends to secure general professional liability insurance. However, there can be no guarantee that clients of the Company will not enter into litigation against the Company as a result of information received from the Company. In the event that the Company is in fact sued, the Company may not be adequately insured.

BROAD DISCRETION OF MANAGEMENT. Management will have broad discretion with respect to the expenditure of the Company's funds and the overall operation of the Company. Though each of the members of the senior management team has had broad experience in the technology field their exposure to start-up companies and start-up telephony companies in particular has been limited.

UNCERTAIN VALUE OF STOCK OF COMPANY. There have been no professional opinions concerning the value of the stock of the Company or the net worth of the Company.

GOVERNMENT REGULATION AND LEGAL UNCERTAINTIES. Due to concerns arising in connection with the increasing popularity and use of the Internet, laws and regulations, in the United States and abroad, may be adopted covering issues such as user privacy, acceptable content, or taxation for services. Such legislation could affect the growth in use of the Internet generally or the Company, either of which could have a material adverse effect on the Company's business, results of operations and financial condition.

NO OPERATING History or Revenue and Minimal Assets. Prior to the effectiveness of the Agreement the Company had no operating history nor revenues or earnings from operations nor significant assets or financial resources. TCI also had insignificant operation and minimal revenues prior to the effectiveness of the Agreement and had only minor amounts of assets.

LACK OF DIVERSIFICATION. The Company's proposed operations, even if successful, will in all likelihood result in the Company engaging in a single line of business. The Company's inability to diversify its activities into a number of areas may subject the Company to economic fluctuations within a particular business or industry and therefore increase the risks associated with the Company's operations.

ITEM 3. BANKRUPTCY OR RECEIVERSHIP

Not applicable.

ITEM 4. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT

On August 29, 2000, the Company dismissed its certifying public accountants, H J & Associates, LLC (formerly Jones, Jensen & Company) ("HJ"). HJ's report on the financial statements for the period as of December 31, 1999 and the related statements of operations, stockholders' equity (deficit) and cash flows for the years ended December 31, 1999 and 1998 and from the beginning of the development stage on July 28, 1997 through December 31, 1999 did not contain an adverse opinion or disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope or accounting principles, except that their report for the year ended December 31, 1999 contained an explanatory paragraph regarding the substantial doubt about the Company's ability to continue as a going concern. The decision to dismiss HJ was approved by the Company's Board of Directors. During the period of July 28, 1997 (beginning of the development stage) through December 31, 1999 and subsequent interim period through August 29, 2000, the Company has not had any disagreements with HJ on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure. The Company has engaged Stefanou & Company, LLP ("Stefanou") as its certifying accountant as of August 29, 2000 for the Company's fiscal year ending December 31, 2000.

The Company has not consulted Stefanou previously. HJ's letter, which is required pursuant to Item 304(a)(3) of Regulation S-B, is attached.

The Company has not consulted Stefanou previously. Jones, Jensen's letter, which is required pursuant to Item 304(a)(3) of Regulation S-B, is attached.

ITEM 5. OTHER EVENTS

Not applicable.

ITEM 6. RESIGNATIONS OF DIRECTORS AND EXECUTIVE OFFICERS

The directors and executive officers of the Company serving prior to the effectiveness of the Agreement, have, as part of and as a result of the reorganization, resigned as officers and directors of Company. New directors and executive officers of the Company were elected or selected immediately prior to the effectiveness of the Agreement. These newly elected or selected directors and executive officers are the prior directors and executive officers of TCI.

Item 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS

(a) Financial statements of business acquired.

The required financial statements of the business acquired are set forth below

TELKONET, INC.

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Financial Statements

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Interim Financial Statements (Unaudited)

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December 31, 1999 F-14

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STEFANOU & COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS
1360 Beverly Road
Suite 305
McLean, VA 22101-3621
703-448-9200
703-448-3515 (fax)
Philadelphia, PA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Telkonet Communications, Inc.
Severna Park, Maryland

We have audited the accompanying balance sheet of Telkonet Communications, Inc. (a development stage company) as of June 30, 2000 and the related statements of losses, stockholders' equity, and cash flows for the period November 3, 1999 (date of inception) to June 30, 2000. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based upon our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Telkonet Communications, Inc. as of June 30, 2000, and the results of its operations and its cash flows from November 3, 1999 (date of inception), to June 30, 2000, in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As shown in the financial statements, the Company has incurred net losses since its inception. This raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to this matter are described in Note H. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ STEFANOU & COMPANY, LLP
Stefanou & Company, LLP

Certified Public Accountants
McLean, Virginia
August 16, 2000

TELKONET COMMUNICATIONS, INC.
(A DEVELOPMENT STAGE COMPANY)
BALANCE SHEET
JUNE 30, 2000

ASSETS

CURRENT ASSETS:

Cash and equivalent	\$ 8,232	
Marketable securities, at cost which approximates market		525,000

Total current assets	533,232	

PROPERTY AND EQUIPMENT-AT COST:

Furniture, equipment and leasehold improvements		74,646
Less accumulated depreciation		10,505

	64,141	

	\$ 597,373	
	=====	

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable and accrued expenses	\$ 70,070	
Note payable (Note B)		235,000

Total current liabilities	305,070	

COMMITMENTS AND CONTINGENCIES (Note E)

STOCKHOLDERS' EQUITY (Note C)

Common stock, par value \$.01 per share; 25,000 shares authorized; 21,035 issued at June 30, 2000		210
Additional paid in capital	656,985	
Deficit accumulated during development stage		(364,892)

Total stockholders' equity	292,303	

	\$ 597,373	
	=====	

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TELKONET COMMUNICATIONS, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF LOSSES FOR THE PERIOD NOVEMBER 3, 1999
(DATE OF INCEPTION) THROUGH JUNE 30, 2000

For the Period
November 3, 1999,
(Date of Inception) to
June 30, 2000

Cost and expenses:

Research and development		\$ 51,138
--------------------------	--	-----------

General and administrative	295,958
Interest	7,564
Depreciation and amortization	10,232

	364,892
Loss before income taxes	(364,892)
Income (taxes) benefit	-

Net loss	<u><u>\$(364,892)</u></u>

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<TABLE>

TELKONET COMMUNICATIONS, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF IN STOCKHOLDERS' EQUITY
FOR THE PERIOD NOVEMBER 3, 1999 (DATE OF INCEPTION) TO JUNE 30, 2000

<CAPTION>

	Common Shares	Stock Amount	Deficit accumulated			
			Additional Paid-in-Capital	During Development Stage	Total	
	-----	-----	-----	-----	-----	
<S>	<C>	<C>	<C>	<C>	<C>	
Issuance of common stock to founders		19,300	\$ 193	\$ 11,377	\$ -	\$ 11,570
Sale of stock issued pursuant to private placement, net of costs		1,735	17	645,608	-	645,625
Net loss	-	-	-	(364,892)	(364,892)	
	-----	-----	-----	-----	-----	
Balance at June 30, 2000		21,035	\$ 210	\$ 656,985	\$(364,892)	\$ 292,303

</TABLE>

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<TABLE>

TELKONET COMMUNICATIONS, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENTS OF CASH FLOWS
FOR THE PERIOD NOVEMBER 3, 1999 (DATE OF INCEPTION) TO JUNE 30, 2000

<CAPTION>

	For the Period November 3, 1999, (Date of Inception) to June 30, 2000 -----
<S>	<C>
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	
Cash flows from operating activities	
Net loss from development stage operations	\$(364,892)

Adjustments to reconcile net loss from development stage	
Operations to cash used for operating activities:	
Depreciation and amortization	10,232
(Increase) decrease in:	
Increase in marketable securities	(525,000)
Prepaid and other	273
Increase (decrease) in:	
Accounts payable and accrued expenses, net	70,070

Net cash used by operating activities	(809,317)
Cash flows used in investing activities:	
Capital expenditures, net of disposals	(74,646)

Net cash used in investing activities	(74,646)
Cash flows used in financing activities:	
Proceeds from sale of common stock, net of costs	657,195
Proceeds from loans	235,000

Net cash, provided (used) in financing activities	892,195

Net (decrease) increase in cash and equivalents	8,232
Cash and equivalents at beginning of period	0

Cash and equivalents at end of period	\$ 8,232
	=====

Supplemental Disclosures of Cash Flow Information

Cash paid during the period for interest	\$ -
Income taxes paid	-

</TABLE>

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NOTE A-SUMMARY OF ACCOUNTING POLICIES

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

Business and Basis of Presentation

Telkonet Communications, Inc. ("Company") was formed on November 3, 1999 under the laws of the State of Delaware. The Company 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 the Company has recognized no revenues and has incurred significant operating expenses.

Advertising

The Company follows the policy of charging the costs of advertising to expenses incurred.

Property and Equipment

For financial statement purposes, property and equipment are depreciated using the straight-line method over their estimated useful lives (three to five years for furniture, fixtures and equipment). The straight-line method of depreciation is also used for tax purposes.

Marketable Securities

Marketable securities consist primarily of corporate equity securities. The Company's marketable securities are considered to be "available for sale" and accordingly, are carried on the balance sheet at fair market value, which approximates cost. Gains/losses from securities have not been material.

Income Taxes

Income taxes are provided based on the liability method for financial reporting purposes in accordance with the provisions of Statements of Financial Standards No. 109, "Accounting for Income Taxes". Under this method deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be removed or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of operations in the period that includes the enactment date.

Cash Equivalents

For purposes of the Statements of Cash Flows, the Company considers all highly liquid debt instruments purchased with a maturity date of three months or less to be cash equivalents.

Impairment of Long-Lived Assets

The Company has adopted Statement of Financial Accounting Standards No. 121 (SFAS 121). The Statement requires that long-lived assets and certain identifiable intangibles held and used by the Company be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. SFAS No.121 also requires assets to be disposed of be reported at the lower of the carrying amount or the fair value less costs to sell.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly actual results could differ from those estimates.

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Research and Development

Company-sponsored research and development costs related to both present and future products are expended in the period incurred. Total expenditures on research and product development for the November 3, 1999 (inception of Company) through June 30, 2000 were \$ 51,138.

Concentrations of Credit Risk

Financial instruments and related items which potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents and trade receivables. The Company places its cash and temporary cash investments with credit quality institutions. At times, such investments may be in excess of the FDIC insurance limit. The Company currently has no customers.

STOCK BASED COMPENSATION

The Company accounts for stock transactions in accordance with APB Opinion 25, "Accounting for Stock Issued to Employees." In accordance with statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation," the Company has adopted the proforma disclosure requirements.

Liquidity

As shown in the accompanying financial statements, the Company incurred a net loss of \$364,892 from November 3, 1999 (inception of the Company) through June 30, 2000.

Comprehensive Income

The Company does not have any items of comprehensive income in any of the periods presented.

Segment Information

The Company adopted Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information ("SFAS 131") in the year ended December 31, 1998. SFAS establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. SFAS 131 also establishes standards for related disclosures about products and services and geographic areas. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision making group, in making decisions how to allocate resources and assess performance. The information disclosed herein, materially represents all of the financial information related to the Company's principal operating segment.

New Accounting Pronouncements

The Company adopted Statement of Financial Accounting Standards No. 132, Employers' Disclosures about Pension and Other -Post Employment Benefits ("SFAS 132") in the six months ended June 30, 2000. SFAS No. 132 establishes disclosure requirements regarding pension and post employment obligations. SFAS No. 132 does not effect the Company as of June 30, 2000. In March 1998, Statement of Position No. 98-1 was issued, which specifies the appropriate accounting for costs incurred to develop or obtain computer software for internal use. The new pronouncement provides guidance on which costs should be capitalized, and over what period such costs should be amortized and what disclosures should be made regarding such costs. This pronouncement is effective for fiscal years beginning after December 15, 1998, but earlier application is acceptable. Previously capitalized costs will not be adjusted. The Company believes that it is already in substantial compliance with the accounting requirements as set forth in this new pronouncement, and therefore believes that adoption will not have a material effect on financial condition or operating results.

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In April 1998, Statement of Position No. 98-5 was issued which requires that companies expense defined previously capitalized start-up costs including organization costs and expense future start-up costs as incurred. Adoption of this statement does not have an effect on financial condition or operating results.

The Company adopted Statement of Financial Standards No. 133, Accounting for Derivative Instruments and for Hedging Activities ("SFAS No. 133") in the six months ended June 30, 2000. SFAS No. 133 requires that certain derivative instruments be recognized in balance sheets at fair value and for changes in fair value to be recognized in operations. Additional guidance is also provided to determine when hedge accounting treatment is appropriate whereby hedging gains and losses are offset by losses and gains related directly to the hedged item. SFAS No. 133's impact on the Company's consolidated financial statements is not expected to be material as the Company has not historically used derivative and hedge instruments.

In December, 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 ("SAB 101"), Revenue Recognition in Financial

Statements, which will become effective December 31, 2000. The Company does not expect the standard to have a material effect on its results.

NOTE B-NOTE PAYABLE

Note payable at June 30, 2000 consists of the following:

Margin loan payable secured by common stock; interest at broker call rate (8.98% at June 30, 2000) payable monthly	\$ 235,000
	<u> </u>

NOTE C - CAPITAL STOCK

The Company was incorporated under the laws of the State of Delaware on November 3, 1999 under the name of Telkonet Communications, Inc. The Company is a successor to Telkonet Communications, Inc., a company formed under the laws of the State of Maryland ("Predecessor"). The Predecessor was an inactive corporation entity with no significant assets or operations.

The Company has authorized 25,000 shares of common stock , with a par value of \$.01 per share.

In June, the Company issued a Private Offering Memorandum for the sale of common stock at a purchase price of \$ 375.00 per share. As of June 30, 2000, the Company had received \$ 650,625, net of costs, for 1,735 shares sold under this offering (see Note G).

As of June 30, 2000, the Company had the following outstanding warrants to purchase the Company's common stock.

Number of Shares -----	Exercise Price per Share -----	Date of Expiration -----
50	\$375	June 1, 2001
50	\$935	June 1, 2001

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NOTE D-INCOME TAXES

The Company has adopted Financial Accounting Standard number 109 which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statement or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Temporary differences between taxable income reported for financial reporting purposes and income tax purposes are insignificant.

For income tax reporting purposes, the Company's aggregate unused net operating losses approximate \$364,892, which expire through 2020, subject to limitations of Section 382 of the Internal Revenue Code, as amended. The deferred tax asset related to the carryforward is approximately \$124,000. The Company has provided a valuation reserve against the full amount of the net operating loss benefit, since in the opinion of management based upon the earning history of the Company, it is likely that the benefits will not be realized.

Components of deferred tax assets as of June 30, 2000 are as follows:

Non Current:

Net operating loss carryforward	\$ 124,000
Valuation allowance	124,000
	<u> </u>
Net deferred tax asset	<u> </u> \$ -

NOTE E-COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company leases office space on a month to month basis in Severna Park, Maryland for its Corporate offices. Rental expense for the period November 3, 1999 (date of inception) through June 30, 2000 was \$2,970.

Employment and Consulting Agreements

The Company has an employment agreement with the Company's Chief Executive Officer and Chief Operating Officer. In addition to salary and benefit provisions, the agreement includes defined commitments should the employee terminate the employment with or without cause.

The Company has consulting agreements with outside contractors to provide marketing and financial advisory services. The Agreements are generally for a term of 12 months from inception and renewable automatically from year to year unless either the Company or Consultant terminates such engagement by written notice.

NOTE F-RELATED PARTY TRANSACTIONS

Included in accounts payable and accrued expenses is \$16,856 at June 30, 2000 which represents advances from stockholders or officers of the Company. No formal agreements or repayment terms exist.

NOTE G-SUBSEQUENT EVENTS

Subsequent to the date of the financial statements, the Company had received \$ 71,250.00, net of costs, for the sale of common stock under the Private Placement Memorandum (see Note C).

Subsequent to the date of the financial statements, the Company issued warrants to purchase Company common stock to certain consulting firms as partial consideration for services being rendered to the Company. The terms of the warrants are as follows:

Exercise Price Per Share	Number Outstanding	Date of Expiration
-----	-----	-----
\$375.00	263	July 31, 2001
375.00	135	July 31, 2001
935.00	250	June 30, 2001
935.00	750	July 31, 2001

NOTE H-GOING CONCERN MATTERS

The accompanying statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the financial statements from November 3, 1999 (date of inception of Company), the Company incurred losses from operations of \$364,892. This factor among others may indicate that the Company will be unable to continue as a going concern for a reasonable period of time.

The Company's existence is dependent upon management's ability to develop profitable operations and resolve its liquidity problems. Management anticipates the Company will attain profitable status and improve its liquidity through the continued developing of its products, establishing a profitable market for the Company's products and additional equity investment in the

Company. The accompanying financial statements do not include any adjustments that might result should the Company be unable to continue as a going concern.

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In order to improve the Company's liquidity, the Company is actively pursuing additional equity financing through discussions with investment bankers and private investors. There can be no assurance the Company will be successful in its effort to secure additional equity financing.

If operations and cash flows continue to improve through these efforts, management believes that the Company can continue to operate. However, no assurance can be given that management's actions will result in profitable operations or the resolution of its liquidity problems.

(b) Pro Forma Financial Information.

<TABLE>

COMSTOCK COAL COMPANY, INC.
CONSOLIDATED PRO FORMA UNAUDITED BALANCE SHEET
DECEMBER 31, 1999

ASSETS

<CAPTION>

	Comstock	Telkonet	Pro forma Adjustments	Pro forma Consolidated
<S>	<C>	<C>	<C>	<C>
CURRENT ASSETS:				
Cash	\$ -	\$ 8,232		\$ 8,232
Marketable securities		- 525,000		525,000
	-----	-----	-----	-----
Total current assets		- 533,232		533,232
PROPERTY AND EQUIPMENT, AT COST:				
Furniture and equipment		- 74,646		74,646
Less accumulated depreciation		- 10,505		10,505
	-----	-----	-----	-----
	- 64,141		64,141	
	-----	-----	-----	-----
	\$ -	\$ 597,373		\$ 597,373
	=====	=====		=====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable and accrued expenses		\$ 2,642	\$ 70,070	\$ 72,712
Note payable	-	235,000		235,000
	-----	-----	-----	-----
Total current liabilities		2,642	305,070	307,712

STOCKHOLDERS' EQUITY :

			(210)(2)	
			(418)(3)	
Common stock	2,398	210	19,618 (2)	21,598
			(77,950)(1)	
Additional paid in capital	77,950	656,985	(24,030)(1)	632,955
Deficit accumulated during development stage		(82,990)	(364,892)	82,990 (1) (364,892)
	-----	-----	-----	-----
	(2,642)	292,303		289,661
	-----	-----	-----	-----
	\$ 0	\$ 597,373		\$ 597,373
	=====	=====		=====

</TABLE>

<TABLE>

COMSTOCK COAL COMPANY, INC.
 CONSOLIDATED PRO FORMA CONSOLIDATED STATEMENT OF LOSSES
 DECEMBER 31, 1999

<CAPTION>

	Comstock	Pro forma Telkonet	Pro forma Adjustments	Pro forma Consolidated
<S>	<C>	<C>	<C>	<C>
Cost and expenses:				
Research and development		\$ -	\$ 51,138	\$ 51,138
General and administrative		4,940	295,958	300,898
Interest	-	7,564		7,564
Depreciation and amortization		-	10,232	10,232
	4,940	364,892		369,832
Loss before taxes	(4,940)	(364,892)		(369,832)
Income (taxes) benefit		-	-	
		-		-
Net loss	(4,940)	(364,892)		(369,832)
Loss per share:				
Basic and diluted	\$ (.00)	\$ (.00)		\$ (.02)
Weighted average shares outstanding:				
Basic and diluted (restated and giving effect of re-capitalization)	2,398,000			21,598,134

</TABLE>

COMSTOCK COAL COMPANY, INC.
 NOTES TO CONDENSED PROFORMA UNAUDITED FINANCIAL STATEMENTS
 DECEMBER 31, 1999

The Proforma Unaudited Financial Statements have been prepared in order to present consolidated financial position and results of operations of Comstock Coal Company, Inc. ("Comstock") and Telkonet Communications, Inc. ("Telkonet") as if the acquisition had occurred as of November 3, 1999 (date of Telkonet's inception).

On August 25, 2000, Telkonet completed an Agreement and Plan of Reorganization ("Agreement") with 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.

Effective with the Agreement, all previously outstanding common stock, preferred stock, options and warrants owned by Comstock stockholders were exchanged for an aggregate of 1,980,000 shares of Telkonet 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. In accordance with Accounting Principles Opinion No. 16, Telkonet is the acquiring entity.

