As filed with the Securities and Exchange Commission on August 28, 2003
Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

TELKONET, INC.
(Exact Name of Registrant as Specified in Its Charter)

UTAH	87-0627421
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

902-A COMMERCE ROAD, ANNAPOLIS, MARYLAND 21401
(410) 897-5900
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Principal Executive Offices)

STEPHEN L. SADLE
CHIEF OPERATING OFFICER
902-A COMMERCE ROAD
ANNAPOLIS, MARYLAND 21401
(Name and Address of Agent for Service)

(410) 897-5900
(Telephone Number, Including Area Code, of Agent for Service)

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copy to:
WILLIAM J. CONTI, ESQ.
BAKER & HOSTETLER LLP
1050 CONNECTICUT AVENUE, NW
SUITE 1100
WASHINGTON, D.C. 20036
202-861-1726
202-861-1783 (FAX)

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: _____.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. [ ]

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. [x]

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ] _____

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ] _____

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

<TABLE>
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CALCULATION OF REGISTRATION FEE

Title of Securities To Be Registered	Amount To Be Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
<S>	<C>	<C>	<C>	<C>

Common Stock, $0.001 par value	17,353,367	$ 2.77(1)	$ 48,068,826(1)	$3,889.00

</TABLE>

(1) Estimated in accordance with Rule 457 solely for the purpose of determining the registration fee.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Securities and Exchange Commission (SEC), acting pursuant to said Section 8(a), may determine.

PROSPECTUS

TELKONET, INC.

17,353,367 Shares

Common Stock

This prospectus covers 17,353,367 shares of our common stock that may be offered and sold from time to time by the selling stockholders. We will not receive any proceeds from the sale of the shares of our common stock pursuant to this prospectus. We will bear the costs relating to the registration of the shares of our common stock, which we estimate to be approximately $_____.

The selling stockholders may sell the shares of our common stock through ordinary brokerage transactions or through any other means described in this prospectus under "PLAN OF DISTRIBUTION." The price at which the selling stockholders may sell the shares will be determined by the prevailing market price for the shares or in negotiated transactions.

Our common stock is traded on the NASDAQ OTC Bulletin Board under the symbol "TLKO.OB." On August 22, 2003, the last reported sale price of our common stock was $2.70.

Investing in shares of our common stock involves risks, including the risk that Telkonet will not be able to continue as a going concern. See "RISK FACTORS" beginning on page 7 of this prospectus.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

No dealer, salesperson or other person has been authorized to give any information or to make any representations other than those contained in or incorporated by reference into this prospectus in connection with the offer contained in this prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by us. Neither the delivery of this prospectus nor any sale made hereunder shall under any circumstances create an implication that there has been no change in our affairs since the date hereof. We are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where such offers and sales are permitted. The information contained in, and incorporated by reference into, this prospectus speaks only as of the date of this prospectus unless the information specifically indicates that another date applies.

The date of this prospectus is August 28, 2003.

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PROSPECTUS SUMMARY

This summary highlights information described more fully elsewhere in this prospectus and may not contain all of the information that may be important to you. You should read this entire prospectus carefully, including the consolidated financial statements and related notes and other financial data included in this prospectus, before making an investment decision. You should also carefully consider the information set forth under "RISK FACTORS" beginning on p. 7.

As used in this prospectus, the terms "we," "us," "our," "our company," and "Telkonet" mean Telkonet, Inc. and our subsidiaries, unless the context otherwise requires.

THE COMPANY

We were formed in 1999 to develop products for use in the powerline communications (PLC) industry. PLC products use existing electrical wiring in commercial buildings and residences to carry high speed data communications signals, including the Internet. Since our formation, we have worked on the development and marketing of our patent-pending PLC technology.

