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

FORM 10QSB/A
(Amendment No 1)

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

For the period ended March 31, 2003

Commission file number 333-47986

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

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

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

(410) 897-5900
Issuer's Telephone Number

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No
--- ---

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 15,811,129 shares of Common Stock ($.001 par value) as of May 9, 2003.

Transitional small business disclosure format: Yes No x
--- ---

<TABLE>
TELKONET, INC.

Quarterly Report on Form 10-QSB for the
Quarterly Period Ending March 31, 2003
<CAPTION>

Table of Contents

<S> <C> <C>

</TABLE>

Item 1. Financial Statements (Unaudited)

<TABLE>

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

<CAPTION>

<S>	(Unaudited) March 31, 2003 <C>	(Audited) December 31, 2002 <C>
ASSETS		
CURRENT ASSETS:		
Cash and equivalents	$ 663,571	$ 18,827
Inventory, net	275,941	39,790
Due from shareholders	10,000	--
Other receivable	1,550	1,550
Prepaid expenses and deposits	100,857	4,625
Total current assets	1,051,918	64,792
PROPERTY AND EQUIPMENT:		
Furniture and equipment, at cost	79,754	73,215
Less: accumulated depreciation	37,439	35,252
	42,315	37,963
OTHER ASSETS		
Financing costs, less accumulated amortization of $133,049 and $101,692 at March 31, 2003 and December 31, 2002, respectively	248,460	192,600
	$ 1,342,693	$ 295,355
LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 571,045	$ 518,865
Notes payable	250,000	310,000
Due to Shareholders	7,500	130,330
Total current liabilities	828,545	959,195

Convertible debentures, net of discounts - including related parties (Note B)	1,148,075	862,682
COMMITMENTS AND CONTINGENCIES	--	--
DEFICIENCY IN STOCKHOLDERS' EQUITY		
Preferred stock, par value $.001 per share; 15,000,000 shares authorized; none issued at March 31, 2003 and December 31, 2002	--	--
Common stock, par value $.001 per share; 100,000,000 shares authorized; 15,721,131 shares issued and outstanding at March 31, 2003 and December 31, 2002	15,721	15,721
Additional paid-in-capital	7,249,770	4,916,433
Accumulated deficit during development stage	(7,899,418)	(6,458,676)
Deficiency in stockholders' equity	(633,927)	(1,526,522)
	$ 1,342,693	$ 295,355

See accompanying footnotes to the unaudited condensed consolidated financial information

</TABLE>

<TABLE>

TELKONET, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF LOSSES
(UNAUDITED)

<CAPTION>

<S>	Three Months ended March 31, 2003 <C>	Three Months ended March 31, 2002 (As Restated - Note D)) <C>	For the period from November 3, 1999 (date of inception) through March 31, 2003 (As Restated - Note D) <C>
Costs and Expenses:			
Research and Development	$ 314,728	$ 270,579	$ 2,727,200
Selling, General and Administrative	739,142	234,625	3,870,313
Depreciation and Amortization	33,544	49,453	170,488
Total Operating Expense	1,087,414	554,657	6,768,001
Loss from Operations	(1,087,414)	(554,657)	(6,768,001)
Other Income (Expense)	--	--	4,579
Interest Income (Expense)	(353,329)	(91,446)	(1,135,997)
Provision for Income Tax	--	--	--
	(353,329)	(91,446)	(1,131,418)
Net Loss	$ (1,440,743)	$ (646,103)	$ (7,899,419)
Loss per common share (basic and assuming dilution)	$ (0.09)	$ (0.07)	$ (0.49)
Weighted average common shares outstanding	15,721,131	9,313,563	16,050,030

See accompanying footnotes to the unaudited condensed consolidated financial information

</TABLE>

<TABLE>

TELKONET, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDERS' EQUITY
FOR THE PERIOD NOVEMBER 3, 1999 (DATE OF INCEPTION) TO MARCH 31, 2003

<CAPTION>

	Preferred Shares	Preferred Stock Amount	Common Shares	Common Stock Amount	Additional Paid in Capital	Common Stock Subscription	Deficit Accumulated During Development Stage	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Net Loss	--	$ --	--	$ --	$ --	$ --	$ (33,973)	$ (33,973)
Balance at December 31, 1999	--	--	--	--	--	--	(33,973)	(33,973)
Shares issued to founders January 2000, in exchange for services and costs valued at $0.60 per share	--	--	19,300	193	11,387	--	--	11,580
Shares issued in June 2000, for cash in connection with private placement at $375 per share, net of costs	--	--	1,735	17	644,219	--	--	644,236
Shares issued in July 2000, for warrants exercised at a price of $375 per share	--	--	190	--	71,250	--	--	71,250
Shares issued in August 2000, in connection with the merger of Comstock Coal and Telkonet Communications, Inc	--	--	21,775,335	21,775	--	--	--	21,775
August 2000, retirement of Telkonet Communications, Inc shares	--	--	(21,225)	(210)	--	--	--	(210)
Shares issued in October 2000, in exchange for warrants exercised at a price of $1 per share	--	--	29,145	29	29,115	--	--	29,144
Shares issued in October 2000, in exchange for warrants exercised at a price of $ 0.40 per share	--	--	10,891	11	4,345	--	--	4,356
Net loss	--	--	--	--	--	--	(929,720)	(929,720)
BALANCE AT DECEMBER 31, 2000	--	$ --	21,815,371	$ 21,815	$ 760,316	$ --	$(963,693)	$(181,562)

See accompanying footnotes to the unaudited condensed consolidated financial information

</TABLE>

<TABLE>

TELKONET, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDERS' EQUITY
FOR THE PERIOD NOVEMBER 3, 1999 (DATE OF INCEPTION) TO MARCH 31, 2003