The following is a description of the pro forma adjustments that have been made to the financial statements.

(1) To record the acquisition of Comstock for stock. The significant components of this transaction are:

Stock issued	\$ 1,980
Excess of liabilities assumed over assets acquired	2,642

Total consideration paid	\$ 4,622
	=====

(2) To record exchange of Telkonet common shares for Comstock shares

(3) To record cancellation of 418,000 shares of Comstock common stock subsequent to December 31, 1999.

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(c) Exhibits

- 2.1 Agreement and Plan of Reorganization between Comstock Coal Company, Inc. and Telkonet, Inc.
- 3.1 Articles of Incorporation of Company, Inc. and Articles of Amendment to the Articles of Incorporation of Comstock Coal Company, Inc.
- 4.1 Registration Rights Agreement by Telkonet
- 10.1 Employment Agreement between Telkonet Communications, Inc, a wholly owned subsidiary of Telkonet, Inc., and Stephen L. Sadle
- 10.2 Employment Agreement between Telkonet Communications, Inc., a wholly owned subsidiary of Telkonet, Inc., and Lewis Peter Larson
- 16.1 Letter from Comstock Coal Company's former Certified Accountants
- 17.1 Letter of Resignation from James Doolin
- 17.2 Letter of Resignation from Jason Jenson
- 17.3 Letter of Resignation from Shane Thueson
- 21.1 Subsidiaries of Registrant
- 27.1 Financial Data Schedule

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

TELKONET, INC.

Date: August 30, 2000

AGREEMENT AND PLAN OF REORGANIZATION

dated as of

August 30, 2000

among

COMSTOCK COAL COMPANY, INC.

and

COMSTOCK ACQUISITION CORP.

(a wholly-owned subsidiary of Comstock Coal Company, Inc.)

and

TELKONET COMMUNICATIONS, INC.

SCHEDULES

Schedule 5.01	Telkonet Organization
Schedule 5.03	Telkonet Articles of Incorporation, Bylaws and Minutes
Schedule 5.05	Telkonet Affiliates
Schedule 5.08	Telkonet Financial Statements
Schedule 5.09	Telkonet Adverse Changes
Schedule 5.16	Telkonet Intellectual Property
Schedule 5.18	Telkonet Contracts
Schedule 6.04	Comstock and CAC Articles of Incorporation, By-Laws and Minutes
Schedule 6.04	Comstock and Comstock Acquisition Corp. Articles of Incorporation, By-Laws and Minutes
Schedule 6.09	Comstock Financial Statements
Schedule 6.13	Comstock Taxes

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AGREEMENT AND PLAN OF MERGER

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AGREEMENT AND PLAN OF REORGANIZATION

THIS AGREEMENT AND PLAN OF REORGANIZATION (the "AGREEMENT"), dated as of August 30, 2000, by and among Comstock Coal Company, a Utah corporation ("COMSTOCK"), having its principal place of business at 5525 South 900 East, Suite 110, Salt Lake City, UT 84117; Comstock Acquisition Corp., a Utah corporation ("CAC"), a wholly-owned subsidiary of Comstock, having its principal place of business at 5525 South 900 East, Suite 110, Salt Lake City, UT 84117; and Telkonet Communications, Inc., a Delaware corporation ("TELKONET"), having its principal place of business at 670 Ritchie Highway, Severna Park, Maryland 21146. CAC and Telkonet are each sometimes referred to herein as a "CONSTITUENT CORPORATION" or collectively as the "CONSTITUENT CORPORATIONS" and Telkonet is sometimes referred to herein as the "SURVIVING CORPORATION."

WHEREAS, the respective Boards of Directors of Comstock, CAC and Telkonet have determined that it is in the best interest of each corporation and its respective stockholders that Telkonet be acquired by Comstock through a merger of CAC with and into Telkonet in the manner set forth herein.

IT IS AGREED:

ARTICLE I

DEFINITIONS

For purposes of this Agreement, the following terms shall have the following meanings:

Section 1.01. "TELKONET COMMON STOCK" shall mean the Common Stock, \$0.01 par value, of Telkonet.

Section 1.02. "COMSTOCK COMMON STOCK" shall mean the Common Stock, \$0.001 par value per share, of Comstock.

Section 1.03. "TELKONET CERTIFICATE" shall mean a certificate representing shares of Telkonet Common Stock.

Section 1.04. "SEC" shall mean the Securities and Exchange Commission.

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Section 1.05. "DISSENTING SHAREHOLDERS" shall mean shareholders of Telkonet who are entitled to notice of and to vote at the special meeting of shareholders of Telkonet held to approve the Merger who do not vote in favor of the Merger and who have delivered to Telkonet a written demand for the fair value of the Telkonet Common Stock and otherwise complied with the provisions of the Delaware General Corporation Law.

Section 1.06. "EFFECTIVE DATE" shall have the meaning given that term in Section 2.01 hereof.

Section 1.07. "EXCHANGE ACT" shall mean the Securities Exchange Act of 1934, as amended.

Section 1.08. "EXCHANGE AGENT" shall mean Atlas Stock Transfer, Salt Lake City, Utah or such other agent appointed by Comstock to handle the exchange of Telkonet Certificates for certificates representing Comstock Common Stock.

Section 1.09. "GAAP" shall mean generally accepted accounting principles applied consistent with past practice.

Section 1.10. "MAILING DATE" shall mean the date upon which the Subscription Agreement to be distributed to the shareholders of Telkonet in connection with the Merger shall first be mailed or distributed to such shareholders.

Section 1.11. "MERGER" shall mean the merger of CAC with and into Telkonet with Telkonet as the Surviving Corporation, and in consideration for which the shareholders of Telkonet will receive Comstock Common Stock. The Merger shall be a "Reverse Triangular Merger" pursuant to Section 368(a)(2)(E) of the Internal Revenue Code.

Section 1.12. "SUBSCRIPTION AGREEMENT" shall mean the Subscription Agreement to be furnished to the shareholders of Telkonet in connection with the Merger.

Section 1.13. "SECURITIES ACT" shall mean the Securities Act of 1933, as amended.

Section 1.14. "SUBSIDIARY'S COMMON STOCK" shall mean the Common Stock, no par value, of CAC.

Section 1.15. "SURVIVING CORPORATION" shall mean Telkonet.

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ARTICLE II

MERGER OF CAC INTO TELKONET

Section 2.01. SURVIVING CORPORATION . Upon the approval and adoption of this Agreement by the shareholders of Telkonet and the shareholder of CAC in accordance with the laws of the States of Utah and Delaware and the satisfaction or waiver of the conditions set forth herein to the obligations of the parties hereto, a certificate of merger shall be filed with the Department of Commerce, Division of Corporations, of the State of Utah, and the Secretary of State of the State of Delaware. Effective as of the close of business on the date on which such certificate of merger is filed, CAC shall merge with and into Telkonet, which, as the Surviving Corporation, shall continue its existence under the laws of the State of Delaware under the name of Telkonet Communications, Inc. The date and time of such filing is herein referred to as the "EFFECTIVE DATE." At the Effective Date, the separate existence of CAC shall cease, Telkonet shall maintain the name Telkonet Communications, Inc., and Comstock shall change its name to "Telkonet, Inc."

ARTICLE III

CERTIFICATE OF INCORPORATION, BY-LAWS, DIRECTORS AND OFFICERS

Section 3.01. CERTIFICATE OF INCORPORATION. The Certificate of Incorporation of Telkonet in effect on the Effective Date shall be the Certificate of Incorporation of the Surviving Corporation until amended as provided by law.

Section 3.02. BY-LAWS. The by-laws of Telkonet in effect on the Effective Date shall be the by-laws of the Surviving Corporation until amended as provided by law.

Section 3.03. DIRECTORS AND OFFICERS. At the Effective Date, the officers and the members of the Board of Directors of Telkonet shall be the officers and directors of the Surviving Corporation and Comstock, retaining their respective positions. Such directors shall hold office until the next annual or special meeting of Telkonet and/or Comstock stockholders and until their successors are duly elected and qualified, and such officers shall hold office until they are replaced by the directors.

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Section 3.04. INDEMNIFICATION. From and after the Effective Date, each officer, director and employee of Telkonet who becomes a director or officer of or employed by Comstock or any of its subsidiaries after the Effective Date shall be indemnified by Comstock against any losses incurred by such director, officer or employee in connection with the performance of his or her duties to Comstock or any of its subsidiaries to the same extent and on the same terms as all other directors, officers or employees of Comstock or its subsidiaries are then indemnified by Comstock.

ARTICLE IV

CONVERSION AND EXCHANGE OF SHARES

Section 4.01. CONVERSION OF SHARES. The manner and basis of converting the shares or interests of each Constituent Corporation shall be as follows:

(a) Prior to the Effective Date, Jenson Services shall surrender for cancellation an aggregate of 418,000 shares of Comstock Common Stock, such that after cancellation of said shares and as of the Effective Date there shall be 21,775,337 shares of Comstock Common Stock issued and outstanding. Upon the Effective Date, all of the Telkonet Common Stock issued and outstanding shall, by virtue of the Merger and without any action on the part of the holder thereof, be converted into and exchanged for 19,795,337 shares of Comstock Common Stock, which (exclusive of the outstanding stock warrants set forth in Schedule 5.01 hereof) shall represent approximately 90.90% of the total 21,775,337 shares of Comstock Common Stock then issued and outstanding. All such shares shall be fully paid and non-assessable. Upon the Effective Date, all of the Telkonet Common Stock so converted shall be immediately canceled.

(b) Subject to the provisions of paragraph (c) of this Section 4.01, the Telkonet Common Stock which shall be outstanding immediately prior to the Effective Date shall by virtue of the Merger and without any action on the part of the holder thereof, be converted as a group, as of the Effective Date, into 19,795,337 shares of Comstock Common Stock. The number of shares of Comstock Common Stock to be issued in the Merger shall be reduced in the event that there are Dissenting Shareholders to that which is the percentage of all Telkonet Common Stock held by holders of Telkonet Common Stock who are not Dissenting Stockholders. The holders of any stock warrants or stock options of Telkonet shall become and be holders of such warrants and options in Comstock as of the Effective Date, subject to the exchange ratio set forth in Section 4.02 below.

(c) No certificates for fractions of shares of Comstock Common Stock and no scrip or other certificates evidencing fractional interests in such shares shall be issuable. Each stockholder of Telkonet who would otherwise be entitled to a fractional share shall, in lieu thereof, be paid a whole share of Comstock Common Stock.

(d) Each share of Telkonet Common Stock held in its treasury, if any, immediately prior to the Effective Date shall, by virtue of the Merger and without any action on the part of the holder thereof, be canceled, retired and cease to exist, without any consideration therefor.

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(e) All outstanding shares of Telkonet Common Stock held by Dissenting Shareholders shall not be converted into the right to receive Comstock Common Stock as described above, but shall be entitled to receive such consideration as shall be provided in the Delaware General Corporation Law, except that shares of Telkonet Common Stock outstanding at the Effective Date and held by a Dissenting Shareholder who shall thereafter withdraw his or her demand for payment of the fair value of his or her interest as provided for in the Delaware General Corporation Law, or otherwise with Comstock's consent, shall be deemed converted, as of the Effective Date, into the right to receive the Comstock Common Stock as provided for in this Agreement. Telkonet shall give Comstock prompt notice of any demand received by Telkonet to require Telkonet to purchase shares of outstanding Telkonet Common Stock, and Comstock shall have the right to direct and participate in all negotiations and proceedings with respect to such demand. Telkonet agrees that, except with the prior written consent of Comstock, or as required under the Delaware General Corporation Law, it will not voluntarily make any payment with respect to, or settle or offer to settle, any such purchase demand. Each Dissenting Stockholder who, pursuant to the provisions of the Delaware General Corporation Law, becomes entitled to payment of the fair value for Telkonet Common Stock, shall receive payment therefor (but only after the value therefor shall have been agreed upon or finally determined pursuant to such provisions).

(f) The aggregate number of shares of Comstock Common Stock set forth in Section 4.01 (b) shall be subject to appropriate and proportionate adjustment in the event that, prior to the Effective Date, the outstanding shares of Comstock Common Stock, as a group, shall have been, without consideration, increased, decreased, changed into or exchanged for a different number or amount

of shares or securities through reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or other like change in capitalization, other than pursuant to the Merger, or in the event that the capitalization of Comstock is other than as represented by Comstock and CAC in Section 6.01 below, so that in any event the shareholders of Telkonet receive their respective portions of Comstock Common Stock which in the aggregate is 90.90% of the total issued and outstanding Comstock Common Stock.

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Section 4.02. EXCHANGE OF CERTIFICATES.

(a) Each holder of record on the Effective Date of shares of Telkonet Common Stock shall be entitled, upon the surrender to Comstock or any exchange agent selected by Comstock of the certificate for his or her interests of Telkonet Common Stock for cancellation, to receive his or her pro rata portion of (i) certificates representing the number of shares of Comstock Common Stock into which the holder's shares of the Telkonet Common Stock shall have been converted in the Merger under Section 4.01(b) and (c).

(b) Until so presented and surrendered in exchange for certificates representing shares of Comstock Common Stock, each certificate which represented issued and outstanding shares of Telkonet Common Stock which were converted at the Effective Date into the shares of Comstock Common Stock shall be deemed for all corporate purposes to evidence the ownership of the number of shares of Comstock Common Stock into which the holder's shares have been converted in the Merger.

(c) Promptly after the Effective Date, Comstock shall deliver to the Exchange Agent certificates representing such number of shares of restricted Comstock Common Stock as shall be issuable in exchange for outstanding shares of Telkonet Common Stock pursuant to Section 4.01. Promptly after the Effective Date, the Exchange Agent shall mail to each record holder of an outstanding Telkonet Certificate, which immediately prior to the Effective Date represented shares of Telkonet Common Stock, a form letter of transmittal and instructions for use in effecting the surrender of the Telkonet Certificates for exchange of Comstock Common Stock as provided herein. Upon surrender to the Exchange Agent of an Telkonet Certificate, together with such letter of transmittal duly executed, and subject to Section 4.01(b) and (c), the holder of such Telkonet Certificate shall be entitled to receive in exchange therefor certificates for 932,64249 shares of Comstock Common Stock for each share of Telkonet Common Stock held by the shareholder at the Effective Date. If a certificate for shares of Comstock Common Stock is to be issued to a person other than the person in whose name the Telkonet Certificate surrendered is registered, it shall be a condition of exchange that the Telkonet Certificate so surrendered shall be properly endorsed or otherwise in proper form for transfer and that the person requesting such exchange shall pay any transfer or other taxes required by reason of the issuance of the Comstock Common Stock described herein to a person other than the registered holder of the Telkonet Certificate surrendered, or establish to the satisfaction of Comstock that such tax has been paid or is not applicable.

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Section 4.03. COMSTOCK COMMON STOCK. Except for the cancellation of 418,000 shares of Comstock Common Stock and the issuance of shares of Comstock Common Stock upon conversion of shares of Telkonet Common Stock pursuant to Section 4.01, the Merger shall effect no change in the shares of Comstock Common Stock and none of its shares shall be converted as a result of the Merger.

Section 4.04. NO FURTHER TRANSFERS. After the Effective Date, there shall be no registration of transfers on the shareholder transfer books of Telkonet of the shares which were outstanding immediately prior to the Effective Date.

Section 4.05. LEGENDED CERTIFICATES. Certificates representing shares of Comstock Common Stock issued to the shareholder of Telkonet shall be subject to stop transfer orders and bear a legend substantially as follows:

THE SHARES OF COMMON STOCK REPRESENTED BY THIS CERTIFICATE
HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR
UNDER ANY STATE SECURITIES LAWS. THESE SECURITIES MAY NOT BE
OFFERED, SOLD, TRANSFERRED, PLEDGED OR HYPOTHECATED IN THE

ABSENCE OF REGISTRATION, OR THE AVAILABILITY OF AN EXEMPTION FROM REGISTRATION, UNDER THE SECURITIES ACT OF 1933 AND APPROPRIATE STATE SECURITIES LAWS. FURTHERMORE, NO OFFER, SALE, TRANSFER, PLEDGE OR HYPOTHECATION IS TO TAKE PLACE UNLESS THE COMPANY RECEIVES AT THE TRANSFERRING SHAREHOLDER'S EXPENSE, AN OPINION OF COUNSEL SATISFACTORY TO IT, THAT AN EXEMPTION FORM REGISTRATION IS AVAILABLE.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF TELKONET

Telkonet represents and warrants to Comstock and CAC that:

Section 5.01. ORGANIZATION AND CAPITALIZATION OF TELKONET. Telkonet is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. The name and address of each shareholder of Telkonet, together with his/her respective number of shares of Telkonet Common Stock, is set forth in SCHEDULE 5.01 attached hereto. No dividends have been declared and not paid and no dividends are in default. Except as set forth in SCHEDULE 5.01, there are no other equity securities of any class of Telkonet authorized, issued, reserved for issuance or outstanding and there are no outstanding options, warrants, agreements or rights to subscribe for or to purchase, or commitments to issue, Telkonet Common Stock or any other capital stock of Telkonet.

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Section 5.02. POWER AND AUTHORITY. Telkonet has all requisite power and authority to own, lease and operate its properties and to conduct its business as presently conducted and as proposed to be conducted and is duly qualified or licensed as a foreign corporation in good standing in each jurisdiction in which the character of its properties or the nature of its business activities require such qualification (except where the failure to be so qualified will not have a material adverse effect on the business, properties, financial condition or earnings of Telkonet). Telkonet has no subsidiaries.

Section 5.03. CERTIFICATE OF INCORPORATION, BY-LAWS AND MINUTES OF TELKONET. Copies of the Certificate of Incorporation of Telkonet, as amended, certified by the Secretary of State of the State of Delaware, and the By-laws of Telkonet, certified by its Secretary, are true, complete and correct, and Telkonet's minutes contain a record, which is complete and accurate in all material respects, of all meetings and other actions of its shareholders and Board of Directors, copies of all of which are attached hereto at SCHEDULE 5.03.

Section 5.04. AUTHORITY FOR AGREEMENT. The Board of Directors of Telkonet has approved this Agreement and has authorized the execution and delivery hereof. Telkonet has full power, authority and legal right to enter into this Agreement, and subject to authorization and adoption of the Merger and the transactions contemplated hereby by the shareholders of Telkonet, to consummate the transactions contemplated hereby. This Agreement has been duly executed and delivered by Telkonet and constitutes the legal, valid and binding obligation of Telkonet, enforceable against Telkonet in accordance with its terms.

Section 5.05. AFFILIATES. The names of those persons who will acquire shares of Comstock Common Stock, in connection with the transactions contemplated by this Agreement who may be deemed to be "affiliates" of Telkonet under Rule 144 under the Securities Act and the percentage of membership interests of Telkonet Common Stock owned beneficially or of record or both by each of them are set forth on SCHEDULE 5.05 attached hereto.

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Section 5.06. NO VIOLATION TO RESULT. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby:

(a) are not in violation or breach of, do not conflict with or constitute a default under, and will not accelerate or permit the acceleration of the performance required by, any of the terms of the charter documents or by-laws of Telkonet or any note, debt instrument, security agreement, mortgage,

lease or license, or any other contract or agreement (collectively, the "Telkonet Agreements(s)"), written or oral, to which Telkonet is a party or by which Telkonet or any of its material properties or assets are bound;

(b) will not be an event which, after notice or lapse of time or both, will result in any such violation, breach, conflict, default, or acceleration;

(c) will not result in violation under any law, judgment, decree, order, rule, regulation or other legal requirement of any governmental authority, court or arbitration tribunal whether federal, state, provincial, municipal or local and applicable to Telkonet; and

(d) will not result in the creation or imposition of any lien, possibility of lien, encumbrance, security agreement, equity, option, claim, charge, pledge or restriction in favor of any third person upon any of the material properties or assets of Telkonet.

Section 5.07. NO EXISTING DEFAULTS. Telkonet is not in default:

(a) under any of the terms of any Telkonet Agreement;

(b) under any law, judgment, decree, order, rule regulation or other legal requirement or any governmental authority, court or arbitration tribunal whether federal, state, provincial, municipal or local and applicable to it or to any of its properties or assets; or

(c) in the payment of any of its monetary obligations or debts.

There exists no condition or event which, after notice or lapse of time or both, would constitute a default in connection with any of the foregoing.