Our PLC technology, the "PlugPlusInternet" product suite, consists of two separate components, the PlugPlusInternet Gateway and the PlugPlusInternet Modem. The PlugPlusInternet Gateway is a modular, self-contained unit that accepts data from an existing network on one port and distributes it via a second port. The Gateway integrates a communications processor that runs a series of proprietary applications under Linux. The signal generated by the Gateway can be directly coupled into low voltage wiring via the power cord of the Gateway. The signal may also be routed to a remote injection point via an inexpensive coaxial cable. This allows the PlugPlusInternet product suite to couple into the medium voltage and multi-phase environments found in commercial buildings. A suite of software applications running on the Gateway can perform communications functions or system management functions. The Gateway is designed to network with dozens of PlugPlusInternet Modems. The PlugPlusInternet Modem is a small, self-contained unit with a standard 110V plug on one side and an Ethernet RJ-45 connector on the other.

The PlugPlusInternet product suite delivers data at speeds in excess of 7 Mega bits per second (Mbps), with burst speeds of 12.6 Mbps. The PlugPlusInternet product suite is installed by connecting an incoming broadband signal (DSL, TL, satellite or cable modem) into the Gateway and connecting the Gateway to a building's electrical panel. Once installed, the Gateway distributes the high-speed Internet signal throughout the entire existing network of electrical wires within the building. The user may access a high-speed Internet signal by plugging the PlugPlusInternet Modem into any electrical outlet and plugging a computer Ethernet connection into the Modem. Multiple personal computers equipped with a PlugPlusInternet Modem can communicate with one another and can share a single broadband resource via the PlugPlusInternet Gateway. Moving the location of a personal computer, server, or printer is accomplished by moving the PlugPlusInternet Modem to another electrical outlet without additional wiring. Our target markets for sales of the PlugPlusInternet product suite include office buildings, hotels, schools, shopping malls, commercial buildings, multi-dwelling units, government facilities, and any other commercial facilities that have a need for Internet access and network connectivity.

We have applied for patents that cover the unique technology integrated into the PlugPlusInternet product suite. We also continue to identify, design and develop enhancements to our core technologies that will provide additional functionality, diversification of application and desirability for current and future users of the PlugPlusInternet product suite.

Telkonet is a Utah corporation with its principal executive offices at 902-A Commerce Road, Annapolis, Maryland 21401. Our telephone number is (410) 897-5900.

THE OFFERING

This prospectus covers up to 17,353,367 shares of our common stock to be sold by the selling stockholders identified in this prospectus. The selling stockholders, or their pledgees, donees, transferees or other successors in interest may, from time to time, sell all or a portion of the shares covered by this prospectus at fixed prices that may be changed, at market prices prevailing

at the time of sale, at prices related to such market prices or at negotiated prices. The selling stockholders may also sell shares of our common stock covered by this prospectus directly to purchasers or may use brokers, dealers, underwriters or agents to sell shares upon terms and conditions that will be described in the applicable prospectus supplement.

From time to time the selling stockholders may be engaged in short sales, short sales against the box, puts and calls and other hedging transactions in our securities to the extent permitted by applicable law and exchange regulations, and may sell and deliver the shares in connection with such transactions or in settlement of securities loans. These transactions may be entered into with broker-dealers or other financial institutions. In addition, from time to time, a selling stockholder may pledge its shares pursuant to the margin provisions of its customer agreements with its broker-dealer. Upon delivery of the shares or a default by a selling stockholder, the broker-dealer or financial institution may offer and sell the pledged shares from time to time. For a more complete description of the offering see "PLAN OF DISTRIBUTION" on p. 47.

USE OF PROCEEDS

All net proceeds from the sale of our common stock by the selling stockholders will go to the selling stockholders and we will not receive any proceeds from the sale of the common stock by the selling stockholders. The proceeds Telkonet receives from the exercise of warrants, the underlying shares of our common stock of which are included in this prospectus, will be used to expand sales and marketing efforts, support strategic partnership programs, build required infrastructure and fund working capital requirements.