<CAPTION>

	Preferred Shares	Preferred Stock Amount	Common Shares	Common Stock Amount	Common Additional Paid in Capital	Stock Subscription	Deficit Accumulated During Development Stage	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance Forward	--	$ --	21,815,371	$21,815	$ 760,316	$1,000	$ (963,693)	$ (181,562)
Shares issued in June 2001, for cash in connection with a private placement, shares issued at $.50 a share, net								

of costs	--	--	260,000	260	129,740	--	--	130,000
1,839,378 warrants issued in June 2001, valued at $0.13 per warrant, in exchange for services	--	--	--	--	237,035	--	--	237,035
72,668 stock options issued in June 2001, valued at $ 0.09 per stock option, in exchange for services	--	--	--	--	6,375	--	--	6,375
245,287 warrants issued in July 2001, valued at $0.08 per warrant, in exchange for services	--	--	--	--	18,568	--	--	18,568
36,917 stock options issued in July 2001, valued at $ 0.08 per warrant, in exchange for services	--	--	--	--	2,795	--	--	2,795
Shares issued in August 2001, for cash in connection with a private placement, shares issued at $.50 a share, net of costs	--	--	40,000	40	19,960	--	--	20,000
241,000 warrants issued in August 2001, valued at $ 0.39 per warrant in exchange for financing costs	--	--	--	--	85,818	--	--	85,818
150,000 warrants issued in August 2001, valued at $ 0.16 per warrant, in exchange for services	--	--	--	--	23,340	--	--	23,340
36,917 stock options issued in August 2001, valued at $0.06 per stock option, in exchange for services	--	--	--	--	2,422	--	--	2,422
25,000 warrants issued in September 2001, valued at $0.30 per warrant in exchange for services	--	--	--	--	7,380	--	--	7,380
95,000 warrants issued in October 2001, valued at $0.21 per warrant, in exchange for services	--	--	--	--	19,558	--	--	19,558
25,000 warrants issued in November 2001, valued at $0.33 per warrant, in exchange for services	--	--	--	--	8,218	--	--	8,218
25,000 warrants issued in December 2001, valued at $0.30 per warrant, in exchange for services	--	--	--	--	7,380	--	--	7,380
Beneficial conversion feature of convertible debentures (Note B)	--	--	--	--	837,874	--	--	837,874
Value of warrants attached to convertible debentures (Note B)	--	--	--	--	77,254	--	--	77,254
Net loss	--	--	--	--	--	--	(1,716,495)	(1,716,495)
	-------	-------	------------	--------	-----------	-------	------------	------------
BALANCE AT DECEMBER 31, 2001 (AS RESTATED- NOTE D)	--	--	$22,115,371	$22,115	2,244,033	$ --	$(2,680,188)	$ (414,040)
	=======	=======	============	========	==========	=======	============	============

See accompanying footnotes to the unaudited condensed consolidated financial information

</TABLE>
<TABLE>

TELKONET, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDERS' EQUITY
FOR THE PERIOD NOVEMBER 3, 1999 (DATE OF INCEPTION) TO MARCH 31, 2003
<CAPTION>

Deficit
Accumulated

	Preferred Shares	Preferred Stock Amount	Common Shares	Common Stock Amount	Common Additional Paid in Capital	During Stock Subscription	Development Stage	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance Forward	--	$ --	22,115,371	$ 22,115	$ 2,244,033	$ --	$(2,680,188)	$ (414,040)
Shares issued in February 2002, in exchange for convertible debentures interest, at $.50 per share	--	--	43,586	44	21,749	--	--	21,793
Shares issued in March 2002, to a founder in exchange for shares canceled	--	--	5,250,000	5,250	(5,250)	--	--	--
Shares canceled in March 2002 in connection with capital restructure	--	--	(13,480,961)	(13,481)	13,481	--	--	--
Shares issued in June 2002, for warrants exercised at $1.00 per share for services rendered	--	--	47,906	48	47,857	--	--	47,906
Shares issued in June 2002, for warrants exercised at $.40 per share for services rendered	--	--	26,443	26	10,551	--	--	10,577
Shares issued in June 2002 to founders, for options exercised at $1.00 per share	--	--	1,000,000	1,000	999,000	--	--	1,000,000
Shares issued in June 2002, for warrants exercised at $1.0025 per share, for services rendered	--	--	80,039	80	80,158	--	--	80,238
Shares issued in June 2002, for warrants exercised at $ .41, in connection with original private placement	--	--	189,327	189	77,720	--	--	77,910
Shares issued in July 2002, for warrants exercised at $ .40, in connection with original private placement	--	--	41,970	42	16,830	--	--	16,872
Shares issued in July 2002 to founders, for options exercised at $1.00 per share	--	--	1,000,000	1,000	999,000	--	--	1,000,000
Shares issued in August 2002, for warrants exercised at $.43, in connection with original private placement	--	--	542,500	543	232,459	--	--	233,001
Shares issued in August 2002, for warrants exercised at $.40, in connection with original private placement	--	--	193,302	193	77,127	--	--	77,320
Shares issued in October 2002, for warrants exercised at $.40, in connection with original private placement	--	--	77,048	77	30,896	--	--	30,973
Shares issued in October 2002, for warrants exercised at $0.50 per share in connection with original private placement	--	--	400,000	400	199,600	--	--	200,000
Common stock subscription	--	--	--	--	--	(1,805,400)	--	(1,805,400)
Return of founders shares in connection with stock subscription	--	--	(1,805,400)	(1,805)	(1,803,595)	1,805,400	--	--
Stock based compensation for the issuance of stock options to consultants in exchange for services	--	--	--	--	452,459	--	--	452,459
Stock based compensation for the issuance of warrants to consultants in exchange for services	--	--	--	--	170,330	--	--	170,330
Stock based compensation for the issuance of warrants to consultants in exchange for financing costs	--	--	--	--	86,474	--	--	86,474
Beneficial conversion feature of convertible debentures								

(Note B)	--	--	--	--	840,877	--	--	840,877
Value of warrants attached to convertible debentures (Note B)	--	--	--	--	124,677	--	--	124,677
Net Loss	--	--	--	--	--	--	(3,778,488)	(3,778,488)
BALANCE AT DECEMBER 31, 2002	--	$ --	15,721,131	$ 15,721	$ 4,916,433	$ --	$(6,458,676)	$(1,526,522)
Stock based compensation for the issuance of stock options to consultants in exchange for services (Note C)	--	--	--	--	219,020	--	--	219,020
Stock based compensation for the issuance of warrants in exchange for financing costs (Note C)	--	--	--	--	87,217	--	--	87,217
Beneficial conversion feature of convertible debentures (Note B)	--	--	--	--	1,761,675	--	--	1,761,675
Value of warrants attached to convertible debentures (Note B)	--	--	--	--	265,425	--	--	265,425
Net Loss	--	--	--	--	--	--	(1,440,743)	(1,440,743)
BALANCE AT MARCH 31, 2003	--	$ --	15,721,131	$ 15,721	$ 7,249,770	$ --	$(7,899,419)	$ (633,927)