Section 5.08. FINANCIAL STATEMENTS. The audited financial statements of Telkonet from inception through December 31, 1999, and the audited financial statements of Telkonet for the period January 1, 2000 to June 30, 2000, (which financial statements, including, without limitation, any notes thereto and reports thereon are hereinafter collectively called the "TELKONET FINANCIAL STATEMENTS") are attached hereto at SCHEDULE 5.08 and are complete and correct,

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fairly present the financial position of Telkonet and the results of operations as of the respective dates and for the periods indicated thereon and have been prepared in accordance with GAAP. Telkonet does not have any material liability or obligation, fixed, contingent, known, unknown or otherwise, not reflected in the balance sheet included in the Telkonet Financial Statements, and all provisions, reserves and allowances provided for therein are adequate, except for liabilities or obligations incurred between June 30, 2000 and the date of this Agreement in the ordinary and usual course of business consistent with the representations and warranties set forth herein. The unaudited portions of the Telkonet Financial Statements have been prepared such that an unqualified audit opinion may be expressed thereon.

Section 5.09. NO ADVERSE CHANGES. From June 30, 2000 to the date of this Agreement and except as disclosed in SCHEDULE 5.9 hereto and except as otherwise specifically permitted herein:

(a) Telkonet has not sustained any damage, destruction or loss, by reason of fire, explosion, earthquake, casualty, labor trouble, requisition or taking of property by any government or agency thereof, windstorm, embargo, riot, act of God or the public enemy, flood, accident, other calamity or other similar or dissimilar event (whether or not covered by insurance) adversely affecting the business, properties, financial condition or operations of Telkonet taken as a whole;

(b) there have been no changes in the condition (financial or otherwise), business, net worth, assets, properties, liabilities or obligations (fixed, contingent, known, unknown or otherwise) of Telkonet which in the aggregate have had or may have a material adverse effect on the business, properties, financial condition or operations of Telkonet, taken as a whole, and there has been no occurrence, circumstance or combination thereof which might reasonably be expected to result in any such adverse effect before or after the Effective Date; and

(c) the Board of Directors of Telkonet has taken all necessary action so that Telkonet has performed all of the acts specified in Sections 7.02 (a), (c) and (o) hereof and have refrained from performing any of the acts specified in Sections 7.02 (b), (d), (e), (f), (g), (h), (i), (j), (k), (l), (m), and (n) hereof.

Section 5.10. TELKONET EMPLOYEE PLANS AND AGREEMENTS. Telkonet has neither maintained, contributed to, been required to contribute to, nor is party to or a participating employer in, any pension, profit-sharing, deferred compensation, retirement, bonus, stock purchase, stock option, severance, hospitalization, insurance, welfare or other plan, program or arrangement, whether written or oral, including, without limitation, any multi-employer employee pension benefit or welfare benefit plan providing benefits to any employee, former employee or dependent of such employee.

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Section 5.11. FULL DISCLOSURE. The information furnished by Telkonet, or by any of the officers, directors, employees, agents, accountants or representatives of Telkonet to Comstock or CAC pursuant to this Agreement (whether furnished prior to, at, or subsequent to the date hereof), the information contained in the exhibits and Schedules referred to in this Agreement, and the other information furnished to Comstock or CAC by Telkonet, or by any of the officers, directors, employees, agents, accountants or representatives of Telkonet at any time prior to the Effective Date (pursuant to the request of Comstock or CAC or otherwise), does not and will not contain any untrue statement of a material fact and does not and will not omit to state any material fact necessary to make all such information not misleading.

Section 5.12. TAXES.

(a) Other than as reserved for on the balance sheets of Telkonet, Telkonet has paid or caused to be paid all Taxes required to be paid by it through the date hereof and prior to the Effective Date. Telkonet has filed or caused to be filed all Tax Returns required to be filed by it through the date hereof and prior to the Effective Date shall have filed or caused to be filed all Tax Returns required to be filed by it through the Effective Date. All such Tax Returns that have been filed are true, complete and correct. Neither the IRS nor any other governmental entity is now auditing or asserting or, to the knowledge of Telkonet, threatening to assert against Telkonet, any deficiency or claim for additional Taxes. Telkonet currently is not the beneficiary of any extension of time within which to file any Tax Return. No claim has ever been made by any authority in a jurisdiction where Telkonet does not file Tax Returns that it is or may be subject to taxation by that jurisdiction. To Telkonet's knowledge, there are no security interests on any of the assets of Telkonet that arose in connection with any failure (or alleged failure) to pay any Tax. Telkonet has no knowledge that any authority intends to assess any additional Taxes for any period for which Tax Returns have been filed. Telkonet has not waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency.

(b) Telkonet has delivered to Comstock copies of material portions of all federal income tax returns, examination reports, and statements of deficiencies assessed against or agreed to by Telkonet.

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(c) Telkonet is not obligated by any contract, agreement or other arrangement to indemnify any other person with respect to Taxes. Telkonet is not now nor ever has been a party to or bound by any tax sharing agreement or any agreement or arrangement (whether or not written and including, without limitation, any arrangement required or permitted by law) binding Telkonet which (i) requires Telkonet to make any tax payment to or for the account of any other person, (ii) affords any other person the benefit of any net operating loss, net capital loss, investment tax credit, foreign tax credit, charitable deduction or any other credit or tax attribute which could reduce Taxes (including, without limitation, deductions and credits related to alternative minimum Taxes) of Telkonet, (iii) requires or permits the transfer or assignment of income, revenues, receipts or gains to Telkonet, from any other person, or (iv) otherwise requires Telkonet to indemnify any other person in respect of Taxes.

(d) Telkonet has withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee,

independent contractor, creditor, stockholder or other third party.

(e) "TAX RETURNS" means returns, information returns, reports, forms and other documents (including, any related or supporting information) required to be filed with any governmental authority of the United States or any other jurisdiction responsible for the imposition, administration or collection of Taxes.

(f) "TAXES" means (i) all Taxes (whether federal, state, local or foreign) based upon or measured by income and any other tax whatsoever, including, without limitation, gross receipts, estimated, profits, sales, use, occupation, value added, ad valorem, transfer, franchise, withholding, payroll, employment, excise, or property Taxes, together with any interest or penalties, additions to Taxes or additional amounts, imposed with respect thereto, (ii) any liability for payments of amounts of Taxes described in the immediately preceding clause (i) as a result of being a "transferee" (within the meaning of Section 6901 of the Internal Revenue Code or any other applicable law) of another person, successor or a member of any affiliated, consolidated or combined group and (iii) any obligations under any agreements or arrangements with respect to any Taxes described in clause (i) above.

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Section 5.13. CONDITION OF ASSETS. All of the properties and assets of Telkonet are in good operating condition, free from any material defect.

Section 5.14. TITLE TO ASSETS. Telkonet has good and marketable title to all of its properties and assets, free and clear of any and all liens, encumbrances, security agreements, equities, options, claims, charges, pledges, restrictions, encroachments, defects in title and easements. As of the Effective Date, Telkonet will have good and marketable title to such properties and assets, free and clear of any and all liens, encumbrances, security agreements, equities, options, claims, charges, pledges, restrictions, encroachments, defects in title and easements.

Section 5.15. INTELLECTUAL PROPERTY.

(a) Telkonet owns and has good and marketable title to, or is licensed or otherwise possesses legally enforceable rights to use (free and clear of any lien, encumbrance or security interest), all patents, patent applications, trademarks, trade names, service marks, copyrights (whether registered or unregistered), and any applications therefor, maskworks, maskwork applications, net lists, schematics, technology, know-how, trade secrets, inventory, ideas, algorithms, processes, computer software programs or applications (in both source code and object code form), client lists and tangible or intangible proprietary information or material ("INTELLECTUAL PROPERTY") that are used or currently proposed to be used in the business of Telkonet as currently conducted or as proposed to be conducted by Telkonet, except to the extent that the failure to have such rights has not had and would not reasonably be expected to have a material adverse effect on Telkonet. Telkonet is the exclusive owner of all Intellectual Property.

(b) SCHEDULE 5.16 lists (i) all patents and patent applications and all registered and unregistered trademarks, trade names and service marks, registered and unregistered copyrights, and maskworks, included in the Intellectual Property, including the jurisdictions in which each such Intellectual Property right has been issued or registered or in which any application for such issuance and registration has been filed, (ii) all licenses, sublicenses and other agreements as to which Telkonet is a party and pursuant to which any person is authorized to use any Intellectual Property, and (iii) all licenses, sublicenses and other agreements as to which Telkonet is a party and pursuant to which Telkonet is authorized to use any third party patents, trademarks, copyrights, know-how or other Intellectual Property, including software ("THIRD PARTY INTELLECTUAL PROPERTY RIGHTS") which are incorporated in, are, or form a part of any Telkonet product or are used in the manufacture of any Telkonet product.

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(c) There has not been and there is not now to the best knowledge of Telkonet any unauthorized use, disclosure, infringement or misappropriation of any Intellectual Property rights of Telkonet, any trade secret material to Telkonet, or any Intellectual Property right of any third party to the extent

licensed by or through Telkonet, by any third party, including any employee or former employee of Telkonet. Telkonet has not entered into any agreement to indemnify any other person against any charge of infringement of any Intellectual Property, other than indemnification provisions contained in sales agreements arising in the ordinary course of business. To the best knowledge of Telkonet there are no royalties, fees or other payments payable by Telkonet to any person by reason of the ownership, use, sale or disposition of Intellectual Property.

(d) Telkonet is not, nor will it be as a result of the execution and delivery of this Agreement or the performance of its obligations under this Agreement, in breach of any license, sublicense or other agreement relating to the Intellectual Property or Third Party Intellectual Property Rights, the breach of which would have a material adverse effect on Telkonet.

(e) All patents, registered trademarks, service marks and copyrights held by Telkonet are valid and subsisting. Telkonet is not infringing, misappropriating or making unlawful use of, and has not received any notice or any communication (in writing or otherwise) of any actual, alleged, possible or potential infringement, misappropriation or unlawful use of any proprietary asset owned or used by any third party. Telkonet (i) has not been sued in any suit, action or proceeding which involves a claim of infringement of any patents, trademarks, service marks, copyrights or violation of any trade secret or other proprietary right of any third party; and (ii) has not brought any action, suit or proceeding for infringement of Intellectual Property or breach of any license or agreement involving Intellectual Property against any third party.

(f) All current and former officers, employees and consultants of Telkonet have executed and delivered to Telkonet an agreement (containing no exceptions or exclusions from the scope of its coverage) regarding the protection of proprietary information and the assignment to Telkonet of any Intellectual Property arising from services performed for Telkonet by such persons, the form or forms of which have been supplied to Comstock and all current and former consultants and independent contractors to Telkonet involved in the development, modification, marketing and servicing of Telkonet's technology and/or software have executed and delivered to Telkonet an agreement (containing no exceptions or exclusions from the scope of its coverage) in the form of which has been delivered to Comstock. To Telkonet's knowledge, no employee or independent contractor of Telkonet is in violation of any term of any patent disclosure agreement or employment contract or any other contract or agreement relating to the relationship of any such employee or independent contractor with Telkonet.

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(g) Telkonet has taken all commercially reasonable and customary measures and precautions necessary to protect and maintain the confidentiality of all Intellectual Property (except such Intellectual Property the value of which would be unimpaired by public disclosure) and otherwise to maintain and protect the full value of all proprietary assets. All use, disclosure or appropriation of Intellectual Property not otherwise protected by patents, patent applications or copyright ("CONFIDENTIAL INFORMATION") owned by Telkonet by or to a third party has been pursuant to the terms of a written agreement between Telkonet and such third party. All use, disclosure or appropriation of Confidential Information not owned by Telkonet has been pursuant to the terms of a written agreement between Telkonet and the owner of such Confidential Information, or is otherwise lawful.

(h) No Intellectual Property is subject to any outstanding order, judgment, decree, stipulation or agreement restricting in any manner the licensing thereof by Telkonet. Telkonet has not entered into any agreement to indemnify any other person against any charge of infringement of any Intellectual Property. Telkonet has not entered into any agreement granting any third party the right to bring infringement actions with respect to, or otherwise to enforce rights with respect to, any Intellectual Property. Telkonet has the exclusive right to file, prosecute and maintain all applications and registrations with respect to Intellectual Property.

Section 5.16. INTERESTED PARTY TRANSACTIONS. Telkonet is not indebted to any director, officer, employee or agent of Telkonet (except for amounts due as normal salaries and bonuses and in reimbursement of ordinary expenses), and no such person is indebted to Telkonet. There have been no transactions during

the two year period ending on June 30, 2000 which would require disclosure under Item 404 of Regulation S-K under the Securities Act.

Section 5.17. BROKERS. Telkonet has not expressly or impliedly engaged any broker, finder or agent with respect to this Agreement or any transaction contemplated hereby.

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Section 5.18. CONTRACTS. SCHEDULE 5.18 hereto constitutes a true and complete list of each contract or agreement requiring annual payments or receipts of in excess of \$10,000, to which Telkonet is a party or bound thereby in any respect, including, but not limited to, each such contract which is:

- (a) a license or a lease;
- (b) a contract, agreement or commitment for the purchase, sale or lease of materials, equipment, real or personal property, capital assets or supplies;
- (c) a contract, agreement or commitment for the sale by Telkonet of products or the performance of any services;
- (d) a management, advisory or collective bargaining agreement or a non-competition agreement;
- (e) a contract or agreement with an agent, dealer or sales representative or franchises;
- (f) a contract or agreement with employees, consultants, stockholders, directors or officers, or any agreement relating to a power of attorney;
- (g) a loan or guaranty agreement, credit agreement, note or other evidence of indebtedness, forward contract, consignment agreement, custody agreement, or indenture or instrument evidencing liens or secured transactions;
- (h) a contract, license or other agreement relating to a patent, invention or discovery (whether or not patentable), trade secret, trademark, service mark, certification mark, trade name or copyright or application for or registration of any of the foregoing; or
- (i) a contract of insurance.

SCHEDULE 5.18 also includes all agreements (without regard to dollar amount of annual payments or receipts) with sales representatives, distributors, consultants and licensors. As used in this Agreement, the terms "CONTRACT" and "AGREEMENT" mean and include every contract, agreement, commitment, option, trust, understanding and promise, whether written or oral. Each of the contracts or agreements listed in SCHEDULE 5.18 hereto is in full force and effect, is a valid, binding and enforceable obligation by or against Telkonet, as the case

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may be, and no event has occurred which constitutes or, with the giving of notice or passage of time, or both, would constitute, a default thereunder, except as disclosed in such Schedule. None of such contracts is subject to renegotiation by governmental authorities. Telkonet has delivered or caused to be delivered to Comstock or CAC correct and complete copies of each contract or agreement listed in SCHEDULE 5.18 hereto and all modifications or amendments thereto.

Section 5.19. LITIGATION . There is no litigation, suit, proceeding, action, claim or investigation, at law or in equity, pending or threatened against or affecting Telkonet or involving any of its property or assets, before any court, agency, authority or arbitration tribunal, including, without limitation, any product liability, workers' compensation or wrongful dismissal claims, or claims, actions, suits or proceedings relating to toxic materials, hazardous substances, pollution or the environment. To the best of Telkonet's present knowledge and belief, there are no facts which, if known to customers, governmental authorities or other persons, might result in any such litigation, suit, proceeding, action, claim or investigation. Telkonet is not subject to or in default with respect to any notice, order, writ, injunction or decree of any court, agency, authority or arbitration tribunal.

Section 5.20. COMPLIANCE WITH LAWS. Telkonet has complied with all laws, municipal by-laws, regulations, rules, orders, judgments, decrees and other requirements and policies imposed by any governmental authority applicable to it, its properties or the operation of its business, except where the failure to comply will not have a material adverse effect on the business, properties, financial condition or earnings of Telkonet. Telkonet has not received any notice or citation for noncompliance with any of the foregoing, and there exists no condition, situation or circumstance, nor has there existed such a condition, situation or circumstance, which, after notice or lapse of time, or both, would constitute noncompliance with or give rise to future liability with regard to any of the foregoing.

Section 5.21. LICENSES, PERMITS AND APPROVALS. Telkonet has all material licenses, permits, approvals, qualifications or the like, issued or to be issued to Telkonet by any government or any governmental unit, agency, body or instrumentality, whether federal, state, provincial, municipal or local (within the U.S. or otherwise) necessary for the conduct of its trade or business and all such items are in full force and effect. No registration with, approval by, consent or clearance from or pre-notification to any governmental agency is required in connection with the execution and performance of this Agreement by Telkonet.

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Section 5.22. SURVIVAL OF REPRESENTATIONS AND WARRANTIES OF TELKONET. The representations and warranties of Telkonet made in this Agreement are correct, true and complete as of the date hereof and will be correct, true and complete as at the Effective Date with the same force and effect as though such representations and warranties had been made at the Effective Date. The representations and warranties of Telkonet shall survive the Effective Date for a period of one (1) year.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES OF COMSTOCK AND CAC

Comstock and CAC jointly and severally represent and warrant to Telkonet that:

Section 6.01. ORGANIZATION AND CAPITALIZATION OF COMSTOCK. Comstock is a corporation duly organized, validly existing and in good standing under the laws of the State of Utah with an authorized capital consisting solely of 100,000,000 shares of Comstock Common Stock, \$.001 par value, of which 2,398,000 shares are issued and outstanding. Prior to the Effective Date 418,000 shares of Comstock Common Stock shall be cancelled so that as of the Effective Date and immediately prior to the Merger 1,980,000 shares of Comstock Common Stock shall be issued and outstanding. All of such issued and outstanding shares of stock are duly authorized, validly issued, fully paid and nonassessable. There are no other equity securities of any class of Comstock authorized, issued, reserved for issuance or outstanding. There are no outstanding options, warrants, agreements or rights to subscribe for or to purchase, or commitments to issue, shares of Comstock Capital Stock. Except for CAC, Comstock does not own directly or indirectly, any outstanding capital stock or securities convertible into capital stock of any other corporation or any participating interest in any partnership, joint venture or other business enterprise.

Section 6.02. ORGANIZATION AND CAPITALIZATION OF CAC. CAC is a corporation duly organized, validly existing and in good standing under the laws of the State of Utah, with an authorized capital consisting solely of 50,000 shares of CAC's Common Stock, of which 100 shares are issued and outstanding and owned by Comstock. All of such are duly authorized, validly issued, fully paid and nonassessable.

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Section 6.03. POWER AND AUTHORITY. Comstock and CAC each has all requisite power and authority to own, lease and operate its properties and to conduct its business as presently conducted and as proposed to be conducted and is duly qualified or licensed as a foreign corporation in good standing in each jurisdiction in which the character of its properties or the nature of its business activities require such qualification (except where the failure to be

so qualified will not have a material adverse effect on the business, properties, financial condition or earnings of Comstock or CAC, as the case may be).

Section 6.04. ARTICLES OF INCORPORATION, BY-LAWS AND MINUTES OF COMSTOCK AND CAC. The copies of the Articles of Incorporation of Comstock and CAC, each certified by the Department of Commerce, Division of Corporations, of the State of Utah, and the by-laws of Comstock and CAC, each certified by their respective secretaries, are true, complete and correct and are attached hereto as SCHEDULE 6.04 and the minute books of Comstock and CAC which are complete and accurate in all material respects, contain a record of all meetings and other corporate actions of their respective shareholders and Boards of Directors.

Section 6.05. AUTHORITY FOR AGREEMENT. The Board of Directors of each of Comstock and CAC has approved this Agreement and has authorized the execution and delivery hereof. Comstock and CAC each have full power, authority and legal right to enter into this Agreement and to consummate the transactions contemplated hereby.

Section 6.06. SUBSCRIPTION AGREEMENTS. On the Mailing Date of the Subscription Agreements to the shareholders of Telkonet, the information with respect to Comstock and CAC set forth therein (a) will comply in all material respects with the provisions of the Securities Act, and the rules and regulations of the SEC thereunder, and (b) will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements contained therein not misleading. At all times subsequent to the Mailing Date up to and including the Effective Date, the information with respect to Comstock and CAC set forth in the Subscription Agreement and all amendments and supplements thereto (a) will comply in all material respects with the provisions of the Securities Act and the rules and regulations of the SEC thereunder, and (b) will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements contained therein not misleading.

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Section 6.07. NO VIOLATION TO RESULT. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby:

(a) are not in violation or breach of, do not conflict with or constitute a default under, and will not accelerate or permit the acceleration of the performance required by, any of the terms of the charter documents or by-laws of Comstock and CAC or any note, debt instrument, security agreement, mortgage, lease or license, or any other contract or agreement (collectively, the "COMSTOCK AGREEMENT(S)"), written or oral, to which Comstock or CAC is a party or by which Comstock or CAC or any of their respective properties or assets are bound;

(b) will not be an event which, after notice or lapse of time or both, will result in any such violation, breach, conflict, default, or acceleration;

(c) will not result in violation under any law, judgment, decree, order, rule, regulation or other legal requirement of any governmental authority, court or arbitration tribunal whether federal, state, provincial, municipal or local (within the U.S. or otherwise) and applicable to Comstock or CAC; and

(d) will not result in the creation or imposition of any lien, possibility of lien, encumbrance, security agreement, equity, option, claim, charge, pledge or restriction in favor of any third person upon any of the properties or assets of Comstock or CAC.