SUMMARY FINANCIAL DATA
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

We derived the following historical financial information from the unaudited consolidated financial statements of Telkonet for the six months ended June 30, 2003 and 2002 and the consolidated financial statements of Telkonet for the year ended December 31, 2002, 2001 and 2000 which have been audited by Russell Bedford Stefanou Mirchandani LLP. Russell Bedford Stefanou Mirchandani LLP's report on our financial statements contained explanatory paragraphs expressing substantial doubt about our ability to continue as a going concern. The unaudited financial data as of and for the six months ended June 30, 2003 and 2002 include adjustments, all of which are normal recurring adjustments, which our management considers necessary for the fair presentation of our results for these unaudited periods. The results of operations for the six months ended June 30, 2003 are not necessarily indicative of the results that may be expected for the full year. Certain reclassifications have been made to conform this data to the current presentation.

<TABLE>
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(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(Amounts in thousands, except per share data)	FOR THE SIX MONTHS ENDED JUNE 30,		FOR THE YEARS ENDED DECEMBER 31,		
	2003	2002 (AS RESTATED)	2002	2001 (AS RESTATED)	2000
<S>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:					
Product revenue	$ --	$ --	$ --	$ --	$ --
Service Revenue	--	--	--	--	--
Total net revenue	--	--	--	--	--
Cost of products sold	--	--	--	--	--
Cost of services sold	--	--	--	--	--
Gross profit	--	--	--	--	--

Selling, general and administrative expenses	2,063	655	2,875	1,417	795
Management fees	--	--	--	--	--
Research and development expenses	598	602	280	121	119
Asset impairment charge	--	--	--	39	--
Interest income	--	--	--	--	--
Interest expense	799	218	626	141	16
Interest expense-others	--	--	--	--	--
Other income	--	--	(3)	(1)	--
Provision for income taxes	--	--	--	--	--
Minority interest share of losses (income)	--	--	--	--	--
Net (loss) income	$ (3,460)	$ (1,475)	$ (3,778)	$ (1,717)	$ (930)
Net (loss) income per common share-basic and diluted	$ (0.22)	$ (0.09)	$ (0.22)	$ (0.08)	$ (0.04)
Weighted average common shares outstanding-basic ...	15,775	17,245	17,120	21,974	20,891
Weighted average common shares outstanding-diluted .					

</TABLE>

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(Amounts in thousands)	JUNE 30,	DECEMBER 31,		
	2003	2002	2001 (AS RESTATED)	2000
<S>	<C>	<C>	<C>	<C>
BALANCE SHEET DATA:				
Cash and cash equivalents	$ 4,581	$ 19	$ 22	$ 10
Property and equipment, net	107	38	27	67
Goodwill and other intangibles, net	--	--	--	--
Total assets	5,430	295	236	82
Long-term debt and notes payable	6,453	863	126	--
Total debt	7,752	1,822	650	264
Minority interest	--	--	--	--
Total stockholders' equity	(2,322)	(1,527)	(414)	(182)

</TABLE>

<TABLE>
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(Amounts in thousands)	FOR THE SIX MONTHS ENDED JUNE 30,		FOR THE YEARS ENDED DECEMBER 31,		
	2003	2002 (AS RESTATED)	2002	2001 (AS RESTATED)	2000
<S>	<C>	<C>	<C>	<C>	<C>
OTHER FINANCIAL DATA:					
Depreciation and amortization	$ 82	$ 71	$ 84	$ 31	$ 22
Net cash provided by (used in) operating activities	(2,420)	(842)	(2,070)	(1,349)	(660)
Net cash provided by (used in) investing activities	(29)	(19)	(18)	(5)	(89)
Net cash provided by financing activities	7,011	982	2,086	1,366	759
Capital expenditures	29	19	18	5	89

</TABLE>

Effective January 1, 2002, we adopted Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142). SFAS No. 142 requires that goodwill and certain intangibles no longer be amortized but instead tested for impairment at least annually.