See accompanying footnotes to the unaudited condensed consolidated financial information

</TABLE>

<TABLE>

TELKONET, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

<CAPTION>

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002 (As Restated - Note D)	For the period from November 3, 1999 (date of inception) through March 31, 2003 (As Restated - Note D)
<S>	<C>	<C>	<C>
INCREASE (DECREASE) IN CASH AND EQUIVALENTS			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss from development stage operations	$(1,440,743)	$ (646,103)	$(7,899,419)
Adjustments to reconcile net loss from development stage operations to cash used for operating activities			
Amortization of debt discount - beneficial conversion feature of convertible debentures	251,722	71,688	785,144
Amortization of debt discount - value of warrants attached to convertible debentures	33,672	6,713	81,614
Stock options and warrants issued in exchange for services rendered	219,020	--	1,174,882
Common stock issued in exchange for services rendered	--	--	150,302
Common stock issued in exchange for conversion of interest	--	21,793	21,793
Impairment of property and equipment	--	--	39,287
Depreciation and amortization	33,544	49,453	170,488
Increase (decrease) in:			
Other receivable	--	--	(1,550)
Inventory	(236,150)	--	(275,941)
Prepaid expenses and deposits	(96,232)	--	(100,857)

Accounts payable and accrued expenses, net	52,180	144,551	571,044
NET CASH USED IN OPERATING ACTIVITIES	(1,182,987)	(351,905)	(5,283,212)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures, net of disposals	(6,539)	(12,731)	(119,041)
NET CASH USED IN INVESTING ACTIVITIES	(6,539)	(12,731)	(119,041)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from sale of common stock, net of costs	--	--	1,751,224
Advance to shareholders	(10,000)	--	(10,000)
Proceeds from (repayments of) stockholder advances	(122,830)	114,000	7,500
Proceeds from issuance of convertible debentures, net of costs	2,027,100	337,007	4,067,100
Repayments of loans	(60,000)	(37,500)	(150,000)
Proceeds from loans	--	--	400,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,834,270	413,507	6,065,824
NET (DECREASE) INCREASE IN CASH AND EQUIVALENTS	644,744	48,871	663,571
Cash and cash equivalents at the beginning of the period	18,827	21,885	--
Cash and cash equivalents at the end of the period	$ 663,571	$ 70,756	$ 663,571

See accompanying footnotes to the unaudited condensed consolidated financial information

</TABLE>

<TABLE>

TELKONET, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

<CAPTION>

<S>	Three Months Ended March 31, 2003 <C>	2002 (As Restated - Note D) <C>	For the period from November 3, 1999 (date of inception) through March 31, 2003 (As Restated - Note D) <C>
Supplemental Disclosures of Cash Flow Information			
Cash paid during the period for interest	$ 4,163	$ 11,807	$ 29,128
Income taxes paid	--	--	--
Non-cash transactions:			
Issuance of stock options and warrants in exchange for services rendered	219,020	--	1,174,882
Issuance of stock warrants in exchange for financing costs	87,217	--	173,691
Common stock issued for services rendered	--	--	150,302
Common stock issued in exchange for interest	--	21,793	21,793

Beneficial conversion feature on convertible debentures	1,761,675	268,863	3,440,426
Value of warrants attached to convertible debentures	265,425	40,199	467,356
Acquisition:			
Assets Acquired	--	--	1
Accumulated Deficit	--	--	2,643
Liabilities Assumed	--	--	(2,642)
	$ --	$ --	$ 1

See accompanying footnotes to the unaudited condensed consolidated financial information

</TABLE>

TELKONET, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
MARCH 31, 2003
(UNAUDITED)

NOTE A - SUMMARY OF ACCOUNTING POLICIES

General

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Accordingly, the results from operations for the three-month period ended March 31, 2003, are not necessarily indicative of the results that may be expected for the year ended December 31, 2003. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated December 31, 2002 financial statements and footnotes thereto included in the Company's SEC Form 10-KSB.

Basis of Presentation

Telkonet, Inc. (the "Company"), formerly Comstock Coal Company, Inc., was formed on November 3, 1999 under the laws of the state of Utah. The Company is a development stage enterprise, as defined by Statement of Financial Accounting Standards No. 7 ("SFAS 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.

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

Reclassification

Certain reclassifications have been made to conform to prior periods' data to the current presentation. These reclassifications had no effect on reported losses.

Stock Based Compensation

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based

Compensation-Transition and Disclosure-an amendment of SFAS 123." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary charge to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25 and related interpretations. Accordingly, compensation expense for stock options is measured as the excess, if any, of the fair market value of the Company's stock at the date of the grant over the exercise price of the related option. The Company has adopted the annual disclosure provisions of SFAS No. 148 in its financial reports for the year ended December 31, 2002 and for the quarter ended March 31, 2003.

NOTE A - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)
- ---

Stock Based Compensation (Continued)
- ------------------------------------

Had compensation costs for the Company's stock options been determined based on the fair value at the grant dates for the awards, the Company's net loss and losses per share would have been as follows (transactions involving stock options issued to employees and Black-Scholes model assumptions are presented in Note C):

<TABLE>
<CAPTION>

	For the three month ended March 31 2003	2002
<S>	<C>	<C>
Net loss - as reported	$ (1,440,743)	$ (646,103)
Add: Total stock based employee compensation expense as reported under intrinsic value method (APB. No. 25)	--	--
Deduct: Total stock based employee compensation expense as reported under fair value based method (SFAS No. 123)	(161,935)	(52,708)
Net loss - Pro Forma	$ (1,602,678)	$ (698,811)
Net loss attributable to common stockholders - Pro forma	$ (1,602,678)	$ (698,811)
Basic (and assuming dilution) loss per share - as reported	$ (0.10)	$ (0.08)
Basic (and assuming dilution) loss per share - Pro forma	$ (0.10)	$ (0.08)

</TABLE>

New Accounting Pronouncements
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In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities." Interpretation 46 changes the criteria by which one company includes another entity in its consolidated financial statements. Previously, the criteria were based on control through voting interest. Interpretation 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. A company that consolidates a variable interest entity is called the primary beneficiary of that entity. The consolidation requirements of Interpretation 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company does not expect the adoption to have a material impact to the Company's financial position or results of operations.