Section 6.08. NO EXISTING DEFAULTS. Comstock is not in default:

(a) under any of the terms of any Comstock Agreement;

(b) under any law, judgment, decree, order, rule regulation or other legal requirement or any governmental authority, court or arbitration tribunal whether federal, state, provincial, municipal or local (within the U.S. or otherwise) and applicable to it or to any of its properties or assets; or

(c) in the payment of any of its monetary obligations or debts.

To the best of Comstock's knowledge and belief, there exists no condition or event which, after notice or lapse of time or both, would constitute a default in connection with any of the foregoing.

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Section 6.09. FINANCIAL STATEMENTS. The audited financial statements of Comstock from December 31, 1997 through December 31, 1999 (which financial statements, including, without limitation, any notes thereto and reports thereon are hereinafter collectively called the "COMSTOCK FINANCIAL STATEMENT") and the unaudited financial statements for the six month period ending June 30, 2000 (hereinafter called "COMSTOCK INTERIM FINANCIAL Statements") copies of which are attached hereto at SCHEDULE 6.09, are complete and correct, fairly present the financial position of Comstock and the results of operations as of the respective dates and for the periods indicated thereon and have been prepared in accordance with GAAP. Comstock does not have any material liability or obligation, fixed, contingent, known, unknown or otherwise, not reflected in the balance sheet included in the Comstock Financial Statements and the Comstock Interim Financial Statements, and all provisions, reserves and allowances provided for therein are adequate, except for liabilities or obligations incurred between June 30, 2000 and the date of this Agreement in the ordinary and usual course of business consistent with the representations and warranties set forth therein and that would not have been incurred between the date hereof and the Effective Date. The Comstock Interim Financial Statements have been prepared such that an unqualified (except as to going concern) audit opinion may be expressed thereon.

Section 6.10. SEC FILINGS. Since December 31, 1998, Comstock has filed with the SEC all forms, statements, reports and documents (including all exhibits, amendments and supplements thereto) required to be filed by it under each of the Securities Act, the Exchange Act and the respective rules and regulations thereunder, all of which, as amended if applicable, complied in all material respects with all applicable requirements of the appropriate act and the rules and regulations thereunder (collectively, the "SEC REPORTS"). As of their respective dates, the SEC Reports did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The audited consolidated financial statements and unaudited interim consolidated financial statements of Comstock included in such reports (collectively, the "Comstock Financial Statements") have been prepared in accordance with generally accepted accounting principles applied on a consistent basis (except as may be indicated therein or in the notes thereto) and the results of their operations and changes in financial position for the periods then ended, subject, in the case of the unaudited interim financial statements, to normal year-end and audit adjustments and any other adjustments described therein.

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Section 6.11. NO ADVERSE CHANGES. From June 30, 2000 to the date of this Agreement, except as disclosed in Comstock's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2000 (true copies of which have been provided to Telkonet), except as otherwise permitted herein:

(a) Comstock and CAC have not sustained any damage, destruction or loss adversely affecting the business, properties, financial condition or operations of Comstock or CAC taken as a whole;

(b) other than in the usual course of Comstock's business, consistent with the prior year's operations, there have been no changes in the condition (financial or otherwise), business, net worth, assets, properties, liabilities or obligations (fixed, contingent, known, unknown or otherwise) or Comstock and CAC which in the aggregate have had or may have a material adverse effect on the business, properties, financial condition or operations of Comstock and CAC, taken as a whole, and there has been no occurrence, circumstance or combination thereof which might reasonably be expected to result in any such adverse effect before or after the Effective Date; and

(c) each officer of Comstock and CAC has taken all necessary action so that Comstock and CAC have performed all of the acts specified in Sections 7.02 (a), (c) and (o) hereof and have refrained from performing any of the acts specified in Sections 7.02(b), (d), (e), (f), (g), (h), (i), (j), (k), (l), (m), and (n) hereof.

Section 6.12. FULL DISCLOSURE. The information furnished by Comstock and CAC, or by any of the directors, officers, employees, agents, accountants or representatives of Comstock or CAC to Telkonet pursuant to this Agreement (whether furnished prior to, at, or subsequent to the date hereof), the information contained in the exhibits and Schedules referred to in this Agreement, and the other information furnished to Telkonet by Comstock or CAC, or by any of the directors, officers, employees, agents, accountants or representatives of Comstock or CAC at any time prior to the Effective Date (pursuant to the request of Telkonet or otherwise), does not and will not contain any untrue statement of a material fact and does not and will not omit to state any material fact necessary to make all such information not misleading.

Section 6.13. TAXES. Except as set forth in SCHEDULE 6.13 and except where extensions of time to file have been duly and properly obtained (all of which extensions are described on SCHEDULE 6.13), Comstock has prepared (or caused to be prepared) and timely and properly filed (or caused to be timely and properly filed) with the appropriate federal, state, provincial, municipal or local authorities (within the U.S. or otherwise) all Tax Returns, information

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returns and other reports required to be filed and has paid or accrued (or caused to be so paid or accrued) in full all Taxes, interest, penalties, assessments or deficiencies, if any, due to, or claimed to be due by, any taxing authority. The balance sheets included in the Comstock Financial Statements and Comstock Interim Financial Statements include appropriate provisions for all Taxes, interest, penalties, assessments or deficiencies, if any, for the periods indicated thereon to the extent not theretofore paid. Comstock has not executed or filed with any taxing authority any agreement extending the period for assessment or collection of any Taxes. Comstock is not a party to any pending action or proceeding, nor is any such action or proceeding threatened, by any governmental authority for the assessment or collection of Taxes, and no claim for assessment or collection of Taxes has been asserted against Comstock, and during the course of any audit currently in process or not completed, no issues have been suggested by any representative of any such governmental authority that, if asserted, would result in a proposed assessment of Taxes, interest or penalties, against Comstock. Comstock and CAC acknowledge and agree that it is the intention of all parties to this Agreement to qualify this Merger transaction as a "Reverse Triangular Merger" within the terms and conditions of Section 368(a)2(E) of the U.S. Internal Revenue Code. Comstock and CAC shall not take nor attempt to take any action which would jeopardize the qualification of the Merger as a Reverse Triangular Merger.

Section 6.14. LITIGATION. There is no litigation, suit, proceeding, action, claim or investigation, at law or in equity, pending or threatened against or affecting Comstock or involving any of its property or assets, before any court, agency, authority or arbitration tribunal, including, without limitation, any product liability, workers' compensation or wrongful dismissal claims, or claims, actions, suits or proceedings relating to toxic materials, hazardous substances, pollution or the environment. To the best of Comstock's knowledge and belief, there are no facts which, if known to customers, governmental authorities or other persons, might result in any such litigation, suit, proceeding, action, claim or investigation. Comstock is not subject to or in default with respect to any notice, order, writ, injunction or decree of any court, agency, authority or arbitration tribunal.

Section 6.15. COMPLIANCE WITH LAWS. To the best of its knowledge and belief, Comstock has complied with all laws, municipal by-laws, regulations, rules, orders, judgments, decrees and other requirements and policies imposed by any governmental authority applicable to it, its properties or the operation of its business, except where the failure to comply will not have a material

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adverse effect on the business, properties, financial condition or earnings of Comstock. Comstock has not received any notice or citation for noncompliance with any of the foregoing, and there exists no condition, situation or circumstance, nor has there existed such a condition, situation or circumstance, which, after notice or lapse of time, or both, would constitute noncompliance with or give rise to future liability with regard to any of the foregoing.

Section 6.16. INSURANCE. Comstock has no policies of insurance currently in force.

Section 6.17. CONTINUITY OF BUSINESS ENTERPRISE. It is the present intention of Comstock to continue at least one significant historic business of Telkonet or to use at least a significant portion of their respective business assets in a business within the meaning of Treasury Regulation Section 1.368-1(d).

Section 6.18. EMPLOYMENT PRACTICES. Comstock has no employees and has had no employees during the one year period ended December 31, 1999.

Section 6.19. SURVIVAL OF REPRESENTATIONS AND WARRANTIES OF COMSTOCK AND CAC. The representations and warranties of each of Comstock and CAC made in this Agreement are correct, true and complete as of the date hereof and will be correct, true and complete as at the Effective Date with the same force and effect as though such representations and warranties had been made at the Effective Date. The representations and warranties of Comstock and CAC shall survive the Effective Date for a period of one (1) year.

ARTICLE VII

CONDUCT AND TRANSACTIONS PRIOR TO CLOSING & CERTAIN AGREEMENTS

Section 7.01. ACCESS TO PROPERTIES AND RECORDS. (a) Each Constituent Corporation shall afford to the officers, employees, attorneys, accountants and other authorized representatives of the other, free and full access to all of its assets, properties, books and records, in order to afford each Constituent Corporation as full an opportunity of review, examination and investigation as it shall desire to make of the affairs of the other, and each shall be permitted to make extracts from, or take copies of, such books, records (including the stock record and minute books) or other documentation or to obtain temporary

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possession of any thereof as may be reasonably necessary; and each shall furnish or cause to be furnished to the other such reasonable financial and operating data and other information about its business, properties and assets which any of such Constituent Corporation's respective officers, employees, attorneys, accountants or other authorized representatives may request.

(b) Until the Merger has been consummated (and if the Merger is not consummated, at all times hereafter), Telkonet, Comstock and CAC will not disclose or use any information obtained in the course of their respective investigations. If the proposed Merger is not consummated, Comstock and CAC will return all returnable data to Telkonet and Telkonet will return all returnable data to Comstock and CAC. Such obligation of confidentiality shall not extend to any information which is shown to have been previously known by Telkonet or Comstock and CAC, as the case may be, or generally known to others engaged in the same trade or business as Telkonet or Comstock and CAC or made known to Telkonet or Comstock and CAC or the public by a third party.

Section 7.02. INTERIM COVENANTS OF EACH CONSTITUENT CORPORATION. From the date of this Agreement until the Effective Date, except to the extent expressly permitted by this Agreement or otherwise consented to by an instrument in writing signed by each other Constituent Corporation, each Constituent Corporation shall take all necessary action so that:

(a) such Constituent Corporation shall keep its business and organization intact and shall not take or permit to be taken or do or suffer to be done anything other than in the ordinary course of its business as the same is presently being conducted, and shall use its best efforts to keep available the services of its directors, officers, employees and agents and to maintain the goodwill and reputation associated with its business;

(b) such Constituent Corporation shall not make any change in its constituent documents;

(c) such Constituent Corporation shall exercise its best efforts to maintain all of its properties and assets, tangible or intangible, in good operating condition and repair, and take all steps necessary to keep its operations functioning properly;

(d) Neither Comstock or a Constituent Corporation shall purchase, sell, lease or dispose of or make any contract for the purchase, sale, lease or disposition of or subject to lien or security interest any properties or assets other than in the ordinary and usual course of its business consistent with the representations and warranties contained herein and not in breach of any of the provisions of this Article VII, in each case for a consideration at least equal to the fair value of such property or asset;

(e) Neither Comstock or a Constituent Corporation shall grant any salary increase to, or increase the draw of, any of its officers or directors, or enter into any new, or amend or alter any existing, bonus, incentive compensation, deferred compensation, profit sharing, retirement, pension, stock option, group insurance, death benefit or other fringe benefit plan, trust agreement or other similar or dissimilar arrangement, or any employment or consulting agreement;

(f) Neither Comstock or a Constituent Corporation shall incur any bank indebtedness or make any borrowings, except in the ordinary course of its business, or issue any commercial paper;

(g) Neither Comstock or a Constituent Corporation shall pay any obligation or liability (fixed or contingent) or discharge or satisfy any lien or encumbrance, or settle any claim, liability or suit pending or threatened against it or any of its properties, except for current liabilities included in the Interim Financial Statements or current liabilities incurred between June 30, 2000 and the Effective Date in the ordinary and usual course of business of either Comstock or a Constituent Corporation consistent with their respective representations and warranties contained herein and not in breach of any of the provisions of this Article VII except that either Comstock or a Constituent Corporation may pay reasonable attorney's fees in connection with the consummation of the Merger described herein;

(h) Neither Comstock or a Constituent Corporation shall enter into any leases;

(i) Neither Comstock or a Constituent Corporation shall, without first obtaining consent of the other, enter into any contract, agreement or commitment, including without limiting the generality of the foregoing, any contract, agreement or commitment for the purchase of any materials or supplies, if such contract, agreement or commitment exceeds \$10,000 individually; provided, however, either Comstock or a Constituent Corporation may enter into contracts, in the course of business, which provide for either Comstock or a Constituent Corporation to provide its services to unaffiliated third parties or to perform same;

(j) Neither Comstock or a Constituent Corporation shall further encumber or permit to be further encumbered any of their properties or assets except in the ordinary course of business;

(k) Neither Comstock or a Constituent Corporation shall form any subsidiary nor shall it issue, grant, sell, redeem, combine, change or purchase any shares, notes or other securities or make any commitments to do so;

(l) Neither Comstock or a Constituent Corporation shall effect any subdivision of its outstanding capital stock, purchase or redeem any capital stock, or declare, make or pay any dividend, distribution or payment in respect of its capital stock;

(m) Neither Comstock or a Constituent Corporation shall grant or issue any options, warrants or other rights to acquire any capital stock or other of its equity securities, whether by conversion or otherwise, or make any commitment to do so;

(n) Neither Comstock or a Constituent Corporation shall, other than in the ordinary course of business, curtail purchases or accelerate shipments beyond customer requirements nor shall it modify, amend, cancel or terminate any existing contracts or agreements; and

(o) Such Constituent Corporation or Comstock shall not take any action which would, as at the Effective Date, cause any warranties or representations contained herein and applicable to it to be false or misleading in any material respect.

Notwithstanding the foregoing, the parties hereto understand and agree that (i) Comstock and Telkonet must be consulted on every material issue and matter which may affect the business or operations of Comstock or the Constituent Corporation after the date of this Agreement, and (ii) no such issue or matter shall be acted on without consent of Telkonet and Comstock.

Section 7.03. APPROVAL OF STOCKHOLDERS OF CONSTITUENT CORPORATIONS. The Board of Directors of CAC and Telkonet will submit this Agreement to their respective stockholders for their adoption and will recommend to their stockholders such adoption at a meeting thereof to be duly called and held as soon as practicable. The Constituent Corporations will use their best efforts in accordance with applicable law to obtain the necessary adoption of this Agreement by their stockholders and will take, as soon as practicable, such other and further actions as may be required by law to effectuate the Merger. In obtaining the authorization and approval of their stockholders, the Constituent Corporations shall comply with all applicable federal and state securities and other laws in connection with the transactions to be effected hereunder.

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Section 7.04. INFORMATION. Comstock and the Constituent Corporations will furnish each other with all information concerning themselves reasonably required for inclusion in the Subscription Agreement or any application made by Comstock or a Constituent Corporation to the Commission or any governmental or regulatory body in connection with the transactions contemplated by this Agreement.

Section 7.05. PREPARATION OF SUBSCRIPTION AGREEMENT; MAILING DATE. As soon as practicable after execution of this Agreement, Comstock will prepare a Subscription Agreement to be provided to the shareholders of Telkonet. Comstock shall mail the Subscription Agreement to each shareholder of Telkonet within two (2) business days after the shareholders of Telkonet approve the Merger and any other transactions contemplated by this Agreement.

Section 7.06. PUBLIC ANNOUNCEMENTS. Promptly after the execution of this Agreement, Comstock shall issue a press release in a form reasonably satisfactory to the Telkonet. Thereafter, Comstock and Telkonet will consult with each other with respect to any announcement to the public or any statement to their employees generally concerning or relating to the Merger. Neither Comstock nor Telkonet will make any announcement to the public without the prior written consent of the other, except for announcements which Comstock or Telkonet believe on the advice of their respective counsel to be required by applicable securities laws.

Section 7.07. NOTICE OF BREACH.

(a) Comstock and CAC will immediately give notice to Telkonet of the occurrence of any event or the failure of any event to occur that results in a breach of any representation or warranty by Comstock and CAC or a failure by Comstock and CAC to comply with any covenant, condition or agreement contained herein.

(b) Telkonet will immediately give notice to Comstock and CAC of the occurrence of any event or the failure of any event to occur that results in a breach of any representation or warranty by Telkonet or a failure by Telkonet to comply with any covenant, condition or agreement contained herein.

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Section 7.08. REPRESENTATIONS. Comstock, CAC and Telkonet (a) will take all action necessary to render accurate as of the Effective Date their respective representations and warranties contained herein, (b) will refrain from taking any action which would render any such representation or warranty inaccurate in any material respect as of such time, and (c) will perform or cause to be satisfied each covenant or condition to be performed or satisfied by them.

Section 7.09. NEGOTIATIONS WITH THIRD PARTIES. Telkonet will not,

without the prior written approval of Comstock, furnish any information to, or initiate or participate in discussions or negotiations with, third parties relating to any merger, sale or other disposition of any substantial part of its assets or Telkonet Common Stock or any other sale by officer or directors of Telkonet of any of their shares of its Stock, except as required by fiduciary obligations.

Section 7.10. AMENDMENTS TO AGREEMENT. Comstock and the Constituent Corporations may, by mutual agreement, amend this Agreement before or after approval by each Constituent Corporation's stockholders, but after such approvals no amendment may be made which changes the Merger consideration without approval by the stockholders adversely affected by such change.

Section 7.11. INDEMNIFICATION.

(a) Telkonet hereby agrees to indemnify Comstock and CAC and each of their respective officers and directors as of the date of this Agreement against any loss, liability, claim, damage, or expense (including, but not limited to, any and all expense whatsoever reasonably incurred in investigating, preparing, or defending against any litigation, commenced or threatened, or any claim whatsoever), to which it or they may become subject arising out of or based on any inaccuracy appearing in or misrepresentation made under Article V of this Agreement. The indemnification provided for in this paragraph (a) of Section 7.11 shall survive the Closing and consummation of the transactions contemplated hereby and termination of this Agreement.

(b) Comstock and CAC hereby jointly agree to indemnify Telkonet and each of its officers and directors as of the date of this Agreement against any loss, liability, claim, damage, or expense (including, but not limited to, any and all expense whatsoever reasonably incurred in investigating, preparing, or defending against any litigation, commenced or threatened, or any claim whatsoever), to which it or they may become subject arising out of or based on any inaccuracy appearing in or misrepresentation made under Article VI of this Agreement. The indemnification provided for in this paragraph (b) of Section 7.11 shall survive the Closing and consummation of the transactions contemplated hereby and termination of this Agreement.

ARTICLE VIII

CONDITIONS TO OBLIGATIONS OF THE PARTIES

The obligations of the parties under this Agreement are subject to the fulfillment and satisfaction of each of the following conditions, anyone or more of which may be waived by Comstock and CAC, on the one hand, and Telkonet, on the other hand.

Section 8.01. STOCKHOLDER APPROVAL. On or before the Effective Date, the stockholder of CAC shall have adopted and approved this Agreement.

Section 8.02. SHAREHOLDER APPROVAL. On or before the Effective Date, the shareholders of Telkonet shall have adopted and approved this Agreement.

Section 8.03. SECURITIES FILINGS. At or prior to the time required any required approvals of state securities administrators shall have been obtained. At the Effective Date, no stop order or similar restraining order shall have been threatened or entered by the Commission or any state securities administrator and Comstock shall have filed with the SEC all reports required to be filed under the Exchange Act for the two (2) year period prior to the Effective Date.

Section 8.04. MAILING DATE DOCUMENTS. The shareholders of Telkonet shall each have received promptly after the Mailing Date the Subscription Agreement and any other documents which they are to receive under Section 7.05.

Section 8.05. REGULATORY APPROVALS. On or before the Effective Date, all applicable approvals of governmental regulatory authorities of the United States of America or of any state or political subdivision thereof required to consummate the Merger shall have been obtained.

Section 8.06. PRE-MERGER NOTIFICATION. All applicable governmental

pre-merger filing and waiting period requirements of governmental authorities of the United State of America or of any state or political subdivision thereof.

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ARTICLE IX

CONDITIONS TO COMSTOCK AND CAC OBLIGATIONS

All obligations of Comstock and CAC to proceed to Closing under this Agreement are subject to the fulfillment and satisfaction, prior to or at the time at which the Effective Date is scheduled to occur, of each of the following conditions, by or on behalf of Telkonet by Comstock and CAC.