The following table presents the impact of SFAS No. 142 on our summary financial data as indicated:

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(Amounts in thousands, except per share data)	FOR THE YEARS ENDED DECEMBER 31,	
	2001 (AS RESTATED)	2000
<S>	<C>	<C>
Net (loss) income:		

Net (loss) income as reported	$ (1,717)	$ (930)
Goodwill amortization	--	--
Equity method investment amortization	--	--
Adjusted net (loss) income	$ (1,717)	$ (930)
Basic and diluted (loss) income per share:		
Net (loss) income per share, basic and diluted, as reported	$ (0.08)	$ (0.04)
Goodwill amortization	--	--
Equity method investment amortization	--	--
Adjusted (loss) income per share, basic and diluted	$ (0.08)	$ (0.04)

</TABLE>

RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the following risk factors and other information contained in or incorporated by reference into this prospectus and any accompanying prospectus supplement before deciding to purchase any shares of our common stock.

TELKONET'S INDEPENDENT ACCOUNTANTS HAVE EXPRESSED SUBSTANTIAL DOUBTS ABOUT TELKONET'S ABILITY TO CONTINUE AS A GOING CONCERN.

The report of Telkonet's independent accountants contains an explanatory paragraph expressing substantial doubts about Telkonet's ability to continue as a going concern due to the fact that Telkonet has incurred losses since inception. There can be no assurance that Telkonet will ever achieve significant revenues or profitable operations.

TELKONET IS EMERGING FROM ITS DEVELOPMENT STAGE AND HAS NO OPERATING HISTORY ON WHICH TO BASE AN EVALUATION OF ITS CURRENT BUSINESS AND FUTURE PROSPECTS.

Telkonet is emerging from its development stage. As a result, it has no operating history upon which to base an evaluation of its current business and future prospects. The first PlugPlusInternet product was introduced in July 2001. We have not generated substantial revenues. Moreover, we do not currently have any contracts in place that will provide any significant revenue. Because of our lack of an operating history, management has limited insight into trends that may emerge and could materially adversely affect our business. Prospective investors should consider the risks and difficulties our company may encounter in its new and rapidly evolving market, especially given our lack of operating history. These risks include our ability to:

- market the PlugPlusInternet product suite;
- build a customer base;
- generate revenues;
- compete favorably in a highly competitive market;
- access sufficient capital to support growth;
- recruit and retain qualified employees;
- introduce new products and services; and
- build technology and support systems.

WE HAVE A HISTORY OF OPERATING LOSSES AND AN ACCUMULATED DEFICIT AND WE EXPECT TO CONTINUE TO INCUR LOSSES FOR THE FORESEEABLE FUTURE.

Since inception through June 30, 2003, we have incurred cumulative losses of $9,918,391 and have never generated enough funds through our operations to support our business. As of June 30, 2003, we have had no sales of the PlugPlusInternet product suite. We expect to continue to incur substantial operating losses at least through 2003. Our losses to date have resulted principally from:

- research and development costs relating to the development of our PlugPlusInternet product suite;
- costs and expenses associated with manufacturing, distribution and marketing of our products;
- general and administrative costs relating to our operations; and

- interest expense related to our Series A and Series B Debentures and our Senior Notes.

We are currently unprofitable and may never become profitable. Since inception, we have funded our research and development activities primarily from private placements of equity and debt securities, a bank loan and short term loans from certain of our executive officers. As a result of our substantial research and development expenditures and limited product revenues, we have incurred substantial net losses. Our ability to achieve profitability will depend primarily on our ability to successfully commercialize the PlugPlusInternet product suite.

THE TERMS OF OUR SENIOR NOTES SUBJECT US TO THE RISK OF FORECLOSURE ON SUBSTANTIALLY ALL OF OUR ASSETS.

During the second quarter of 2003, we completed an offering of $5,000,000 of Senior Notes. The Senior Notes each accrue interest at 8.0% per annum and mature three years from the date of purchase. Accrued but unpaid interest on the Senior Notes is payable quarterly on January 1, April 1, July 1 and October 1 of each year during the Senior Note term. The Senior Notes are secured by a first priority security interest in all of the intellectual property assets of Telkonet. If an event of default occurs under the Senior Notes, including, but not limited to, the failure by Telkonet to make any required payment to the noteholders when such payment is due, the noteholders may exercise their right to foreclose on all or a portion of our assets used as collateral for the payment of these obligations. Any such default and resulting foreclosure could have a material adverse effect on our financial condition.