NOTE B - CONVERTIBLE PROMISSORY NOTES PAYABLE

A summary of convertible promissory notes payable at March 31, 2003 and December 31, 2002 is as follows:

<TABLE>
<CAPTION>

<S>	March 31, 2003 <C>	December 31, 2002 <C>
Convertible notes payable ("Debenture-1"), in quarterly installments of interest only at 8% per annum, unsecured and due three years from the date of the note with the latest maturity May 2005; Noteholder has the option to convert unpaid note principal together with accrued and unpaid interest to the Company's common stock at a rate of $.50 per share six months after issuance.	$ 1,689,100	$ 1,689,100
Debt Discount - beneficial conversion feature, net of accumulated amortization of $659,436 and $531,858 at March 31, 2003 and December 31, 2002, respectively	(871,456)	(999,034)
Debt Discount - value attributable to warrants attached to notes, net of accumulated amortization of $58,322 and $47,216 at March 31, 2003 and December 31, 2002, respectively	(75,014)	(86,120)
	742,630	603,946
Convertible notes payable ("Series B Debenture"), in quarterly installments of interest only at 8% per annum, unsecured and due three years from the date of the note with the latest maturity February 2006; Noteholder has the option to convert unpaid note principal together with accrued and unpaid interest to the Company's common stock at a rate of $.55 per share six months after issuance.	2,500,000	472,900
Debt Discount - beneficial conversion feature, net of accumulated amortization of $125,708 and $1,564 at March 31, 2003 and December 31, 2002, respectively	(1,783,827)	(146,295)
Debt Discount - value attributable to warrants attached to notes, net of accumulated amortization of $23,292 and $726 at March 31, 2003 and December 31, 2002, respectively	(310,728)	(67,869)
	405,445	258,736
Total	$ 1,148,075	$ 862,682
Less: current portion	--	--
	$ 1,148,075	$ 862,682

</TABLE>

NOTE B - CONVERTIBLE PROMISSORY NOTES PAYABLE (CONTINUED)
- --

Convertible Debentures
- ----------------------

During the year ended December 31, 2001, the Company issued convertible promissory notes (the "Debenture-1") to Company officers, shareholders, and sophisticated investors in exchange for $940,000, exclusive of placement costs and fees. The Debenture-1 accrues interest at 8% per annum and is payable and due three years from the date of the note with the latest maturity date of November 2004. Noteholder has the option to convert any unpaid note principal together with accrued and unpaid interest to the Company's common stock at a rate of $.50 per share six months after issuance. In accordance with EMERGING ISSUES TASK FORCE ISSUE 98-5, ACCOUNTING FOR CONVERTIBLE SECURITIES WITH A BENEFICIAL CONVERSION FEATURES OR CONTINGENTLY ADJUSTABLE CONVERSION RATIOS ("EITF 98-5"), the Company recognized an imbedded beneficial conversion feature present in the Debenture-1 note. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid in capital. The Company recognized and measured an aggregate of $837,874 of the proceeds, which is equal to the intrinsic value of the imbedded beneficial conversion feature, to additional paid in capital and a discount against the Debenture-1. The debt discount attributed to the beneficial conversion feature is amortized over the Debenture-1's maturity period (three years) as interest expense.

In connection with the placement of the Debenture-1 notes, the Company issued non-detachable warrants granting the holders the right to acquire 940,000 shares of the Company's common stock at $1.00 per share. In accordance with EMERGING ISSUES TASK FORCE ISSUE 00-27, APPLICATION OF ISSUE NO. 98-5 TO CERTAIN CONVERTIBLE INSTRUMENTS ("EITF - 0027"), the Company recognized the value attributable to the warrants in the amount of $77,254 to additional paid in capital and a discount against the Debenture-1. The Company valued the warrants in accordance with EITF 00-27 using the Black-Scholes pricing model and the following assumptions: contractual terms of 3 years, an average risk free interest rate of 4.25%, a dividend yield of 0%, and volatility of 21%. The debt discount attributed to the value of the warrants issued is amortized over the Debenture-1's maturity period (three years) as interest expense.

During the year ended December 31, 2002, the Company issued convertible promissory notes (the "Debenture-1") to Company officers, shareholders, and sophisticated investors in exchange for $749,100, exclusive of placement costs and fees. The Debenture-1 accrues interest at 8% per annum and is payable and due three years from the date of the note with the latest maturity date of May 2005. Noteholders have the option to convert any unpaid note principal together with accrued and unpaid interest to the Company's common stock at a rate of $.50 per share six months after issuance.

In accordance with EMERGING ISSUES TASK FORCE ISSUE 98-5, ACCOUNTING FOR CONVERTIBLE SECURITIES WITH A BENEFICIAL CONVERSION FEATURES OR CONTINGENTLY ADJUSTABLE CONVERSION RATIOS ("EITF 98-5"), the Company recognized an imbedded beneficial conversion feature present in the Debenture-1 note. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid in capital. The Company recognized and measured an aggregate of $693,018 of the proceeds, which is equal to the intrinsic value of the imbedded beneficial conversion feature, to additional paid in capital and a discount against the Debenture-1. The debt discount attributed to the beneficial conversion feature is amortized over the Debenture-1's maturity period (three years) as interest expense.

In connection with the placement of the Debenture-1 notes in 2002, the Company issued non-detachable warrants granting the holders the right to acquire 749,100 shares of the Company's common stock at $1.00 per share. In accordance with EMERGING ISSUES TASK FORCE ISSUE 00-27, APPLICATION OF ISSUE NO. 98-5 TO CERTAIN CONVERTIBLE INSTRUMENTS ("EITF -0027"), the Company recognized the value attributable to the warrants in the amount of $56,082 to additional paid in capital and a discount against the Debenture-1. The Company valued the warrants in accordance with EITF 00-27 using the Black-Scholes pricing model and the following assumptions: contractual terms of 3 years, an average risk free interest rate of 1.67%, a dividend yield of 0%, and volatility of 26%. The debt discount attributed to the value of the warrants issued is amortized over the Debenture-1's maturity period (three years) as interest expense.