Section 9.01. REPRESENTATIONS AND WARRANTIES TRUE AT THE EFFECTIVE DATE. At the Effective Date, the representations and warranties of Telkonet contained in this Agreement will be true and correct in all material respects at and as of such time, except to the extent affected by the transactions contemplated here by and by the operations of Telkonet as permitted by the provisions of Section 7.02 from the date hereof to the Effective Date, and at the Effective Date, Telkonet shall have delivered to Comstock and CAC a certificate to such effect signed by the President of Telkonet.

Section 9.02. TELKONET'S PERFORMANCE. Each of the obligations of Telkonet to be performed by it on or before the Effective Date pursuant to the terms of this Agreement shall have been duly performed at the Effective Date, and at the Effective Date, Telkonet shall have delivered to Comstock and CAC a certificate to such effect signed by the President of Telkonet.

Section 9.03. AUTHORITY. All action required to be taken by, or on the part of, Telkonet to authorize the execution, delivery and performance of this Agreement by Telkonet and the consummation of the transactions contemplated hereby shall have been duly and validly taken by the officers and directors of Telkonet.

Section 9.04. OPINION OF TELKONET'S COUNSEL. Comstock and CAC shall have been furnished an opinion or opinions of Blank, Rome, Comisky & McCauley LLP, counsel to Telkonet, dated the Effective Date, in form and substance satisfactory to Comstock and CAC concerning the standing, capitalization, due authorization and enforceability and, to the knowledge of counsel, compliance with this Agreement and litigation status of Telkonet.

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Section 9.05. NO MATERIAL ADVERSE CHANGE. There shall have been, between the date hereof and the Effective Date, (i) no material adverse change in the condition, financial or otherwise, of Telkonet, (it being understood that Telkonet has incurred substantial losses resulting from its research and development activities since its inception) and such losses shall not be deemed a material adverse change, (ii) no resignations or terminations of, or indications of an intention or plan to resign, employment by any significant employee of Telkonet, and (iii) no terminations of, or indications of an intention or plan to terminate, the use to a material extent of the services of Telkonet; and at the Effective Date Telkonet shall have delivered to Comstock and CAC a certificate to such effect signed by the President of Telkonet.

Section 9.06. ASSIGNMENT OF CONTRACTS. Telkonet shall have received consent under all material contracts, agreements, commitments, understandings and instruments to which Telkonet is a party or by which it is bound which require the consent of any other party or person to the assignment thereof either by the terms thereof or as a matter of law for their assumption by the Surviving Corporation in the Merger.

Section 9.07. APPRAISAL RIGHTS. No more than 5% of the shareholders of Telkonet shall have elected the appraisal remedy provided in the Delaware General Corporation Law.

Section 9.08. SUBSCRIPTION AGREEMENTS OF TELKONET SHAREHOLDERS. Comstock shall have received signed Subscription Agreements from each of the Telkonet shareholders.

Section 9.09. REGISTRATION RIGHTS AGREEMENT. Jenson Services and

Corporate Capital shall have received from Comstock a Registration Rights Agreement granted Jenson Services and Corporate Capital "piggyback" registration rights with respect to their respective shares of Comstock Common Stock.

ARTICLE X

CONDITIONS TO TELKONET OBLIGATIONS

All obligations of Telkonet to proceed to Closing under this Merger Agreement are subject to the fulfillment and satisfaction, prior to or at the time at which the Effective Date is scheduled to occur, of each of the following conditions by or on behalf of Comstock and CAC, any one or more of which may be waived by Telkonet.

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Section 10.01. REPRESENTATIONS AND WARRANTIES TRUE AT THE EFFECTIVE DATE. At the Effective Date, the representations and warranties of Comstock and CAC contained in this Agreement will be true and correct in all material respects at and as of such time, except to the extent affected by the transactions contemplated hereby, and at the Effective Date, Comstock and CAC shall have delivered to Telkonet a certificate to such effect signed by the President of Comstock for and on behalf of Comstock and CAC.

Section 10.02. COMSTOCK AND CAC PERFORMANCE. Each of the obligations of Comstock and CAC to be performed by it on or before the Effective Date pursuant to the terms of this Agreement shall have been duly performed at the Effective Date, and at the Effective Date Comstock and CAC shall have delivered to Telkonet a certificate to such effect signed by the President of Comstock for and on behalf of Comstock and CAC.

Section 10.03. AUTHORITY. All action required to be taken by, or on the part of, Comstock and CAC to authorize the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby shall have been duly and validly taken by the Board of Directors of each of Comstock and CAC and the shareholder of CAC.

Section 10.04. OPINION OF COUNSEL OF COMSTOCK AND CAC. Telkonet shall have been furnished an opinion of Durham Jones & Pinegar, P.C., counsel to Comstock and CAC, dated as of the Effective Date, in form and substance satisfactory to Telkonet, concerning the standing, capitalization, due authorization and enforceability and, to the knowledge of counsel, compliance with this Agreement and litigation status of Comstock and CAC.

Section 10.05. NO MATERIAL ADVERSE CHANGE. There shall have been between the date hereof and the Effective Date, no material adverse change in the condition, financial or otherwise, of Comstock and CAC, and at the Effective Date Comstock and CAC shall have delivered to Telkonet a certificate to such effect signed by the President and the chief financial officer of Comstock and CAC.

Section 10.06. GOVERNMENT APPROVALS. All other necessary governmental approvals required in connection with the distribution of the Comstock Common Stock contemplated by this Agreement shall have been obtained.

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Section 10.07. OUTSTANDING SHARES OF COMSTOCK. Immediately prior to the effectiveness of the Agreement (I.E., the moment before the Effective Date of the Agreement), there shall be issued and outstanding 1,980,000 shares of Comstock Common Stock.

Section 10.08. OTC BULLETIN BOARD. Shares of Comstock Common Stock shall be traded on the OTC Bulletin Board under the symbol "CKCC" and there shall be no proceeding, action or suit pending or threatened seeking to "delist" or halt trading of shares of Comstock Common Stock on the OTC Bulletin Board.

ARTICLE XI

CLOSING

Section 11.01. CLOSING DATE AND TIME. The closing of the Merger and the other transactions contemplated herein shall take place promptly after the satisfaction or waiver of all conditions to closing set forth in Articles VIII, IX and X hereof on or before August 30, 2000 or such other date as shall be mutually determined by Comstock and Telkonet. The closing shall occur at the offices of Durham Jones & Pinegar, 111 East Broadway, Suite 900, Salt Lake City, Utah 84111.

ARTICLE XII

TERMINATION AND AMENDMENT

Section 12.01. TERMINATION. Notwithstanding anything herein or elsewhere to the contrary, this Agreement may be terminated and the Merger abandoned:

(a) by mutual agreement of the Board of Directors of Telkonet and Comstock and CAC at any time prior to the Effective Date;

(b) by the Board of Directors of either Telkonet or Comstock and CAC if the Effective Date shall not have taken place on or prior to September 30, 2000;

(c) by the Board of Directors of Comstock and CAC at any time prior to the Effective Date if:

(i) a material condition contained in Article VIII or IX hereof, or a covenant of Telkonet contained herein shall not be fulfilled on or before the date on which the Effective Date is scheduled to occur or on such other date specified for the fulfillment of such covenant or condition; or

(ii) a material default or breach of this Agreement shall be made by Telkonet; or

(iii) if any of the schedules referred to in this Agreement disclose information about Telkonet which the Board of Directors of Comstock and CAC shall have determined in its sole discretion exercised in good faith has a materially adverse affect upon the business, assets, value, financial condition or prospects of Telkonet; or

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(iv) since June 30, 2000 there shall be an adverse change in the results of operations of Telkonet, or any adverse change in the business, results of operations (as compared with the same period in the preceding year), prospects, manner of conducting the business, consolidated financial condition or any assets of Telkonet, which change is material to Telkonet taken as a whole, except as disclosed to Comstock and CAC in writing on or prior to the date hereof; or

(v) the Board of Directors of Comstock shall have determined in its sole discretion exercised in good faith that the transactions contemplated by this Agreement have become inadvisable or impracticable by reason of the institution or threat by state, local or federal governmental authorities or by any other person of: (A) litigation or proceedings to restrain or prohibit the consummation of the transactions contemplated by this Agreement or which seeks substantial damages in connection with this Agreement or the transactions contemplated hereby; or (B) other litigation or proceedings, the outcome of which in the reasonable opinion of counsel for Comstock and CAC could have an adverse effect on the business, consolidated results of operations, prospects, manner of conducting the business, consolidated financial condition or any asset of Telkonet or Comstock and CAC, which effect is material to, respectively, Telkonet taken as a whole, or Comstock and CAC, taken as a whole; or

(d) by the Board of Directors of Telkonet at any time prior to the Effective Date if:

(i) a material condition contained in Article VIII or X hereof or a material covenant of Comstock or CAC contained in this Agreement shall not be fulfilled on or before the date on which the Effective Date is scheduled to occur or on such other date specified for the fulfillment of such covenant or condition; or

(ii) a material default or breach of this Agreement shall be made by Comstock or CAC; or

(iii) since June 30, 2000 there shall be an adverse change in the consolidated results of operations of Comstock and CAC, or any adverse change in the business, consolidated results of operations (as compared with the same period in the preceding year), prospects, manner of conducting the business, consolidated financial condition or any asset of Comstock and CAC, which change is material to Comstock and CAC, except as disclosed in any receipt filed by Comstock with the SEC or otherwise disclosed to Telkonet in writing prior to the date hereof; or

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(iv) the Board of Directors of Telkonet shall have determined in their sole discretion exercised in good faith that the transactions contemplated by this Agreement have become inadvisable or impracticable by reason of the institution or threat by state, local or federal governmental authorities or by any other person of: (A) litigation or proceedings to restrain or prohibit the consummation of the transactions contemplated by this Agreement or which seeks substantial damages in connection with this Agreement or the transactions contemplated hereby; or (B) other litigation or proceedings, the outcome of which in the reasonable opinion of counsel for Telkonet could have an adverse effect on the business consolidated results of operations, prospects, manner of conducting the business, consolidated financial condition or any asset of Comstock and CAC, which effect is material to Comstock and CAC.

Section 12.02. AMENDMENT. At any time, either before or after submission to or approval by the shareholders of Telkonet of the transactions contemplated herein, this Agreement may be amended in matters of form or supplemented by additional agreements, articles, or certificates as may be determined in the judgment of the President of Telkonet and the President of Comstock to be necessary, desirable, or expedient to clarify the intentions of the parties to this Agreement or to effect or facilitate the filing, recording, or official approval of this Agreement and consummation thereof in accordance with the purpose and intent of this Agreement; provided, however, that no such amendment or modification made after submission or approval of the Shareholders of Telkonet shall alter or change the amount of Comstock Common Stock to be received on conversion of the Telkonet Common Stock, as provided in this Agreement, or alter or change any of the terms and conditions of this Agreement or the articles of merger if such alteration or change would materially and adversely affect the shareholders of Telkonet. After the Effective Date, this Agreement and any document contemplated hereby may only be amended by a writing (i) signed by the authorized officers of the parties, and (ii) after appropriate approval of the shareholders of the parties if such amendment would adversely affect any such shareholders.

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ARTICLE XIII

MISCELLANEOUS

Section 13.01. SUCCESSORS, ASSIGNS AND THIRD PARTIES. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and assigns; provided, however, that, except as otherwise expressly provided herein, none of the parties hereto may make any assignment of this Agreement or any interest herein without the prior written consent of the other parties hereto. Nothing herein expressed or implied is intended or shall be construed to confer upon or give to any person, firm or corporation, other than the parties hereto and their respective successors and assigns, any rights or remedies under or by reason of this Agreement.

Section 13.02. GOVERNING LAW. This Agreement shall in all respects be interpreted, construed and governed by and in accordance with the internal substantive laws of the State of Utah, disregarding principles of conflict of laws and the like.

Section 13.03. SEVERABILITY. Each section, subsection and lesser section of this Agreement constitutes a separate and distinct undertaking, covenant and/or provision hereof. In the event that any provision of this Agreement shall finally be determined to be unlawful, such provision shall be deemed severed from this Agreement, but every other provision shall remain in full force and effect.

Section 13.04. CERTAIN WORDS. Words such as "herein," "hereof," "hereby," "hereunder" and words of similar import refer to this Agreement as a whole and not to any particular Section or subsection of this Agreement.

Section 13.05. NOTICES. Except as otherwise expressly provided herein, any notice, consent, or other communication required or permitted to be given hereunder shall be in writing and shall be either hand delivered, or sent by courier or by facsimile transmission, and shall be deemed to have been given when received, and shall be addressed as follows:

- (a) If to Comstock and CAC:

5525 South 900 East, Suite 110
Salt Lake City, UT 84117
Facsimile No.: (801) 262-6262

with a copy to:

Durham Jones & Pinegar, P.C.
Attention: Jeffrey M. Jones
111 East Broadway, Suite 900,
Salt Lake City, Utah 84111.
Facsimile No.: (801) 415-3500

- (b) If to Telkonet:

Telkonet Communications, Inc.
670 Ritchie Highway
Severna Park, Maryland 21146
Facsimile No.: (410) 544-6306

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with a copy to:

Blank, Rome, Comisky & McCauley, LLP
Attention: James R. Deveney, II
250 West Pratt Street, Suite 1100
Baltimore, Maryland 21201

Facsimile No.: (410) 654-1414

or at such other address or addresses as the party addressed may from time to time designate in writing. Any communication dispatched by telegram or telex shall be confirmed by letter.

Section 13.06. EXPENSES. All legal and other costs and expenses incurred in connection herewith and the transactions contemplated hereby shall be paid by the party incurring such expenses, except that Comstock shall pay all of the expenses of the Constituent Corporations incurred in connection herewith.

Section 13.07. HEADINGS. The headings in this Agreement are intended solely for convenience of reference and shall be given no effect in the construction or interpretation of this Agreement.

Section 13.08. COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which shall constitute the same agreement.

Section 13.09. ATTORNEYS' FEES. In the event that any party institutes any action or suit to enforce this Agreement or to secure relief from any default hereunder or breach hereof, the non-prevailing party or parties shall reimburse the prevailing party or parties for all costs, including reasonable attorneys' fees, incurred in connection therewith and in enforcing or collecting any judgment rendered therein.

Section 13.10. ENTIRE AGREEMENT. This Agreement, including the exhibits and schedules hereto, represents the entire agreement between the parties relating to the subject matter hereof. This Agreement alone fully and completely expresses the agreement of the parties. There are no other courses of dealing, understandings, agreements, representations, or warranties, written or oral, except as set forth herein.

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IN WITNESS WHEREOF, the parties hereto have caused their signatures to be affixed to this Agreement as of the date first above written.

DATED the day and year first written above.

COMSTOCK COAL COMPANY, INC.

By: /s/ James Doolin

Its: President

STATE OF UTAH)
 : ss
COUNTY OF SALT LAKE)

On this 30th day of August, in the year 2000, before me, a Notary Public, personally appeared James Doolin, known to me (or proved to me on the basis of satisfactory evidence) to be the person who executed the within instrument as President or on behalf of the corporation therein named and acknowledged to me that the corporation executed it.

[Notary stamp here] /s/ Carol J. Nye

Notary Public

COMSTOCK ACQUISITION CORP.

By: /s/ James Doolin

Its: President

STATE OF UTAH)
 : ss
COUNTY OF SALT LAKE)

On this 30th day of August, in the year 2000, before me, a Notary Public, personally appeared James Doolin, known to me (or proved to me on the basis of satisfactory evidence) to be the person who executed the within instrument as President or on behalf of the corporation therein named and acknowledged to me that the corporation executed it.

[Notary stamp here] /s/ Carol J. Nye

Notary Public

DATED: August 30, 2000 TELKONET, INC.

By: /s/ L. Peter Larson

Its: President

STATE OF MARYLAND)
: ss.
COUNTY OF BALTIMORE)

On this 30th day of August, in the year 2000, before me, a Notary Public, personally appeared L. Peter Larson, known to me (or proved to me on the basis of satisfactory evidence) to be the person who executed the within instrument as President or on behalf of the corporation therein named and acknowledged to me that the corporation executed it.

[Notary stamp here] /s/ Terry Bassett

Notary Public

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Schedule 5.01 Telkonet Organization

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Schedule 5.03 Telkonet Articles of Incorporation, Bylaws and Minutes

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Schedule 5.05 Telkonet Affiliates

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Schedule 5.08 Telkonet Financial Statements

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Schedule 5.09 Telkonet Adverse Changes

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Schedule 5.18 Telkonet Contracts

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Schedule 6.04 Comstock and CAC
Articles of Incorporation, By-Laws and Minutes

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Schedule 6.09 Comstock Financial Statements

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Schedule 6.13 Comstock Taxes

ARTICLES OF INCORPORATION
FOR
COMSTOCK COAL COMPANY, INC.

WE THE UNDERSIGNED natural persons of the age of twenty-one years or more, acting as incorporators of a corporation under the Utah Business Corporation Act adopt the following Articles of Incorporation for such corporation.

ARTICLE I
CORPORATE NAME

The name of this corporation is Comstock Coal Company, Inc.

ARTICLE II
DURATION OF CORPORATION

The duration of this corporation is "perpetual".

ARTICLE III
CORPORATE PURPOSES

The purpose for which this corporation is organized is to own, mine, sell, lease or otherwise deal with coal and other mineral and natural resources and all matters related or ancillary thereto and to do all things and engage in all lawful transactions which a corporation organized under the laws of the State of Utah might do or engage in. even though not expressly stated herein.

ARTICLE IV
CAPITALIZATION

The aggregate number of shares which this corporation shall have authority to issue is ONE MILLION (1,000,000) shares of par value stock with a par value of FIVE CENTS (\$0.05) per share. All stock of the corporation shall be of the same class and shall have the same rights and preferences. Fully paid stock of this corporation shall not be liable to any further call or assessment.

ARTICLE V
PRE-EMPTIVE RIGHTS ABOLISHED

The authorized and treasury stock of this corporation may be issued at such time, upon such terms and conditions and for such consideration as the Board of Directors shall determine. Shareholders shall not have pre-emptive rights to acquire unissued shares of the stock of this corporation.

ARTICLE VI
COMMENCING BUSINESS

This corporation will not commence business until consideration of a value of at least \$1,000 has been received for the issuance of shares.

ARTICLE VII
INTERNAL AFFAIRS

The Directors shall adopt Bylaws which are not inconsistent with law or these Articles for the regulation and management of the affairs of the corporation. These Bylaws may be amended from time to time or repealed pursuant to law.

ARTICLE VIII
REGISTERED OFFICE AND AGENT

The address of this corporation's initial registered office and the name of its original registered agent at such address is:

Richard J. Lawrence
Suite 1200 Beneficial Life Tower
36 South State Street
Salt Lake City, Utah 84111

ARTICLE IX
DIRECTORS

The Board of Directors shall consist of not less than "three (3) nor more than nine (9) members as the Board of Directors may itself from time to time determine. The names and addresses of persons who are to serve as Directors until the first meeting of stockholders, or until their successors be elected and quality are:

Clark Powell	101 East 1st North Huntington, Utah
Louis W. Selleneit	531 West 3400 South Bountiful, Utah
John LaMar Hussey	Route 1 Price, Utah
Wallace A. Greenfied	263 East 400 North Centerville, Utah

ARTICLE X
INCORPORATORS

The name and address of each Incorporator is:

Clark Powell	101 East 1st North Huntington, Utah
Louis W. Selleneit	531 West 3400 South Bountiful, Utah
John LaMar Hussey	Route 1 Price, Utah

ARTICLE XI
OFFICERS AND DIRECTORS CONTRACTS

No contract or other transaction between this corporation and any other corporation shall be affected by the fact that a Director or officer of this corporation is interested in or is a Director or officer of such other corporation; and any Director, individually or jointly, may be a party to or may be interested in any corporation or transaction of this corporation or in which this corporation is interested; and no contract or other transaction of this corporation with any person, firm or corporation shall be affected by the fact that any Director of this corporation is a party to or is interested in such contract, act or transaction or any way connected with such person, firm or corporation, and every person who may become a Director of this corporation is hereby relieved from liability that might otherwise exist from contracting with the corporation for the benefit of himself or any firm, association or corporation in which he may be in any way interested, provided said Director acts in good faith.

DATED this 10th day of May, 1977.

/s/ Clark Powell

CLARK POWELL

/s/ John LaMar Hussey

JOHN LaMAR HUSSEY

STATE OF UTAH)
): ss.

County of Salt Lake)

I, THE UNDERSIGNED, a Notary Public, hereby certify that on the 10th day of May, 1977, Clark Powell, Louis W. Selleneit, and John LaMar Hussey, personally appeared before me who being by me first duly sworn severally declared that they are the persons who signed the foregoing document as incorporators and that the statements therein contained are true. DATED this 10th day of May, 1977.