The Senior Notes mature three years from the date of issuance, at which time the entire outstanding principal balance of each Senior Note becomes due and payable. We may not have sufficient funds to repay the outstanding balance on the Senior Notes upon their maturity. Accordingly, we may be required to obtain the funds necessary to repay the noteholders through the issuance of additional equity or debt securities or the sale of assets. There can be no assurance that, if needed, we can issue equity or debt securities or sell assets under terms that are acceptable to us or at all. If we are unable to obtain funds to repay this indebtedness, we may be forced to dispose of assets or take other actions on disadvantageous terms, which could result in losses to Telkonet and have a material adverse effect on our financial condition.

POTENTIAL FLUCTUATIONS IN OPERATING RESULTS COULD HAVE A NEGATIVE EFFECT ON THE PRICE OF OUR COMMON STOCK.

Our operating results may fluctuate significantly in the future as a result of a variety of factors, most of which are outside our control, including:

- the level of use of the Internet;
- the demand for high-tech goods;
- the amount and timing of capital expenditures and other costs relating to the expansion of our operations;
- price competition or pricing changes in the industry;
- technical difficulties or system downtime;

- economic conditions specific to the internet and communications industry; and
- general economic conditions.

Our quarterly results may also be significantly impacted by the impact of the accounting treatment of acquisitions, financing transactions or other matters. Such accounting treatment could have a material impact on the results for any quarter and have a negative impact on the price of our common stock.

THERE IS PRESENTLY A LIMITED TRADING MARKET FOR SHARES OF OUR COMMON STOCK.

Our common stock is traded on the OTC Bulletin Board. Stocks that trade on the OTC Bulletin Board tend to be less liquid and trade with larger spreads between the bid and ask price than stocks on larger exchanges or automated quotation systems. Information with respect to OTC Bulletin Board quotations reflects inter-dealer prices without retail markup, markdown or commission and may not represent actual transactions, and quotations on the OTC Bulletin Board are sporadic. This means that shares of our common stock are less liquid than

shares of companies traded on larger exchanges or automated quotation systems and, as a result, holders of our common stock may have some difficulty selling their shares in the open market.

In addition, our stock is subject to what are known as the "penny stock" rules. The "penny stock" rules place additional requirements on broker-dealers who sell or make a market in such securities. Consequently, the ability or willingness of broker-dealers to sell or make a market in our common stock could be impacted and your ability to resell your shares, and the price at which you could sell your shares, could be adversely affected.

OUR DIRECTORS AND EXECUTIVE OFFICERS OWN A SUBSTANTIAL PERCENTAGE OF OUR ISSUED AND OUTSTANDING COMMON STOCK. THEIR OWNERSHIP COULD ALLOW THEM TO EXERCISE SIGNIFICANT CONTROL OVER CORPORATE DECISIONS.

As of June 30, 2003, our officers and directors owned 49.2% of our common stock. This means that our officers and directors, as a group, exercise significant control over matters upon which our stockholders may vote, including the selection of the Board of Directors, mergers, acquisitions and other significant corporate transactions.

FURTHER ISSUANCES OF EQUITY SECURITIES MAY BE DILUTIVE TO CURRENT STOCKHOLDERS.

During the third quarter of 2001, we commenced an offering of up to $1,689,100 principal amount of Series A Debentures. In connection with the placement of the Series A Debentures, we also issued non-detachable warrants granting holders the right to acquire 1,689,100 shares of our common stock at $1.00 per share. The Series A Debentures are convertible into, and the warrants are exerciseable for, the shares of our common stock that are included in the registration statement of which this prospectus forms a part. As of the date of this prospectus, 3,378,200 shares of our common stock have been issued in connection with the conversion of the Series A Debentures.