NOTE B - CONVERTIBLE PROMISSORY NOTES PAYABLE (CONTINUED)
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Series B Debentures
- -------------------

In October and December 2002, the Company issued convertible promissory notes (the "Series B Debenture") to Company officers, shareholders, and sophisticated investors in exchange for $472,900, exclusive of placement costs and fees .The Series B Debenture accrues interest at 8% per annum and is payable and due three years from the date of the note with the latest maturity date of December 2005. Noteholders have the option to convert any unpaid note principal together with accrued and unpaid interest to the Company's common stock at a rate of $.55 per share six months after issuance.

In accordance with EMERGING ISSUES TASK FORCE ISSUE 98-5, ACCOUNTING FOR CONVERTIBLE SECURITIES WITH A BENEFICIAL CONVERSION FEATURES OR CONTINGENTLY ADJUSTABLE CONVERSION RATIOS ("EITF 98-5"), the Company recognized an imbedded beneficial conversion feature present in the Series B Debenture note. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid in capital. The Company recognized and measured an aggregate of $147,859 of the proceeds, which is equal to the intrinsic value of the imbedded beneficial conversion feature, to additional paid in capital and a discount against the Series B Debenture. The debt discount attributed to the beneficial conversion feature is amortized over the Series B Debenture's maturity period (three years) as interest expense.

In connection with the placement of the Series B Debenture notes in 2002, the Company issued non-detachable warrants granting the holders the right to acquire 472,900 shares of the Company's common stock at $1.00 per share. In accordance with EMERGING ISSUES TASK FORCE ISSUE 00-27, APPLICATION OF ISSUE NO. 98-5 TO CERTAIN CONVERTIBLE INSTRUMENTS ("EITF -0027"), the Company recognized the value attributable to the warrants in the amount of $68,595 to additional paid in capital and a discount against the Series B Debenture. The Company valued the warrants in accordance with EITF 00-27 using the Black-Scholes pricing model and the following assumptions: contractual terms of 3 years, an average risk free interest rate of 1.67%, a dividend yield of 0%, and volatility of 26%. The debt discount attributed to the value of the warrants issued is amortized over the Series B Debenture's maturity period (three years) as interest expense.

In January and February 2003, the Company issued convertible promissory notes (the "Series B Debenture") to Company officers, shareholders, and sophisticated investors in exchange for $2,027,100, exclusive of placement costs and fees .The Series B Debenture accrues interest at 8% per annum and is payable and due three years from the date of the note with the latest maturity date of February 2006. Noteholders have the option to convert any unpaid note principal together with accrued and unpaid interest to the Company's common stock at a rate of $.55 per share six months after issuance.

In accordance with EMERGING ISSUES TASK FORCE ISSUE 98-5, ACCOUNTING FOR CONVERTIBLE SECURITIES WITH A BENEFICIAL CONVERSION FEATURES OR CONTINGENTLY ADJUSTABLE CONVERSION RATIOS ("EITF 98-5"), the Company recognized an imbedded beneficial conversion feature present in the Series B Debenture note. The Company allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid in capital. The Company recognized and measured an aggregate of $1,761,675 of the proceeds, which is equal to the intrinsic value of the imbedded beneficial conversion feature, to additional paid in capital and a discount against the Series B Debenture. The debt discount attributed to the beneficial conversion feature is amortized over the Series B Debenture's maturity period (three years) as interest expense.

TELKONET, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
MARCH 31, 2003
(UNAUDITED)

NOTE B - CONVERTIBLE PROMISSORY NOTES PAYABLE (CONTINUED)

Series B Debentures

In connection with the placement of the Series B Debenture notes in January and February 2003, the Company issued non-detachable warrants granting the holders the right to acquire 2,027,100 shares of the Company's common stock at $1.00 per share. In accordance with EMERGING ISSUES TASK FORCE ISSUE 00-27, APPLICATION OF ISSUE NO. 98-5 TO CERTAIN CONVERTIBLE INSTRUMENTS ("EITF -0027"), the Company recognized the value attributable to the warrants in the amount of $265,425 to additional paid in capital and a discount against the Series B Debenture. The Company valued the warrants in accordance with EITF 00-27 using the Black-Scholes pricing model and the following assumptions: contractual terms of 3 years, an average risk free interest rate of 1.25%, a dividend yield of 0%, and volatility of 26%. The debt discount attributed to the value of the warrants issued is amortized over the Series B Debenture's maturity period (three years) as interest expense.

The Company amortized the Debenture 1 and the Series B Debenture debt discount attributed to the beneficial conversion feature and the value of the attached warrants and recorded non-cash interest expense of $285,394 and $78,401 for the three month ended March 31, 2003 and 2002, respectively.

NOTE C - STOCK OPTIONS AND WARRANTS

Employee Stock Options

The following table summarizes the changes in options outstanding and the related prices for the shares of the Company's common stock issued to employees of the Company under a non-qualified employee stock option plan.

<TABLE>
<CAPTION>

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
$ 1.00	3,475,000	9.08	$ 1.00	939,518	$ 1.00

</TABLE>

Transactions involving stock options issued to employees are summarized as follows:

	Number of Shares	Weighted Average Price Per Share
Outstanding at January 1, 2001	840,000	--
Granted	215,000	$ 1.00
Exercised	--	--
Canceled or expired	--	--
Outstanding at December 31, 2001	1,055,000	1.00
Granted	2,835,000	1.00
Exercised	(1,000,000)	1.00
Canceled or expired	(1,440,000)	1.00
Outstanding at December 31, 2002	1,450,000	$ 1.00

Granted	2,025,000	1.00
Exercised	--	--
Canceled or expired	--	--
Outstanding at March 31, 2003	3,475,000	$ 1.00

TELKONET, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
MARCH 31, 2003
(UNAUDITED)

NOTE C - STOCK OPTIONS AND WARRANTS (CONTINUED)

The weighted-average fair value of stock options granted to employees during the period ended March 31, 2003 and 2002 and the weighted-average significant assumptions used to determine those fair values, using a Black-Scholes option pricing model are as follows:

	2003	2002
Significant assumptions (weighted-average):		
Risk-free interest rate at grant date	1.25%	1.67%
Expected stock price volatility	26%	26%
Expected dividend payout	--	--
Expected option life-years (a)	10	10

(a)The expected option life is based on contractual expiration dates.