/s/ Claudine M. Cable

NOTARY PUBLIC

My Commission expires:
January 22, 1980

Residing at:
Bountiful, Utah

ARTICLES OF AMENDMENT TO THE
ARTICLES OF INCORPORATION
OF
COMSTOCK COAL COMPANY, INC.

WE THE UNDERSIGNED, pursuant to the Utah Business Corporation Act, hereby adopt the following Articles of Amendment as a revision of the Articles of Incorporation of Comstock Coal Company, Inc.

Article I

The name of the Corporation is Comstock Coal Company, Inc.

Article II

The duration of the Corporation is perpetual.

Article III

The following amendments to the Articles of Incorporation were adopted by the Board of Directors. Shareholder approval was not required.

Article IV of the Articles of Incorporation of this Corporation is amended so that it will read in its entirety as follows:

First: Article IV shall be amended as follows, to-wit:

Article IV

The 995,000 outstanding shares of the Corporation are reverse split on a basis of 10 for 1, decreasing the presently outstanding shares from 995,000 shares to 99,500 shares.

/s/ James Doolin
James Doolin, President

STATE OF UTAH)

) : ss

COUNTY OF SALT LAKE)

On the 30th day of APRIL, 1999, personally appeared before me, a Notary Public, James Doolin, who acknowledged that he is the President of the Corporation, and that he is authorized to and did execute the above instrument.

/s/ Kathleen L. Morrison

NOTARY PUBLIC

ARTICLES OF AMENDMENT TO THE
ARTICLES OF INCORPORATION
OF
COMSTOCK COAL COMPANY, INC.

WE THE UNDERSIGNED, pursuant to the Utah Business Corporation Act, hereby adopt the following Articles of Amendment as a revision of the Articles of Incorporation of Comstock Coal Company, Inc.

Article I

The name of the Corporation is Comstock Coal Company, Inc.

Article II

The duration of the Corporation is perpetual.

Article III

The following amendments to the Articles of Incorporation were adopted by the Board of Directors. Shareholder approval was not required.

Article IV of the Articles of Incorporation of this Corporation is amended so that it will read in its entirety as follows:

First: Article IV shall be amended as follows, to-wit:

Article IV

The aggregate number of shares which this corporation shall have authority to issue is ONE HUNDRED MILLION (100,000,000) shares of par stock with a par value of \$0.0001 per share. All stock of the Corporation shall be of the same class and shall have the same rights and preferences. Fully paid stock of this Corporation shall not be liable to any further call of assessment.

/s/ James Doolin

James Doolin, President

STATE OF UTAH)
): ss
COUNTY OF SALT LAKE)

On the 3rd day of August, 1999, personally appeared before me, a Notary Public, James Doolin, who acknowledged that he is the President of the Corporation, and that he is authorized to and did execute the above instrument.

/s/ Kathleen L. Morrison

NOTARY PUBLIC

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (the "Agreement") is made and entered into as of this 30th day of August, 2000, by and among TELKONET, INC., a Utah corporation (the "Company"), and the shareholders of the Company identified on Schedule A hereto (each of whom is referred to herein as a "Holder" and collectively as the "Holders").

BACKGROUND

A. The Holders have heretofore, from time to time, purchased shares of the Company's Common Stock, \$0.01 par value per share (the "Common Stock"), pursuant to Subscription Agreements between the Company and the Holders (the "Purchase Agreement").

B. Pursuant to an Agreement and Plan of Reorganization (the "Merger Agreement") by and among the Company (then known as Comstock Coal Company, Inc., a Utah corporation), Comstock Acquisition Corp., a Utah corporation ("CAC") and Telkonet Communications, Inc., a Delaware corporation ("Telkonet"), the parties agreed to a reverse triangular merger (the "Merger") of CAC into Telkonet, with Telkonet emerging as the surviving corporation. Section 9.09 of the Merger Agreement imposed a condition precedent that the Company provide "piggyback" registration rights to certain shareholders of the Company, being the Holders under this Agreement.

C. The Company has entered into this Agreement to provide such registration rights to the Holders.

NOW THEREFORE, in consideration of the premises and the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and subject to and on the terms and conditions herein set forth, the Company and Holders, intending to be legally bound, hereby agree as follows:

SECTION 1. CERTAIN DEFINITIONS.

In addition to the other terms defined in this Agreement, the following terms shall be defined as follows:

"BUSINESS DAY" means any day on which the NYSE is open for trading.

"EFFECTIVE PERIOD" means the 2-year period commencing at the closing of the Merger under the Merger Agreement.

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"FAIR MARKET VALUE" means the average of the closing price per share for the Registrable Securities as to which a registration is being effected as reported on the NYSE Composite Transactions Tape for the 20 consecutive trading days immediately prior to the applicable date of determination, or, if such securities are not then listed and traded on the NYSE, the closing price for such securities for such period on the principal national securities exchange (or market) on which they are then traded as reported in the principal consolidated transaction reporting system with respect to securities listed on such exchange (or market) or, if such securities are not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by Nasdaq or such other organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in such securities selected by the Board of Directors of the Company. The term "trading day" shall mean a day on which the principal national securities exchange on which the shares of Common Stock are listed or admitted to trading is open for transaction of business or, if the shares of Common Stock are not listed or admitted to trading on any national securities exchange, a Business Day.

"NYSE" means the New York Stock Exchange.

"PERSON" means an individual, a partnership (general or limited), corporation, limited liability company, joint venture, business trust,

cooperative, association or other form of business organization, whether or not regarded as a legal entity under applicable law, a trust (inter vivos or testamentary), an estate of a deceased, insane or incompetent person, a quasi-governmental entity, a government or any agency, authority, political subdivision or other instrumentality thereof, or any other entity.

"REGISTRABLE SECURITY(IES)" means (i) all shares of Common Stock not previously sold to the public issued to Holders and (ii) any additional shares of Common Stock or other equity securities of the Company that may be issued to Holders in respect of or in exchange for any such shares by way of a distribution, in connection with a combination, split, exchange, reorganization, recapitalization or reclassification of the Company's securities, or pursuant to a merger, division, consolidation, liquidation or other similar business transaction or combination involving the Company; PROVIDED that as to any particular Registrable Securities, such securities shall cease to constitute Registrable Securities (i) when a registration statement with respect to the sale of such securities shall have become effective under the Securities Acts and such securities shall have been disposed of thereunder, or (ii) when in the opinion of counsel to the Company (which counsel shall be reasonably acceptable to such Holder) such securities are permitted to be distributed pursuant to Rule 144 (or any successor provision to such Rule) under the Securities Acts without volume restrictions or are otherwise freely transferable to the public without further registration under the Securities Acts, or (iii) when such securities shall have ceased to be issued and outstanding, or (iv) the end of the Effective Period; AND, in the case of clause (ii), the Company, upon request of any Holder, shall have delivered to such Holder a written opinion of counsel to the Company (which counsel shall be reasonably acceptable to such Holder) to such effect.

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"REGISTRATION EXPENSES" means all expenses incident to the Company's performance of or compliance with the registration requirements set forth in this Agreement including, without limitation, the following: (i) the fees, disbursements and expenses of the Company's counsel(s), accountants, and experts in connection with the registration under the Securities Acts of Registrable Securities; (ii) all expenses in connection with the preparation, printing and filing of the registration statement, any preliminary prospectus or final prospectus, any other offering document and amendments and supplements thereto, and the mailing and delivering of copies thereof to the underwriters and dealers, if any; (iii) the cost of printing or producing any agreement(s) among underwriters, underwriting agreement(s) and blue sky or legal investment memoranda, any selling agreements, and any other documents in connection with the offering, sale or delivery of Registrable Securities to be disposed of; (iv) the fees and expenses incurred in connection with the listing of Registrable Securities on each securities exchange on which the Company securities of the same class are then listed; and (v) the fees and/or disbursements of one special counsel for the Holders; PROVIDED, HOWEVER, that Registration Expenses with respect to any registration pursuant to this Agreement shall not include Selling Expenses.

"SEC" means the United States Securities and Exchange Commission, or such other federal agency at the time having the principal responsibility for administering the Securities Acts.

"SECURITIES ACTS" shall mean the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC thereunder, all as the same shall be in effect at the relevant time.

"SELLING EXPENSES" shall mean, with respect to any registration pursuant to this Agreement, any underwriting discounts or commissions attributable to Registrable Securities.

SECTION 2. REGISTRATION RIGHTS.

This Agreement shall become effective immediately and shall terminate upon the performance by the Company of the last of its obligations hereunder.

SECTION 3. REQUIRED REGISTRATION.

The Holders shall not be entitled to request or demand that the Company register all or any portion of the Registrable Securities under this Agreement,

and the Holders shall only possess rights to incidental registration of the Registrable Securities pursuant to Section 4 of this Agreement.

SECTION 4. INCIDENTAL REGISTRATION.

(a) If the Company proposes at any time during the Effective Period to register any shares of Common Stock or other securities issued by it having terms substantially similar to Registrable Securities ("Other Securities") for public sale under the Securities Acts on a Form and in a manner which would permit registration of Registrable Securities for sale to the public under the Securities Acts, it will give prompt written notice (which notice shall specify

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the intended method or methods of disposition) to the Holders of its intention to do so, and upon the written request of any Holder delivered to the Company within fifteen (15) Business Days after the giving of any such notice (which request shall specify the number of Registrable Securities intended to be disposed of by such Holder) the Company will use all reasonable efforts to effect, in connection with the registration of the Other Securities, the registration under the Securities Acts of all Registrable Securities which the Company has been requested by Holders to register; PROVIDED, HOWEVER, that:

(i) if, at any time after giving such written notice of its intention to register Other Securities and prior to the effective date of the registration statement filed in connection with such registration, the Company shall determine for any reason not to register such Other Securities, the Company may, at its election, give written notice of such determination to Holders requesting registration under Section 4(a) and thereupon the Company shall be relieved of its obligation to register such Registrable Securities in connection with the registration of such Other Securities (but not from its obligation to pay Registration Expenses to the extent incurred in connection therewith as provided in Section 12);

(ii) the Company will not be required to effect any registration pursuant to this Section 4 if, in connection with an underwritten public offering, the Company shall have been advised in writing (with a copy to Holders) by a nationally recognized investment banking firm selected by the Company that, in such firm's opinion, a registration of Registrable Securities at that time may interfere with an orderly sale and distribution of or materially and adversely affect the price of such offering; PROVIDED, HOWEVER, that if an offering of some but not all of the Registrable Securities requested to be registered by Holders and all other Persons having rights to include securities held by them in such registration would not adversely affect the Company's scheduled offering in the opinion of such firm, the aggregate number of Registrable Securities requested to be included in such offering by Holders shall be reduced pro rata (in accordance with the proportion that the Fair Market Value of all securities proposed to be included in such registration by Holders bears to the Fair Market Value of all securities proposed to be included in such registration by Holders and all other Persons exercising "piggyback" rights in such registration). Unless all Registrable Securities and such other piggybacking shares requested to be included in such registration are so included, no other securities may be included in the registration statement; or

(iii) the Company shall not be required to give notice of, or effect any registration of Registrable Securities under this Section 4 incidental to, the registration of any of its securities in connection with mergers, consolidations, acquisitions, exchange offers, subscription offers, dividend reinvestment plans or stock options or other employee benefits or compensation plans.

(b) The obligations of the Company to register any Registrable Securities held by Holders in accordance with this Section 4 shall expire on the last day of the Effective Period.

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SECTION 5. HOLDBACKS AND OTHER RESTRICTIONS.

Each Holder hereby covenants and agrees with the Company that:

(i) Holder shall not, if requested by the managing underwriters in an underwritten offering that includes Holder's Registrable

Securities, effect any public sale or distribution of securities of the Company of the same class as the securities included in such registration statement (or convertible into such class), including a sale pursuant to Rule 144 under the Securities Acts (except as part of such underwritten registration) during the 10-day period prior to, and during the 90-day period beginning on, the closing date of each underwritten offering made pursuant to such registration statement, to the extent timely notified in writing by the Company or the managing underwriters;

(ii) Holder shall not, during any period in which Registrable Securities of Holder are included in any effective registration statement: (A) effect any stabilization transactions or engage in any stabilization activity in connection with Common Shares or other equity securities of the Company in contravention of Rule 10b-7 under the Exchange Act; (B) and will not permit any Affiliated Purchaser (as that term is defined in Rule 10b-6 under the Exchange Act) to bid for or purchase for any account in which Holder has a beneficial interest, or attempt to induce any other person to purchase, any Common Shares or Registrable Securities in contravention of Rule 10b-6 under the Exchange Act; and (C) offer or agree to pay, directly or indirectly, to anyone any compensation for soliciting another to purchase, or for purchasing (other than for Holder's own account), any securities of the Company on a national securities exchange in contravention of Rule 10b-2 under the Exchange Act; and

(iii) Holder shall, in the case of a registration including Registrable Securities to be offered by Holder for sale through Brokers' Transactions: (A) furnish each broker through whom Holder offers Registrable Securities such number of copies of the prospectus as the broker may require and otherwise comply with the prospectus delivery requirements under the Securities Acts; (B) report to the Company each month all sales, pledges and other dispositions of Registrable Securities made by Holder during said month; and (C) sell Registrable Securities only in Brokers' Transactions.

SECTION 6. REGISTRATION PROCEDURES.

If and whenever the Company is required by the provisions of this Agreement to effect or cause a registration as provided in this Agreement, the Company:

(a) Will use its reasonable best efforts to cause such registration statement to become and remain effective under the Securities Acts until the earlier of such time as all such Registrable Securities have been disposed of in accordance with the method of disposition or the expiration of 150 days after such registration becomes effective, as such period may be extended pursuant to Section 6(h) or Section 8 hereto;

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(b) Prepare and file with the SEC such amendments, post-effective amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective for such period of time as is necessary to complete the offering and the distribution of the securities covered thereby (but in no event longer than 150 days after such registration statement becomes effective) as such period may be extended pursuant to Section 6(h) or Section 8 hereto;

(c) Comply with the provisions of the Securities Acts with respect to the disposition of all securities covered by such registration statement during the period during which any such registration statement is required to be in effect;

(d) Furnish to Holders and any underwriter of Registrable Securities, (i) such number of copies (including manually executed and conformed copies) of such registration statement and or each amendment thereof and supplement thereto (including all annexes, appendices, schedules and exhibits), (ii) such number of copies of the prospectus used in connection with such registration statement (including each preliminary prospectus, any summary prospectus and the final prospectus), and (iii) such number of copies of other documents, in each case as Holders or such underwriter may reasonably request;

(e) Use reasonable efforts to register or qualify all Registrable Securities covered by such registration statement under the securities or "blue sky" laws of such jurisdictions as Holders or any underwriter shall reasonably request, and do any and all other acts and things which may be reasonably

requested by Holders or such underwriter to consummate the offering and disposition of Registrable Securities in such jurisdictions; PROVIDED, HOWEVER, that the Company shall not be required to qualify generally to do business as a foreign corporation or as dealer in securities, subject itself to taxation, or consent to general service of process in any jurisdiction wherein it is not then so qualified or subject;

(f) Use, as soon as practicable after the effectiveness of the registration statement, reasonable efforts to cause the Registrable Securities covered by such registration statement to be registered with, or approved by, such other public, governmental or regulatory authorities as may be necessary to facilitate the disposition of such Registrable Securities;

(g) Use reasonable best efforts to list the Registrable Securities covered by such registration statement on any securities exchange on which any securities of the Company are then listed, if the listing of such Registrable Securities is then permitted under the rules of such exchange;

(h) Notify Holders promptly and, if requested by Holders, confirm such notification in writing, (i) when a prospectus or any prospectus supplement has been filed with the SEC, and, with respect to a registration statement or any post-effective amendment thereto, when the same has been declared effective by the SEC, (ii) of the issuance by the SEC of any stop order or the initiation of any proceedings for such or a similar purpose, (iii) of the receipt by the Company of any notification with respect to the suspension of the qualification

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of any of the Registrable Securities for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose, (iv) of the occurrence of any event which requires the making of any changes to a registration statement or related prospectus so that such documents will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (and the Company shall promptly prepare and furnish to Holders a reasonable number of copies of a supplemented or amended prospectus such that, as thereafter delivered to the purchasers of such Registrable Securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they are made, not misleading), and (v) of the Company's determination that the filing of a post-effective amendment to the Registration Statement shall be necessary or appropriate. Upon the receipt of any notice from the Company of the occurrence of any event of the kind described in clause (iv) of this Section 6(h), Holders shall forthwith discontinue any offer and disposition of Registrable Securities pursuant to the registration statement covering such Registrable Securities until Holders shall have received copies of a supplemented or amended prospectus which is no longer defective as contemplated by clause (v) of this Section 6(h) and, if so directed by the Company, shall deliver to the Company, at the Company's expense, all copies (other than permanent file copies) of the defective prospectus covering such Registrable Securities which are then in Holder's possession. If the Company shall provide any notice of the type referred to in the preceding sentence, the period during which the registration statements are required to be effective shall be extended by the number of days from and including the date such notice is provided, to and including the date when Holders shall have received copies of the corrected prospectus contemplated by clause (v) of this Section 6(h);

(i) Enter into such agreements and take such other appropriate actions as are customary and reasonably necessary to expedite or facilitate the disposition of such Registrable Securities, and in that regard, deliver to Holders such documents and certificates as may be reasonably requested by the Holders or, as applicable, the managing underwriters, to evidence the Company's compliance with this Agreement;

(j) Cooperate with the selling holders of Registrable Securities and the managing underwriters, if any, to facilitate the timely preparation and delivery of certificates representing Registrable Securities to be sold and not bearing any restrictive legends; and enable such Registrable Securities to be in such denominations and registered in such names as the managing underwriters may request at least 3 days prior to any sale of Registrable Securities to the underwriters; and

(k) Provide a transfer agent and registrar for all Registrable Securities registered pursuant hereunder and a CUSIP number for all such Registrable Securities, in each case not later than the effective date of such registration.

SECTION 7. UNDERWRITING.

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(a) If requested by the underwriters for any underwritten offering of Registrable Securities pursuant to a registration hereunder, the Company will enter into and perform its obligations under an underwriting agreement with the underwriters for such offering, such agreement to contain such representations and warranties by the Company and such other terms and provisions as are customarily contained in underwriting agreements with respect to secondary distributions, including, without limitation, customary provisions relating to indemnities and contribution and the provision of opinions of counsel and accountants' letters. If Registrable Securities are to be distributed by such underwriters on behalf of Holders, Holders shall, subject to Section 7(b), be a party to any such underwriting agreement and the representations and warranties by, and the other agreements on the part of, the Company to and for the benefit of such underwriters shall also be made to and for the benefit of Holders. Notwithstanding the foregoing, Holders may elect, prior to the effective date of the registration statement filed in connection with such registration, not to register such Registrable Securities in connection with any registration.

(b) If any registration pursuant to Section 4 hereof shall involve, in whole or in part, an underwritten offering, the Company may require Registrable Securities requested to be registered pursuant to Section 4 to be included in such underwriting on the same terms and conditions as shall be applicable to the securities being sold through underwriters under such registration. In such case, Holders shall be a party to any such underwriting agreement. Such agreement shall contain such representations and warranties by the Holders and such other terms and provisions as are customarily contained in underwriting agreements with respect to secondary distributions, including, without limitation, provisions relating to indemnities and contribution. The representations and warranties in such underwriting agreement by, and the other agreements on the part of, the Company to and for the benefit of such underwriters shall also be made to and for the benefit of Holders.

(c) In any underwritten public offering of Registrable Securities pursuant to a registration hereunder, Holders shall also enter into such agreements as may be customary in such transactions, including, among other provisions, such representations and warranties as the Company or the underwriters of such offering may reasonably request (including, without limitation, such concerning Holders, the Registrable Securities, Holder's intended plan of distributions and any other information supplied by the Holders to Company for use in such registration statement), and customary provisions relating to indemnities and contribution.

It shall be a condition precedent of the Company's obligations under Section 4 of this Agreement to any Holder that such Holder furnish to the Company such information regarding the Holder, the Registrable Securities held by it and the distribution proposed by the Holder as the Company may reasonably request to effect any such registration and as are customarily provided by selling stockholders.

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SECTION 8. INFORMATION BLACKOUT.