If the Company recognized compensation cost for the non-qualified employee stock option plan in accordance with SFAS No. 123, the Company's pro forma net loss and net loss per share would have been $(1,602,678) and $(0.10) for the period ended March 31, 2003 and $(698,811) and $(0.08) for the period ended March 31, 2002, respectively.

Non-Employee Stock Options

The following table summarizes the changes in options outstanding and the related prices for the shares of the Company's common stock issued to the Company consultants. These options were granted in lieu of cash compensation for services performed.

<TABLE>
<CAPTION>

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
$ 1.00	5,855,000	9.71	$ 1.00	1,690,496	$ 1.00

</TABLE>

Transactions involving options issued to non-employees are summarized as follows:

	Number of Shares	Weighted Average Price Per Share
Outstanding at January 1, 2001		
Granted	246,502	$ 0.70
Exercised	--	--
Canceled or expired	--	--
Outstanding at December 31, 2001	246,502	0.70
Granted	2,455,000	1.00
Exercised	(1,146,502)	0.96

Canceled or expired	--	--
Outstanding at December 31, 2002	1,555,000	$ 1.00
Granted	4,300,000	1.00
Exercised	--	--
Canceled or expired	--	--
Outstanding at March 31, 2003	5,855,000	$ 1.00

NOTE C - STOCK OPTIONS AND WARRANTS (CONTINUED)

Non-Employee Stock Options (Continued)

The estimated value of the options granted to consultants during the period ended March 31, 2003 was determined using the Black-Scholes option pricing model and the following assumptions: contractual term of 10 years, a risk free interest rate of 1.25%, a dividend yield of 0% and volatility of 26%. The amount of the expense charged to operations in connection with granting the options was $219,020 and $113,115 during the period March 31, 2003 and 2002, respectively.

Warrants

The following table summarizes the changes in warrants outstanding and the related prices for the shares of the Company's common stock issued to non-employees of the Company. These warrants were granted in lieu of cash compensation for services performed or financing expenses and in connection with placement of convertible debentures.

<TABLE>
<CAPTION>

	Warrants Outstanding			Warrants Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
$ .50	815,000	8.00	$ .50	815,000	$ .50
$ .53	354,460	3.00	$ .53	354,460	$ .53
$ 1.00	4,618,800	3.00	$ 1.00	4,618,800	$ 1.00
	5,788,260			5,788,260	

</TABLE>

Transactions involving warrants are summarized as follows:

	Number of Shares	Weighted Average Price Per Share
Outstanding at January 1, 2001	1,210,572	$ 1.00
Granted	3,528,665	0.67
Exercised	--	--
Canceled or expired	(1,210,572)	1.00
Outstanding at December 31, 2001	3,528,665	$ 0.67
Granted	1,667,460	0.87
Exercised	(1,650,675)	0.51

Canceled or expired	(13,990)	1.00
Outstanding at December 31, 2002	3,531,460	$ 0.84
Granted	2,256,800	1.00
Exercised	--	--
Canceled or expired	--	--
Outstanding at March 31, 2003	5,788,260	$ 0.90

NOTE C - STOCK OPTIONS AND WARRANTS (CONTINUED)

Warrants (Continued)

The estimated value of the compensatory warrants granted to non-employees in exchange for services and financing expenses during the period ended March 31, 2003 was determined using the Black-Scholes pricing model and the following assumptions: contractual term of 3 to 8 years, a risk free interest rate of 1.25%, a dividend yield of 0% and volatility of 26%. The amount of the expense charged to operations for compensatory warrants granted in exchange for services and services was $0 and $42,944 during the period ended March 31, 2003 and 2002, respectively. The Company also capitalized financing costs of $87,217 and $0 for compensatory warrants granted in connection with placement of convertible debentures for the period ended March 31, 2003 and 2002, respectively. The financing cost was amortized over the life (three years) of the convertible debenture.

NOTE D - RESTATEMENT OF FINANCIAL STATEMENTS

The Company has restated its financial statements for the year ended December 31, 2001 and for the period ended March 31, 2002 to correct the following errors in the financial statements previously filed:

o For the year ended December 31, 2001, the Company erroneously recorded the Black-Scholes value of the 940,000 warrants attached to its convertible debentures as an asset (financing cost), and amortized over the maturity period (three year) of the note.

o For the year ended December 31, 2001, the Company erroneously recorded the beneficial conversion feature of its convertible debentures as an asset (financing cost) and the beneficial conversion feature was erroneously amortized over six-months (from the issuance of the note to the earliest conversion date).

o For the year ended December 31, 2001, the Company erroneously recorded impairment of property and equipment as research and development expense.

o For the period ended Match 31, 2002, the Company erroneously did not record and amortize the beneficial conversion feature of its convertible debentures and value of warrants attached to the convertible debentures.

The net effect of the correction of these errors was to:

o Decrease the Company's reported net loss for the year ended December 31, 2001 by $289,645 from $(2,006,140) to $(1,716,495). Increase the Company's reported net loss for the period ended March 31, 2002 by $95,482 from $(550,621) to $(646,103).

o Decrease the loss per share for the year ended December 31, 2001 by

$.01 from $(.09) to $(.08) per share. Increase the loss per share for the period ended March 31, 2002 by $.01 from $(.06) to $(.07) per share.

- Decrease the deficiency accumulated during the development stage by $194,163 from $(3,520,454) to $(3,326,291).

- Decrease other assets by $518,357 from $661,050 to $142,693.

- Increase debt discount by $1,044,461 from $0 to $1,044,461.

- Increase additional paid in capital by $331,941 from $2,251,134 to $2,583,075.

NOTE E - SUBSEQUENT EVENTS
- --------------------------

Subsequent to the date of the financial statements, the Company entered into an offering memorandum to sell up to $5,000,000 of Senior Notes in units of $100,000 with interest at 8% payable quarterly and 125,000 warrants per unit to purchase one share of the Common Stock of the Company. The warrants are exercisable at anytime after issuance of the Senior Note at an exercise price of $1.00 with a three year term. These notes are secured by a first lien priority security interest in all intellectual property assets of the Company. The proceeds are for expansion of sales, marketing and strategic partnership programs, build require infrastructure and fund working capital. In May 2003, the Company received $800,000 of proceeds from issuance of its Senior Notes.

Item 2. Management's Plan of Operation

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

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

Telkonet is a high technology systems application developer with a primary focus on high-speed Internet distribution over the electrical power lines for the commercial buildings, hotels, multi-dwelling residential units, government and schools. Telkonet believes that through extensive research and development, it has refined a business model that will provide marketable Internet services across a wide spectrum of commercial and business end users. These products provide connectivity over the existing electrical wiring and do not require the addition of costly wiring, or major disruption to business activity. In many situations the Telkonet solution can be implemented more quickly and less expensively than adding dedicated wiring or installing wireless systems.

Telkonet believes that utilizing the power line to deliver high-speed Internet and telephone connectivity to these markets creates a significant and definitive niche market opportunity for the Company. Telkonet's solutions overcome many of the difficulties associated with powerline communications that historically have prevented the achievement of high data transmission rates.

Telkonet is now at a point in its business development cycle at which the system requirements and hardware have been developed, market tested and the Company is ready for market release of its suite of PlugPlus products for high-speed Internet access.

As Internet access becomes a more critical tool, the demand for higher access speeds has triggered the growth of broadband solutions, and as these roll out, the desire for access to these emerging broadband networks provides opportunities for Telkonet. The built-in dial-up modems that have become a part of most new PCs are not suitable for higher speed connections. Hardwired network connections with high construction costs and disruption of the workplace, or complex wireless networks which have coverage and security issues are the only solutions available today.

The Telkonet PlugPlus family of Internet access products provides a viable and cost effective alternative to the challenges of hard-wired and wireless local area networks (LANs). This solution set is comprised of three products, the PLUGPLUS GATEWAY, PLUGPLUS COUPLER and the PLUGPLUS MODEM.

The Telkonet PlugPlus Solution is aimed at multi-user applications such as hotels/motels, residential apartment complexes, government, schools and a variety of small and medium sized businesses. High-speed Internet connections are becoming widely available and providers are anxious to sell these connections to their new and existing customers. Several companies now specialize in providing T1 access and most telephone companies now offer DSL products. Providers are also offering connectivity through Microwave networks, 2-way Satellite, Fiber and Cable connections. However, these products share in the same problem: getting the access to where the customers want it.

The Telkonet solution interfaces to the backbone of the Internet by taking the signal from any of these broadband sources and, through the Telkonet PlugPlus Gateway, distributing access to the Internet to the ultimate user over the existing electrical wiring in the building. With the Telkonet PlugPlus Gateway in place, access is provided by simply plugging the user's Telkonet PlugPlus Modem into the nearest standard electrical outlet. Any existing electrical outlet in the structure can provide immediate access to the Internet via a Telkonet PlugPlus Modem. Moving the location of a PC, server, or printer is accomplished by simply moving the PlugPlus Modem to another electrical outlet. No additional wiring is required and changes can be made quickly and easily.

The Telkonet PlugPlus Gateway provides the connection to the incoming broadband signal (DSL, TL, Satellite, Cable Modem) and the Telkonet PlugPlus Modem connects to a user device. Many PCs, each equipped with one Telkonet PlugPlus Modem, can communicate amongst themselves and can share a single broadband resource via the Telkonet PlugPlus Gateway.

Telkonet has applied for patents that cover its unique technology, and intends to utilize recently announced advancements in transmission speeds to build next generation devices for field tests and marketing demonstrations.

Telkonet will continue to identify, design and develop enhancements to its core technologies that will provide additional functionality, diversification of application and desirability for current and future users.

Forward Looking Statements

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

Management's Discussion and Analysis of Financial Condition and Results of Operations

Telkonet is commencing its transition from a development stage company with its planned PlugPlus product suite launch in the second quarter 2003. Telkonet may experience fluctuations in operating results in future periods due to a variety of factors including, but not limited to, market acceptance of the Internet and power line communication technologies as a medium for customers to purchase the Telkonet's products, Telkonet's ability to acquire and deliver high quality products at a price lower than currently available to consumers, Telkonet's ability to obtain additional financing in a timely manner and on terms favorable to the Telkonet, Telkonet's ability to successfully attract customers at a steady rate and maintain customer satisfaction, Telkonet promotions, branding and sales programs, the amount and timing of operating costs and capital expenditures relating to the expansion of the Telkonet's business, operations and infrastructure and the implementation of marketing programs, key agreements and strategic alliances, the number of products offered by the Telkonet, the number of returns experienced by the Telkonet, and general economic conditions specific to the Internet, power-line communications, and the communications industry.

Revenues
- --------

To date, Telkonet has not generated any revenues as it was in the development stage. Telkonet believes it will begin earning revenues from operations within the next twelve months as it transitions from a development stage company to that of an active growth and acquisition stage company.

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

>From its inception on November 3, 1999 through March 31, 2003, Telkonet has incurred operating expenses of $6,768,001. These expenses were associated principally with compensation to employees, product development costs and professional services. During the first quarter of 2003, Telkonet transitioned

its focus on bringing their initial offering of powerline communication products to the hospitality sector of the commercial market with its Strategic Alliance Agreement with Choice Hotels International, Inc. Expenses increased by 96% over the first quarter of 2002 due to an increase in manpower expense related to the expansion of the development team, pre-production costs for the PlugPlus powerline products, and the ramp-up and increase in sales and marketing activities.

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

To date the Company has not generated revenues to offset any development and organizational expenses. As a result of the Company's operating losses from its inception through March 31, 2003, Telkonet generated a cash flow deficit of $5,283,212 from operating activities. The Company's current assets exceeded its current liabilities by $223,373 as of March 31, 2003. For the period from inception through March 31, 2003, the Company has accumulated losses of $7,899,418. Consequently, its operations are subject to all risks inherent in the establishment of a new business enterprise.

While Telkonet has raised capital to meet its working capital and financing needs in the past, additional financing is required in order to meet the Telkonet's current and projected cash flow deficits from operations and development. Telkonet is seeking financing in the form of a $5,000,000, 8% senior note offering in order to provide the necessary working capital. These notes provide for interest payable quarterly and includes warrants of 125,000 for each $100,000 units sold. The warrants are for the purchase of Common Stock of the Company exercisable up to three years from issuance at a $1.00 exercise price. While there are no assurances Telkonet will be successful in raising the funds required, subsequent to March 31, 2003, the Company has received $800,000 of proceeds from the issuance of the Senior Notes.