At any time when a registration statement relating to Registrable Securities is effective, upon written notice from the Company to Holders that the Company has determined in good faith that sale of Registrable Securities pursuant to the registration statement would require disclosure of non-public material information having an adverse effect on the Company (an "Information Blackout"), Holders shall suspend sales of Registrable Securities pursuant to such registration statement until the earlier of:

(i) 60 days after the Company makes such good faith determination, and

(ii) such time as the Company notifies the Holders that such material information has been disclosed to the public or has ceased to be material or that sales pursuant to such registration statement may otherwise be resumed (the number of days from such suspension of sales by the Holders until the day when such sale may be resumed hereunder is hereinafter called a "Sales Blackout Period").

SECTION 9. RULE 144.

The Company shall take all actions reasonably necessary to comply with the filing requirements described in Rule 144(c)(1) so as to enable Holders to sell Registrable Securities without registration under the Securities Acts.

SECTION 10. PREPARATION; REASONABLE INVESTIGATION, INFORMATION.

In connection with the preparation and filing of each registration statement registering Registrable Securities under the Securities Acts, the Company will give Holders and the underwriters, if any, and their respective counsel and accountants, drafts of such registration statements for their review and comment prior to filing and such reasonable and customary access to its books and records and such opportunities to discuss the business of the Company with its officers and the independent public accountants who have certified its financial statements as shall be necessary, in the opinion of Holders and such underwriters or their respective counsel, to conduct a reasonable investigation within the meaning of the Securities Acts.

SECTION 11. INDEMNIFICATION AND CONTRIBUTION.

(a) In the case of each offering of Registrable Securities made pursuant to this Agreement, the Company shall indemnify and hold harmless each Holder, its officers and directors, each underwriter of Registrable Securities so offered and each person, if any, who controls any of the foregoing persons within the meaning of the Securities Acts ("Holder Indemnitees"), from and against any and all claims, liabilities, losses, damages, expenses and judgments, joint or several, to which they or any of them may become subject, under the Securities Acts or otherwise, including any amount paid in settlement of any litigation commenced or threatened, and shall promptly reimburse them, as and when incurred, for any legal or other expenses incurred by them in

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connection with investigating any claims and defending any actions, insofar as such losses, claims, damages, liabilities or actions shall arise out of, or shall be based upon, any untrue statement or alleged untrue statement of a material fact contained in the registration statement (or in any preliminary or final prospectus included therein) relating to the offering and sale of such Registrable Securities, or any amendment thereof or supplement thereto, or in any document incorporated by reference therein, or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or shall arise out of or shall be based upon any violation or alleged violation by the Company of the Securities Acts, any blue sky laws, securities laws or other applicable laws of any state or country in which the Registrable Securities are offered and relating to action or inaction required of the Company in connection with such offering; PROVIDED, that the Company shall not be liable to any Holder Indemnitee in any such case to the extent that any such loss, claim, damage, liability or action arises out of, or is based upon, any untrue statement or alleged untrue statement, or any omission, if such statement or omission shall have been made in reliance upon and in conformity with information furnished to the Company in writing by or on behalf of such Holder for use in the preparation of the registration statement (or in any preliminary or final prospectus included therein), or any amendment thereof or supplement thereto. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of Holders and shall survive the transfer of such securities. The foregoing indemnity agreement is in addition to any liability which the Company may otherwise have to any Holder Indemnitee.

(b) In the case of each offering of Registrable Securities made pursuant to this Agreement, each Holder shall indemnify and hold harmless the Company, its officers and directors and each person, if any who controls any of the foregoing within the meaning of the Securities Acts and (if requested by the underwriters) each underwriter who participates in the offering and each person, if any, who controls any such underwriter within the meaning of the Securities

Acts (the "Company Indemnitees"), from and against any and all claims, liabilities, losses, damages, expenses and judgments, joint or several, to which they or any of them may become subject, under the Securities Acts or otherwise, including any amount paid in settlement of any litigation commenced or threatened, and shall promptly reimburse them, as and when incurred, for any legal or other expenses incurred by them in connection with investigating any claims and defending any actions, insofar as any such losses, claims, damages, liabilities or actions shall arise out of, or shall be based upon, any untrue statement or alleged untrue statement of a material fact contained in the registration statement (or in any preliminary or final prospectus included therein) or any amendment thereof or supplement thereto, or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, but in each case only to the extent that such untrue statement is contained in, or such fact is omitted from, information furnished in writing to the Company by or on behalf of such Holder for use in the preparation of such registration statement (or in any preliminary or final prospectus included therein). The foregoing indemnity is in addition to any liability which Holders may otherwise have to any Company Indemnitee.

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(c) Each party indemnified under this Agreement shall, promptly after receipt of notice of any claim or other commencement of any action against such indemnified party in respect of which indemnity may be sought, notify the indemnifying party in writing of the claim or the commencement thereof; PROVIDED, that the failure to notify the indemnifying party shall not relieve the indemnifying party from any liability which it may have to an indemnified party on account of the indemnity agreement contained in this Agreement, unless the indemnifying party was prejudiced by such failure, and in no event shall it relieve the indemnifying party from any other liability which it may have to such indemnified party. If any such claim or action shall be brought against an indemnified party, and it shall notify the indemnifying party thereof, the indemnifying party shall be entitled to participate therein, and, to the extent that it wishes, jointly with any other similarly notified indemnifying party, to assume the defense of such a claim or action, and the indemnifying party shall not be liable to the indemnified party under this Section 11 for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense thereof other than reasonable costs of investigation; PROVIDED, that the Holder Indemnitees shall have the right to employ one separate counsel to represent them if, in the reasonable judgment of Holder or such other person, it is advisable (by reason of actual or potential legal conflicts of interest) for them to be represented by separate counsel, and in that event the fees and expenses of such separate counsel shall be paid by the Company. If the Holder Indemnitees employ such separate counsel they will not enter into any settlement agreement which is not approved by the Company, such approval will not be unreasonably withheld. If the indemnifying party so assumes the defense thereof, it may not agree to any settlement of any such claim or action as the result of which any remedy or relief, other than monetary damages for which the indemnifying party shall be responsible hereunder, shall be applied to or against the indemnified party, without the prior written consent of the indemnified party. If the indemnifying party does not assume the defense thereof, it shall be bound by any settlement to which the indemnified party agrees, irrespective of whether the indemnifying party consents thereto. In any action hereunder as to which the indemnifying party has assumed the defense thereof with counsel satisfactory to the indemnified party, the indemnified party shall continue to be entitled to participate in the defense thereof, with counsel of its own choice, but, except as set forth above, the indemnifying party shall not be obligated hereunder to reimburse the indemnified party for the costs thereof.

(d) If the indemnification agreements contained in Sections 11(a) and (b) are unavailable to an indemnified party in respect of any losses, claims, damages or liabilities referred to therein, each indemnifying party under such paragraphs, in lieu of indemnifying such indemnified party thereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (i) in such proportion as is appropriate to reflect not only the relative benefits received by the Company, Holders and each underwriter from the offering of Registrable Securities, but also the relative fault of the Company, Holders and each underwriter in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations or (ii) if the allocation provided by clause (i) above is not

permitted by applicable law, in such proportion as is appropriate to reflect the

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relative benefits received by the Company, Holders and each underwriter from the offering of Registrable Securities. The relative benefits received by the Company, Holders and each underwriter shall be deemed to be in the same respective proportions as the net proceeds from the offering (before deducting expenses) received by the Company and Holders and the total underwriting discounts and commissions received by each underwriter. The relative fault of the Company, Holders and each underwriter shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or, the omission or alleged omission to state a material fact relates to information supplied by the Company, Holders or an underwriter and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid or payable by an indemnified party as a result of the loss, claim, damage or liability, or action in respect thereof, referred to above in this paragraph shall be deemed to include, for purposes of this paragraph, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Acts) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

(e) The Company and Holders agree that it would not be just and equitable if contribution were determined by PRO RATA allocation or by any other method of allocation which does not take account of the equitable considerations referred to in Section 11(d).

SECTION 12. EXPENSES.

In connection with any registration under Section 3 or Section 4, the Company shall pay all Registration Expenses; provided that Holders shall pay his or its pro rata share of the Selling Expenses.

SECTION 13. NOTICES.

Except as otherwise provided below, whenever it is provided in this Agreement that any notice, demand, request, consent, approval, declaration or other communication shall or maybe given to or served upon either of the parties hereto, or whenever either of the parties hereto, desires to provide to or serve upon the other party any other communication with respect to this Agreement, each such notice, demand, request, consent, approval, declaration or other communication shall be in writing and either shall be delivered in person or sent by telecopy, addressed as follows:

(a) IF TO THE COMPANY, TO:

Telkonet, Inc.
670 Ritchie Highway, 2nd Floor
Severna Park, Maryland 21146
Phone: (410) 544-1044
Fax: (410) 544-6306

(b) IF TO HOLDERS: To the addresses for Holders set forth in Schedule A hereto.

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or at such other address as may be substituted by notice delivered as provided herein. The furnishing of any notice required hereunder may be waived in writing by the party entitled to receive such notice. Every notice, demand, request, consent, approval, declaration or other communication hereunder shall be deemed to have been duly furnished or served on the party to which it is addressed, in the case of delivery in person or by telecopy, on the date when sent (with receipt personally acknowledged in the case of telecopied notice). Failure or delay in delivering copies of any notice, demand, request, consent, approval, declaration or other communication to the persons designated above to receive copies shall in no way adversely affect the effectiveness of such notice, demand, request, consent, approval, declaration or other communication.

SECTION 14. ENTIRE AGREEMENT.

This Agreement represents the entire agreement and understanding among the parties hereto with respect to the subject matter hereof and supersedes any and all prior oral and written agreements, arrangements and understandings among the parties hereto with respect to such subject matter; and this Agreement can be amended, supplemented or changed, and any provision hereof can be waived, only by a written instrument making specific reference to this Agreement signed by Company and the Holders of 66 2/3% of the Registrable Securities.

SECTION 15. PARAGRAPH HEADINGS.

The purpose of paragraph headings contained in this Agreement are for general reference purposes only and shall not affect in any manner the meaning, interpretation or construction of the terms or other provisions of this Agreement.

SECTION 16. APPLICABLE LAW.

This Agreement shall be governed by, construed and enforced in accordance with the laws of the State of Utah, applicable to contracts to be made, executed, delivered and performed wholly within such state and, in any case, without regard to the conflicts of laws principles in such state.

SECTION 17. SEVERABILITY.

If at any time subsequent to the date hereof, any provision of this Agreement shall be held by any court of competent jurisdiction to be illegal, void or unenforceable, such provision shall be of no force and effect, but the illegality or unenforceability of such provision shall have no effect upon and shall not impair the enforceability of any other provision of this Agreement.

SECTION 18. EQUITABLE REMEDIES.

The parties hereto agree that irreparable harm would occur in the event that any of the agreements and provisions of this Agreement were not performed fully by the parties hereto in accordance with their specific terms or conditions or were otherwise breached, and that money damages are an inadequate remedy for breach of this Agreement because of the difficulty of ascertaining

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and quantifying the amount of damage that will be suffered by the parties hereto in the event that this Agreement is not performed in accordance with the terms and conditions or its otherwise breached. It is accordingly hereby agreed that the parties hereto shall be entitled to an injunction or injunctions to restrain enjoin and prevent breaches of this Agreement by the other parties and to enforce specifically the terms and provisions hereof in any court of the United States or any state having jurisdiction, such remedy being in addition to and not in lieu of, any other rights and remedies to which the other parties are entitled to at law or in equity.

SECTION 19. NO WAIVER.

The failure of any party at any time to require performance of any provision hereof shall not affect the right at a later time to enforce the same. No waiver by any party of any condition, and no breach of any provision, term, covenant, representation or warranty contained in this Agreement, whether by conduct or otherwise, in any one or more instances, shall be deemed to be construed as a further or continuing waiver of any such condition or of the breach of any other provision, term, covenant, representation or warranty of this Agreement.

SECTION 20. COUNTERPARTS.

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute but one and the same original instrument.

SECTION 21. NO CONFLICTING AGREEMENTS.

Company may enter into other agreements with third parties to provide demand and/or incidental registration rights to such third parties; provided such other agreements do not negate the rights of the Holders under this

Agreement. Without the prior consent of the Holders of 66 2/3% of the Registrable Securities, Company will not enter into any agreement which conflicts with or negates the registration rights afforded under the terms and provisions hereof.

SECTION 22. SUCCESSORS AND ASSIGNS.

This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties, including without limitation and without need for an express assignment, any subsequent holder of Registrable Securities.

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IN WITNESS WHEREOF, this Agreement has been executed and delivered as of the date first above written.

ATTEST: COMPANY:
TELKONET, INC.

/s/ Stephen L. Sadle By: /s/ L. Peter Larson (SEAL)

L. Peter Larson, President and
Chief Executive Officer

ATTEST: HOLDERS:
JENSON SERVICES, INC.
/s/ Stephen L. Sadle By: /s/ Jeff S. Jenson

Its: President

ATTEST: James Doolin
/s/ James Jenson By: /s/ James Doolin

Its: President

ATTEST:

By:

Its:

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EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is effective as of the 19th day of June, 2000, by and between TELKONET COMMUNICATIONS, INC., a Delaware corporation (the "Company"), and STEPHEN L. SADLE (the "Executive").

WITNESSETH:

WHEREAS, the Company desires to employ the Executive, and the Executive desires to be employed by the Company, on the terms and subject to the conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual promises herein contained, the parties hereby agree as follows:

1. EMPLOYMENT. The Company hereby employs the Executive as its Executive Vice-President, Secretary, Treasurer and Chief Operating Officer and the Executive hereby accepts such employment, on the terms and subject to the conditions hereinafter set forth.

2. TERM. Subject to the provisions for the termination of this Agreement as provided for herein, the term of this Employment Agreement shall commence on the date hereof and shall continue through June 18, 2003 (the "Base Term") and shall automatically be extended for an additional one year (each a "Renewal Year") at the end of the Base Term and each Renewal Term unless on or before the sixtieth (60th) day prior to the end of the Base Term or an Renewal Term, either party gives to the other party written notice of termination of this Employment Agreement, in which case this Employment Agreement shall terminate upon the completion of the then applicable employment period.

3. POSITION AND DUTIES.

(a) The Executive shall serve as the Executive Vice-President, Secretary, Treasurer and Chief Operating Officer of the Company. The Executive's exact duties and the scope of his authority without obtaining Board of Director approval shall be set forth in a separate writing, and attached hereto as Exhibit A. The duties and scope of authority may be changed by the Board of Directors from time to time in the exercise of its reasonable business judgement. The Executive shall be entitled to the full protection of applicable indemnification provisions of the certificate of incorporation, bylaws of the Company and the corporate law of Delaware, as the same may be amended from time to time, for his service as a director, officer and employee of the Company or any subsidiary of the Company or for services performed for any fringe benefit program of the Company. Such indemnification shall include all permissive provisions including advancement of payment. (b) (i) the Executive's place of employment or the principal executive offices of the Company are moved to a location more than fifty (50) miles from the geographical center of Severna Park, Maryland;

(ii) there occurs a material breach by the Company of any of its obligations under this Employment Agreement (other than those specified in this Section 3(b)) that has not been cured in all material respects within ten (10) days after the Executive gives notice thereof to the Company;

(iii) there occurs a "change in control" (as hereinafter defined) of the Company; or

(iv) the Executive has not been paid for a cumulative sixty (60) day period without Executive's consent in excess of the period of non-payment for similar Executives.

then the Executive shall have the right to terminate his employment with the Company, but such termination shall not be considered a voluntary resignation or termination of such employment or of this Employment Agreement by the Executive but rather a discharge of the Executive by the Company without "cause" (as defined in Paragraph 5(a)(ii)).

(c) The term "change in control" means the first to occur of

the following events:

(i) any person or group of commonly controlled persons who are not currently stockholders, acquires, directly or indirectly, thirty percent (30%) or more of the voting control or value of the equity interests in the Company; or

(ii) the shareholders of the Company approve an agreement to merge or consolidate with another corporation or other entity resulting (whether separately or in connection with a series of transactions) in a change in ownership of twenty percent (20%) or more of the voting control or value of the equity interests in the Company, or an agreement to sell or otherwise dispose of all or substantially all of the Company's assets (including, without limitation, a plan of liquidation or dissolution), or otherwise approve of a fundamental alteration in the nature of the Company's business.

4. COMPENSATION.

During the term of this Employment Agreement the Company shall pay or provide, as the case may be, to the Executive the compensation and other benefits and rights set forth in this Paragraph 4.

(a) The Company shall pay to the Executive a base salary payable in accordance with the Company's usual pay practices (and in any event no less frequently than monthly) at the rate of One Hundred Thirty Thousand Dollars (\$130,000.00) per annum, which may be increased (but not decreased) from time to time based upon the performance of the Company and the Executive. Currently, this amount is payable bi-weekly.

(b) The Company may pay to the Executive bonus compensation for each calendar or fiscal year of the Company, not later than ninety (90) days following the end of each year or the termination of his employment, as the case may be, prorated on a per diem basis for partial calendar or fiscal years. It is acknowledged that these bonuses may be based in part on the Executive's performance and in part on the Company's performance.

(c) During the Base Term of this Agreement and any Renewal Term, the Company shall maintain in full force and effect, and the Executive shall be entitled to participate in, all of the Company's employee benefit plan and arrangements in effect on the date hereof in at least the same manner and capacity as the officers and key management employees of the Company. This does not include life insurance or disability insurance if the cost of coverage is substantially in excess of the average cost for someone of the same age. The Company shall not make any changes in such plans and arrangements which would adversely affect the Executive's rights or benefits thereunder, unless such change occurs pursuant to a program applicable to all officers and key management employees of the Company. The Executive shall be entitled to participate in or receive benefits under any employee benefit plan or arrangement made available by the Company in the future to its officers and key management employees, subject to and on a basis consistent with the terms, conditions and overall administration of such plans and arrangements as long as the cost of coverage is not substantially in excess of the average cost of someone of the same age. Nothing paid to the Executive under any plan or arrangement presently in effect or made available to the Executive in the future shall be deemed to be in lieu of any amounts payable to the Executive pursuant to this Section 4.

(d) The Company shall reimburse the Executive or provide him with an expense allowance during the term of this Employment Agreement for travel, entertainment and other expenses reasonably and necessarily incurred by the Executive in connection with the Company's business. The Executive shall furnish such documentation with respect to reimbursements or allowances to be made hereunder as the Company shall reasonably request. Depending on the individual's exact duties, a company owned vehicle may be provided.

5. PAYMENT IN THE EVENT OF DISABILITY.

(a) In the event of the Executive's "permanent disability" (as hereinafter defined) during the term of this Employment Agreement, for a period of 6 months after determination of a permanent disability years the Company

shall pay to the Executive an annual amount equal to the Executive's then effective per annum rate of salary, as determined under Paragraph 4(a). The Company, to the extent prudent, shall insure against disability through an insurance company. Such coverage shall contain a benefit for total, as well as partial and residual, disabilities and shall be in addition to the payment obligation contained in this Paragraph 5 (a). If such insurance is obtained, the premium shall be added to the Executive's W2 as other compensation. The Company shall review and revise the amount of coverage not less than annually in accordance with the prior year's total cash compensation as soon as the amount of cash compensation, including all cash bonuses, can be calculated.

(b) For purposes of this Employment Agreement, the Executive's "permanent disability" shall be deemed to have occurred after one hundred twenty (120) days in the aggregate during any consecutive twelve (12) month period, or after ninety (90) consecutive days, during which one hundred twenty (120) or ninety (90) days, as the case may be, the Executive, by reason of his physical or mental disability or illness, shall have been unable to substantially discharge his duties under this Employment Agreement. The date of permanent disability shall be such one hundred twentieth (120th) or ninetieth (90th) day, as the case may be. In the event either the Company or the Executive, after receipt of notice of the Executive's permanent disability from the other, dispute that the Executive's permanent disability shall have occurred, the Executive shall promptly submit to a physical examination by the chief of medicine of any major accredited hospital in the State of Maryland, and, unless such physician shall issue his written statement to the effect that in his opinion, based on his diagnosis, the Executive is capable of resuming his employment and devoting his full time and energy to discharging his duties within thirty (30) days after the date of such statement, such permanent disability shall be deemed to have occurred. In lieu of any such examination, a determination by the disability insurance carrier for the Company shall suffice.

6. TERMINATION.

(a) The employment of the Executive under this Employment Agreement, and the terms hereof, may be terminated by the Company:

(i) on the death or permanent disability of the Executive (as defined in Paragraph 4(b)), or

(ii) for cause at any time by action of the Board.
For purposes hereof, the term "cause" shall mean:

(A) The Executive's fraud, commission of a felony or of an act or series of acts which result in material injury to the business reputation of the Company, commission of an act or series of repeated acts of dishonesty which are materially inimical to the best interests of the Company, or the Executive's willful and repeated failure to perform his lawful duties under this Employment Agreement, which failure has not been cured within fifteen (15) days after the Company gives notice thereof to the Executive, provided, however, that shall not be entitled to any more than two notice cure opportunities during each fiscal year of the Company; or

(B) The Executive's material breach of any material provision of this Employment Agreement not involving performance of his duties, which breach has not been cured in all substantial respects within ten (10) days after the Company gives notice thereof to the Executive. (Provided, however, that Executive shall not be entitled to any more than two weeks notice cure opportunities during each fiscal year of the Company.

Upon any termination of this Employment Agreement, the Executive shall be deemed to have resigned from all offices held by the Executive in the Company.

(b) In the event of a termination claimed by the Company to be for "cause" pursuant to Paragraph 5(a)(ii), the Executive shall have the right to have the justification for said termination determined forthwith by arbitration. In order to exercise such right, the Executive shall serve on the Company within thirty (30) days after termination a written request for arbitration. The Company immediately shall request the appointment of an arbitrator by the American Arbitration Association and thereafter the question of "cause" shall be determined under the rules of the American Arbitration Association, and the decision of the arbitrator or arbitrators shall be final

and binding on both parties. The parties shall use all reasonable efforts to facilitate and expedite the arbitration and shall act to cause the arbitration to be completed as promptly as possible. Expenses of the arbitration shall be borne equally by the parties, unless apportioned otherwise by the arbitrators.

(c) In the event of termination for any of the reasons set forth in subparagraph (a)(i) or (a)(ii) of this Paragraph 5, or if the Executive terminates his employment unless under subparagraph 3b, the Executive shall be entitled to no further compensation or other benefits under this Employment Agreement, except as to that portion of any unpaid salary and other benefits accrued and earned by him hereunder up to and including the effective date of such termination. If the Company terminates the Executive's employment other than pursuant to subparagraph 5(a)(i) or 5(a)(ii) or the Executive terminates his employment pursuant to subparagraph 3(b), all of the compensation and benefits payable to the Executive pursuant to this Employment Agreement shall be paid to the Executive for a period of eighteen (18) months following the date of such termination (the "Severance Period"). For purposes of this Paragraph 5(c), with respect to any benefits payable to the Executive following termination, the Company may elect to (i) pay to the Executive in cash an amount equivalent to the value of the benefits to be paid for the duration of the Severance Period; or (ii) continue to provide benefits to the Executive for the duration of the Severance Period. If there occurs a change of control, or take over, of the Company and the acquiring or controlling entity, terminates the Executive, then the Executive shall be paid for a period of thirty-six (36) months following the date of such termination (the "Severance Period"), including all of the compensation and other benefits payable to the Executive pursuant to this Employment Agreement.

7. NON-COMPETITION AND CONFIDENTIALITY. The Executive acknowledges the Company's reliance and expectation of the Executive's continued commitment to performance of his duties and responsibilities during the term of this Employment Agreement. In light of such reliance and expectation on the part of the Company, the Executive hereby agrees to be bound by the terms of the Noncompetition and Confidentiality Agreement, of even date herewith, a copy of the form of which is attached hereto and made a part hereof as Exhibit B.

8. MISCELLANEOUS.

(a) The Executive represents and warrants that he is not a party to any agreement, contract or understanding, whether employment or otherwise, which would restrict or prohibit him from undertaking or performing employment in accordance with the terms and conditions of this Employment Agreement.

(b) The provisions of this Employment Agreement are severable and if any one or more provisions may be determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions and any partially unenforceable provision, to the extent enforceable in any jurisdiction, nevertheless shall be binding and enforceable.

(c) The rights and obligations of the Company under this Employment Agreement shall inure to the benefit of, and shall be binding on, the Company and its successors and assigns, and the rights and obligations (other than obligations to perform services) of the Executive under this Employment Agreement shall inure to the benefit of, and shall be binding upon, the Executive and his heirs, personal representatives and assigns.

(d) Any notice to be given under this Employment Agreement shall be personally delivered in writing or shall have been deemed duly given when received after it is posted in the United States mail, postage prepaid, registered or certified, return receipt requested, and if mailed to the Company, shall be addressed to its principal place of business and if mailed to the Executive, shall be addressed to him at his home address last known on the records of the Company, or at such other address or addresses as either the Company or the Executive may hereafter designate in writing to the other. Notice by regular mail postage prepaid, shall be given at the same time the registered certified copy is mailed and shall be sufficient if not returned and the registered or certified copy is returned either refused or because not picked up.

(e) The failure of either party to enforce any provision or provisions of this Employment Agreement shall not in any way be construed as a waiver of any such provision or provisions as to any future violations thereof, or prevent that party thereafter from enforcing each and every other provision of this Employment Agreement. The rights granted the parties herein are cumulative and the waiver of any single remedy shall not constitute a waiver of such party's right to assert all other legal remedies available to it under the circumstances.

(f) This Employment Agreement supersedes all prior agreements and understandings between the parties and may not be modified or terminated orally. No modification, termination or attempted waiver shall be valid unless in writing and signed by the party against whom the same is sought to be enforced.

(g) This Employment Agreement (other than the statutory rights or indemnification which shall be under Delaware law) shall be governed by and construed according to the laws of the State of Maryland without giving effect to applicable conflicts of law provisions.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

TELKONET COMMUNICATIONS, INC.

By: /s/ David W. Grimes

Name: David W. Grimes

Title: Chairman and Chief Technology Officer

Stephen L. Sadle

STEPHEN L. SADLE

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is effective as of the 19th day of June, 2000, by and between TELKONET COMMUNICATIONS, INC., a Delaware corporation (the "Company"), and LEWIS PETER LARSON (the "Executive").

WITNESSETH:

WHEREAS, the Company desires to employ the Executive, and the Executive desires to be employed by the Company, on the terms and subject to the conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual promises herein contained, the parties hereby agree as follows:

1. EMPLOYMENT. The Company hereby employs the Executive as its President and Chief Financial Officer and the Executive hereby accepts such employment, on the terms and subject to the conditions hereinafter set forth.

2. TERM. Subject to the provisions for the termination of this Agreement as provided for herein, the term of this Employment Agreement shall commence on the date hereof and shall continue through June 18, 2003 (the "Base Term") and shall automatically be extended for an additional one year (each a "Renewal Year") at the end of the Base Term and each Renewal Term unless on or before the sixtieth (60th) day prior to the end of the Base Term or an Renewal Term, either party gives to the other party written notice of termination of this Employment Agreement, in which case this Employment Agreement shall terminate upon the completion of the then applicable employment period.

3. POSITION AND DUTIES.

(a) The Executive shall serve as the President and Chief Financial Officer of the Company. The Executive's exact duties and the scope of his authority without obtaining Board of Director approval shall be set forth in a separate writing, and attached hereto as Exhibit A. The duties and scope of authority may be changed by the Board of Directors from time to time in the exercise of its reasonable business judgement. The Executive shall be entitled to the full protection of applicable indemnification provisions of the certificate of incorporation, bylaws of the Company and the corporate law of Delaware, as the same may be amended from time to time, for his service as a director, officer and employee of the Company or any subsidiary of the Company or for services performed for any fringe benefit program of the Company. Such indemnification shall include all permissive provisions including advancement of payment.

(b) (i) the Executive's place of employment or the principal executive offices of the Company are moved to a location more than fifty (50) miles from the geographical center of Severna Park, Maryland;

(ii) there occurs a material breach by the Company of any of its obligations under this Employment Agreement (other than those specified in this Section 3(b)) that has not been cured in all material respects within ten (10) days after the Executive gives notice thereof to the Company;

(iii) there occurs a "change in control" (as hereinafter defined) of the Company; or

(iv) the Executive has not been paid for a cumulative sixty (60) day period without Executive's consent in excess of the period of non-payment for similar Executives.

then the Executive shall have the right to terminate his employment with the Company, but such termination shall not be considered a voluntary resignation or termination of such employment or of this Employment Agreement by the Executive but rather a discharge of the Executive by the Company without "cause" (as defined in Paragraph 5(a)(ii)).

(c) The term "change in control" means the first to occur of the following events:

(i) any person or group of commonly controlled persons who are not currently stockholders, acquires, directly or indirectly, thirty percent (30%) or more of the voting control or value of the equity interests in the Company; or

(ii) the shareholders of the Company approve an agreement to merge or consolidate with another corporation or other entity resulting (whether separately or in connection with a series of transactions) in a change in ownership of twenty percent (20%) or more of the voting control or value of the equity interests in the Company, or an agreement to sell or otherwise dispose of all or substantially all of the Company's assets (including, without limitation, a plan of liquidation or dissolution), or otherwise approve of a fundamental alteration in the nature of the Company's business.

4. COMPENSATION.

During the term of this Employment Agreement the Company shall pay or provide, as the case may be, to the Executive the compensation and other benefits and rights set forth in this Paragraph 4.

(a) The Company shall pay to the Executive a base salary payable in accordance with the Company's usual pay practices (and in any event no less frequently than monthly) at the rate of One Hundred Thirty Thousand Dollars (\$130,000.00) per annum, which may be increased (but not decreased) from time to time based upon the performance of the Company and the Executive. Currently, this amount is payable bi-weekly.

(b) The Company may pay to the Executive bonus compensation for each calendar or fiscal year of the Company, not later than ninety (90) days following the end of each year or the termination of his employment, as the case may be, prorated on a per diem basis for partial calendar or fiscal years. It is acknowledged that these bonuses may be based in part on the Executive's performance and in part on the Company's performance.

(c) During the Base Term of this Agreement and any Renewal Term, the Company shall maintain in full force and effect, and the Executive shall be entitled to participate in, all of the Company's employee benefit plan and arrangements in effect on the date hereof in at least the same manner and capacity as the officers and key management employees of the Company. This does not include life insurance or disability insurance if the cost of coverage is substantially in excess of the average cost for someone of the same age. The Company shall not make any changes in such plans and arrangements which would adversely affect the Executive's rights or benefits thereunder, unless such change occurs pursuant to a program applicable to all officers and key management employees of the Company. The Executive shall be entitled to participate in or receive benefits under any employee benefit plan or arrangement made available by the Company in the future to its officers and key management employees, subject to and on a basis consistent with the terms, conditions and overall administration of such plans and arrangements as long as the cost of coverage is not substantially in excess of the average cost of someone of the same age. Nothing paid to the Executive under any plan or arrangement presently in effect or made available to the Executive in the future shall be deemed to be in lieu of any amounts payable to the Executive pursuant to this Section 4.

(d) The Company shall reimburse the Executive or provide him with an expense allowance during the term of this Employment Agreement for travel, entertainment and other expenses reasonably and necessarily incurred by the Executive in connection with the Company's business. The Executive shall furnish such documentation with respect to reimbursements or allowances to be made hereunder as the Company shall reasonably request. Depending on the individual's exact duties, a company owned vehicle may be provided.

5. PAYMENT IN THE EVENT OF DISABILITY.

(a) In the event of the Executive's "permanent disability" (as hereinafter defined) during the term of this Employment Agreement, for a period of 6 months after determination of a permanent disability years the Company shall pay to the Executive an annual amount equal to the Executive's then effective per annum rate of salary, as determined under Paragraph 4(a). The

Company, to the extent prudent, shall insure against disability through an insurance company. Such coverage shall contain a benefit for total, as well as partial and residual, disabilities and shall be in addition to the payment obligation contained in this Paragraph 5 (a). If such insurance is obtained, the premium shall be added to the Employee's W2 as other compensation. The Company shall review and revise the amount of coverage not less than annually in accordance with the prior year's total cash compensation as soon as the amount of cash compensation, including all cash bonuses, can be calculated.

(b) For purposes of this Employment Agreement, the Executive's "permanent disability" shall be deemed to have occurred after one hundred twenty (120) days in the aggregate during any consecutive twelve (12) month period, or after ninety (90) consecutive days, during which one hundred twenty (120) or ninety (90) days, as the case may be, the Executive, by reason of his physical or mental disability or illness, shall have been unable to substantially discharge his duties under this Employment Agreement. The date of permanent disability shall be such one hundred twentieth (120th) or ninetieth (90th) day, as the case may be. In the event either the Company or the Executive, after receipt of notice of the Executive's permanent disability from the other, dispute that the Executive's permanent disability shall have occurred, the Executive shall promptly submit to a physical examination by the chief of medicine of any major accredited hospital in the State of Maryland, and, unless such physician shall issue his written statement to the effect that in his opinion, based on his diagnosis, the Executive is capable of resuming his employment and devoting his full time and energy to discharging his duties within thirty (30) days after the date of such statement, such permanent disability shall be deemed to have occurred. In lieu of any such examination, a determination by the disability insurance carrier for the Company shall suffice.

6. TERMINATION.

(a) The employment of the Executive under this Employment Agreement, and the terms hereof, may be terminated by the Company:

(i) on the death or permanent disability of the Executive (as defined in Paragraph 4(b), or (ii) for cause at any time by action of the Board. For purposes hereof, the term "cause" shall mean:

(A) The Executive's fraud, commission of a felony or of an act or series of acts which result in material injury to the business reputation of the Company, commission of an act or series of repeated acts of dishonesty which are materially inimical to the best interests of the Company, or the Executive's willful and repeated failure to perform his lawful duties under this Employment Agreement, which failure has not been cured within fifteen (15) days after the Company gives notice thereof to the Executive, provided, however, that shall not be entitled to any more than two notice cure opportunities during each fiscal year of the Company; or

(B) The Executive's material breach of any material provision of this Employment Agreement not involving performance of his duties, which breach has not been cured in all substantial respects within ten (10) days after the Company gives notice thereof to the Executive. (Provided, however, that Executive shall not be entitled to any more than two weeks notice cure opportunities during each fiscal year of the Company.

Upon any termination of this Employment Agreement, the Executive shall be deemed to have resigned from all offices held by the Executive in the Company.

(b) In the event of a termination claimed by the Company to be for "cause" pursuant to Paragraph 5(a)(ii), the Executive shall have the right to have the justification for said termination determined forthwith by arbitration. In order to exercise such right, the Executive shall serve on the Company within thirty (30) days after termination a written request for arbitration. The Company immediately shall request the appointment of an arbitrator by the American Arbitration Association and thereafter the question of "cause" shall be determined under the rules of the American Arbitration Association, and the decision of the arbitrator or arbitrators shall be final and binding on both parties. The parties shall use all reasonable efforts to facilitate and expedite the arbitration and shall act to cause the arbitration to be completed as promptly as possible. Expenses of the arbitration shall be borne equally by the parties, unless apportioned otherwise by the arbitrators.

(c) In the event of termination for any of the reasons set forth in subparagraph (a)(i) or (a)(ii) of this Paragraph 5, or if the Executive terminates his employment unless under subparagraph 3b, the Executive shall be entitled to no further compensation or other benefits under this Employment Agreement, except as to that portion of any unpaid salary and other benefits accrued and earned by him hereunder up to and including the effective date of such termination. If the Company terminates the Executive's employment other than pursuant to subparagraph 5(a)(i) or 5(a)(ii) or the Executive terminates his employment pursuant to subparagraph 3(b), all of the compensation and benefits payable to the Executive pursuant to this Employment Agreement shall be paid to the Executive for a period of eighteen (18) months following the date of such termination (the "Severance Period"). For purposes of this Paragraph 5(c), with respect to any benefits payable to the Executive following termination, the Company may elect to (i) pay to the Executive in cash an amount equivalent to the value of the benefits to be paid for the duration of the Severance Period; or (ii) continue to provide benefits to the Executive for the duration of the Severance Period. If there occurs a change of control, or take over, of the Company and the acquiring or controlling entity, terminates the Executive, then the Executive shall be paid for a period of thirty-six (36) months following the date of such termination (the "Severance Period"), including all of the compensation and other benefits payable to the Executive pursuant to this Employment Agreement.

7. NON-COMPETITION AND CONFIDENTIALITY. The Executive acknowledges the Company's reliance and expectation of the Executive's continued commitment to performance of his duties and responsibilities during the term of this Employment Agreement. In light of such reliance and expectation on the part of the Company, the Executive hereby agrees to be bound by the terms of the Noncompetition and Confidentiality Agreement, of even date herewith, a copy of the form of which is attached hereto and made a part hereof as Exhibit B.

8. MISCELLANEOUS.

(a) The Executive represents and warrants that he is not a party to any agreement, contract or understanding, whether employment or otherwise, which would restrict or prohibit him from undertaking or performing employment in accordance with the terms and conditions of this Employment Agreement.

(b) The provisions of this Employment Agreement are severable and if any one or more provisions may be determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions and any partially unenforceable provision, to the extent enforceable in any jurisdiction, nevertheless shall be binding and enforceable.

(c) The rights and obligations of the Company under this Employment Agreement shall inure to the benefit of, and shall be binding on, the Company and its successors and assigns, and the rights and obligations (other than obligations to perform services) of the Executive under this Employment Agreement shall inure to the benefit of, and shall be binding upon, the Executive and his heirs, personal representatives and assigns.

(d) Any notice to be given under this Employment Agreement shall be personally delivered in writing or shall have been deemed duly given when received after it is posted in the United States mail, postage prepaid, registered or certified, return receipt requested, and if mailed to the Company, shall be addressed to its principal place of business and if mailed to the Executive, shall be addressed to him at his home address last known on the records of the Company, or at such other address or addresses as either the Company or the Executive may hereafter designate in writing to the other. Notice by regular mail postage prepaid, shall be given at the same time the registered certified copy is mailed and shall be sufficient if not returned and the registered or certified copy is returned either refused or because not picked up.

(e) The failure of either party to enforce any provision or provisions of this Employment Agreement shall not in any way be construed as a waiver of any such provision or provisions as to any future violations thereof, or prevent that party thereafter from enforcing each and every other provision of this Employment Agreement. The rights granted the parties herein are

cumulative and the waiver of any single remedy shall not constitute a waiver of such party's right to assert all other legal remedies available to it under the circumstances.

(f) This Employment Agreement supersedes all prior agreements and understandings between the parties and may not be modified or terminated orally. No modification, termination or attempted waiver shall be valid unless in writing and signed by the party against whom the same is sought to be enforced.

(g) This Employment Agreement (other than the statutory rights or indemnification which shall be under Delaware law) shall be governed by and construed according to the laws of the State of Maryland without giving effect to applicable conflicts of law provisions.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

TELKONET COMMUNICATIONS, INC.

By: /s/ David W. Grimes

Name: David W. Grimes

Title: Chairman and Chief Technology Officer

/s/ L. Peter Larson

LEWIS PETER LARSON

LETTER FROM H J & ASSOCIATES, LLC

H J & Associates, LLC
(Formerly Jones, Jensen & Company)
Salt Lake City, Utah

August 29, 2000

Securities and Exchange Commission
Washington, DC 20549

Re: Comstock Coal Company, Inc.
File No. 0-27305

Dear Sir or Madam:

We have read Item 4 of the Form 8-K of Comstock Coal Company, Inc.
dated August 29, 2000 and agree with the statement contained thereon.

/s/ H J & Associates, LLC

H J & Associates, LLC

JAMES DOOLIN
5525 S. 900 E. #110
SALT LAKE CITY, UTAH 84117

AUGUST 24, 2000

Board of Directors
Telkonet, Inc.
670 Ritchie Highway, 2nd Floor
Severna Park, Maryland 21146

Gentlemen:

The undersigned hereby resigns, effective August 30, 2000, as an officer and director of Telkonet, Inc.

Sincerely,

/s/ James Doolin
James Doolin

JASON JENSON
925 E. ATKIN AVE.
SALT LAKE CITY, UTAH 84106

AUGUST 24, 2000

Board of Directors
Telkonet, Inc.
670 Ritchie Highway, 2nd Floor
Severna Park, Maryland 21146

Gentlemen:

The undersigned hereby resigns, effective August 30, 2000, as an officer and director of Telkonet, Inc.

Sincerely,

/s/ Jason Jenson
Jason Jenson

SHANE THUESON
10972 SOUTH CINDY CIRCLE
SALT LAKE CITY, UTAH 84092

AUGUST 24, 2000

Board of Directors
Telkonet, Inc.
670 Ritchie Highway, 2nd Floor
Severna Park, Maryland 21146

Gentlemen:

The undersigned hereby resigns, effective August 30, 2000, as an officer and director of Telkonet, Inc.

Sincerely,

/s/ Shane Thueson
Shane Thueson

Subsidiaries of Telkonet, Inc.

Telkonet Communications, Inc., a Delaware Corporation, is a wholly owned subsidiary of Telkonet, Inc. Telkonet Communications, Inc. will also conduct business under the name TCI.

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