By adjusting its operations and development to the level of capitalization , management belives it has suffucient capital resources to meet projected cash flow deficits through the next twelve months . However, if thereafter, we are not successful in generating sufficient liquidity from operations or in raising sufficient capital resources, on terms acceptable to us, this could have a material adverse effect on our business, results of operations , liquidity and financial condition.

The Company's independent certified public accountants have stated in their report included in the Company's December 31, 2002 Form 10-KSB, that the Company has incurred operating losses in the last two years, and that the Company is dependent upon management's ability to develop profitable operations. These factors among others may raise substantial doubt about the Company's ability to continue as a going concern.

Product 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 first quarter of 2003 were $314,728 compared to $270,579 for the first quarter of 2002.

Acquisition or Disposition of Plant and Equipment
- ---

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

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

During the period ended March 31, 2003, the Company had 14 employees. In order for the Company to attract and retain quality personnel, the Company anticipates it will continue to offer competitive salaries to current and future employees. As the Company continues to expand, the Company will incur additional costs for personnel. This projected increase in personnel is dependent upon the Company generating revenues and obtaining sources of financing. There are no assurances the Company will be successful in raising the funds required or generating revenues sufficient to fund the projected increase in the number of employees.

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

Telkonet has sought to identify what it believes to be the most significant risks to its business, but cannot predict whether or to what extent any of such risks may be realized nor can there be any assurances that Telkonet has identified all possible risks that might arise. Investors should carefully consider all of such risk factors before making an investment decision with respect to the Company's stock. Telkonet's prospects must be evaluated with a view to the risks encountered by a company in an early stage of development, particularly in light of the uncertainties relating to the new and evolving power line modulation and transmission technologies. Telkonet will be incurring

costs to develop, introduce and enhance its products, to establish marketing relationships, to acquire and develop products that will compliment each other and to build an administrative organization. To the extent that such expenses are not subsequently followed by commensurate revenues, Telkonet's business, results of operations and financial condition will be materially adversely affected. There can be no assurance that Telkonet will be able to generate sufficient revenues from the sale of their first product and other product candidates. Telkonet expects negative cash flow from operations to continue for the next 6 months as it continues to develop and market its business. Telkonet will be required to sell additional equity or debt securities. The sale of additional equity or convertible debt securities will result in additional dilution to Telkonet's stockholders.

Potential fluctuations in quarterly operating results
- --

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

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

Telkonet's common stock is currently quoted on the NASD OTC Bulletin Board under the ticker symbol "TLKO". As of March 31, 2003, there were approximately 15,721,131 shares of common stock outstanding. There can be no assurance that a trading market will be sustained in the future. Factors such as, but not limited to, technological innovations, new products, acquisitions or strategic alliances entered into by Telkonet or its competitors, failure to meet securities analysts' expectations, government regulatory action, patent or proprietary rights developments, and market conditions for technology stocks in general could have a material effect on the volatility of the Telkonet's stock price.

Item 3. Controls and Procedures.

(a) Within the 90 days prior to the date of this Report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-14 under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the Chief Executive and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic filings with the U.S. Securities and Exchange Commission.

(b) Changes in Internal Controls.

There were no significant changes in our internal controls or in other factors that could significantly affect these internal controls subsequent to the date of our most recent evaluation.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

(a) In March 2003, Jenson Services, Inc. and James P. Doolin filed an action against the Company in the Third Judicial District Court in and for Salt Lake County, State of Utah. The action sets forth various counts all based on allegations that the Company, through its agents, promised to undertake a registration of Company securities and thereby allow the Plaintiffs to exercise piggy-back registration rights under a registration rights agreement. The action seeks damages from the Company in unspecified amounts. The Company believes that the claims of the Plaintiffs are without merit, that it has meritorious defenses to such claims, and the Company intends to defend itself against the Plaintiffs' claims in their entirety.

Item 2 - Changes in Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

No.	Description
99.1	Certification of Ronald W. Pickett Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
99.2	Certification of E. Barry Smith Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

(b) Reports on Form 8-K filed during the three months ended March 31, 2003.

On January 2, 2003, the Company filed a Current Report on Form 8- K dated January 2, 2003, reporting under Item 5, disclosing a capital structure realignment from the retirement of common stock by Company Founders.

On January 31, 2003, the Company filed a Current Report on Form 8-K dated January 31, 2003, reporting under Item 6, disclosing resignations and appointments of certain Directors and officers of the Company.

On February 3, 2003, the Company filed a Current Report on Form 8-K dated February 3, 2003, reporting under Item 6, disclosing resignations and appointments of certain Directors and officers of the Company.

On March 4, 2003, the Company filed a Current Report on Form 8- K dated March 4, 2003, reporting under Item 5, disclosing the strategic alliance agreement with Choice Hotels International.

SIGNATURES

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

Telkonet, Inc.
Registrant

May 19, 2003	By: /s/ Ronald W. Pickett
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Date	Ronald W. Pickett President

CERTIFICATIONS

I, Ronald W. Pickett, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Telkonet, Inc.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14 for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions);

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize, and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions, with regard to significant deficiencies and material weaknesses.

Date: May 19, 2003

/s/ Ronald W. Pickett

Ronald W. Pickett
President

CERTIFICATIONS

I, E. Barry Smith, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Telkonet, Inc.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14 for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions);

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize, and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls

subsequent to the date of our most recent evaluation, including any corrective actions, with regard to significant deficiencies and material weaknesses.

Date: May 19, 2003

/s/ E. Barry Smith

E. Barry Smith
Chief Financial Officer

EXHIBIT 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of TELKONET INC. (the "Company") on Form 10-QSB for the period ending MARCH 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, RONALD W. PICKETT, President, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Ronald W. Pickett
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Ronald W. Pickett
President
May 15, 2003

EXHIBIT 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of TELKONET INC. (the "Company") on Form 10-QSB for the period ending MARCH 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, E. BARRY SMITH, Chief Financial Officer, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ E. BARRY SMITH
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E. BARRY SMITH
Chief Financial Officer
May 15, 2003