During the fourth quarter of 2002, we commenced an offering of up to $2,500,000 principal amount of Series B Debentures. In connection with the placement of the Series B Debentures, we also issued non-detachable warrants granting holders the right to acquire 2,500,000 shares of our common stock at $1.00 per share. The Series B Debentures are convertible into, and the warrants are exerciseable for, the shares of our common stock that are included in the registration statement of which this prospectus forms a part. As of the date of this prospectus, 4,545,455 shares of our common stock have been issued in connection with the conversion of the Series B Debentures.

During the second quarter of 2003, we commenced an offering of up to $5,000,000 principal amount of Senior Notes. The Senior Notes each accrue interest at 8.0% per annum, mature three years from the date of purchase and are secured by a first priority security interest in all of the intellectual property assets of Telkonet. In connection with the placement of the Senior Notes, we also issued non-detachable warrants granting holders the right to acquire 6,250,000 shares of our common stock at $1.00 per share. The warrants issued in connection with the Senior Note offering are exerciseable for the shares of our common stock that are the subject of the registration statement of which this prospectus forms a part.

Although the funds raised in the debenture offerings and the note offering are being used for general working capital purposes, it is likely that we will be required to seek additional capital in the future. This capital funding could involve one or more types of equity securities, including convertible debt, common or convertible preferred stock and warrants to acquire common or preferred stock. Such equity securities could be issued at or below the then-prevailing market price for our common stock. Any issuance of additional shares of our common stock will be dilutive to existing stockholders and could adversely affect the market price of our common stock.

THE EXERCISE OF OPTIONS AND WARRANTS OUTSTANDING AND AVAILABLE FOR ISSUANCE MAY ADVERSELY AFFECT THE MARKET PRICE OF OUR COMMON STOCK.

As of June 30, 2003, we had outstanding options to purchase a total of 10,336,667 shares of common stock at exercise prices ranging from $1.00 to $3.43 per share, with a weighted average exercise price of $1.08. As of June 30, 2003, we had warrants outstanding to purchase a total of 12,123,260 shares of common stock at exercise prices ranging from $0.50 to $2.97 per share, with a weighted average exercise price of $0.96. In addition, as of June 30, 2003, we had 4,663,333 additional shares of common stock which may be issued in the future under the Telkonet, Inc. Stock Incentive Plan. The exercise of outstanding options and warrants and the sale in the public market of the shares purchased upon such exercise will be dilutive to existing stockholders and could adversely affect the market price of our common stock.

THE POWERLINE COMMUNICATIONS INDUSTRY IS INTENSELY COMPETITIVE AND RAPIDLY EVOLVING.

We operate in a highly competitive, quickly changing environment, and our future success depends on our ability to develop and introduce new products and product enhancements that achieve broad market acceptance in commercial and governmental sectors. Our future success will depend, in large part, upon our ability to identify demand trends in the commercial and governmental sectors and quickly develop, manufacture and sell products that satisfy these demands in a cost effective manner. We will also need to respond effectively to new product announcements by our competitors by quickly introducing competitive products.

Delays in product development and introduction could result in:

- loss of or delay in revenue and loss of market share;
- negative publicity and damage to our reputation and brand; and
- decline in the average selling price of our products.

GOVERNMENT REGULATION OF OUR PRODUCTS COULD IMPAIR OUR ABILITY TO SELL SUCH PRODUCTS IN CERTAIN MARKETS.

FCC rules permit the operation of unlicensed digital devices that radiate radio frequency emissions if the manufacturer complies with certain equipment authorization procedures, technical requirements, marketing restrictions and product labeling requirements. Differing technical requirements apply to "Class A" devices intended for use in commercial settings, and "Class B" devices intended for residential use to which more stringent standards apply. An independent, FCC-certified testing lab has verified that our PlugPlusInternet Gateways comply with the FCC technical requirements for Class A and Class B digital devices. No further testing of these devices is required and the devices may be manufactured and marketed for commercial and residential use. Additional devices designed by us for commercial and residential use will be subject to the FCC rules for unlicensed digital devices. Moreover, if in the future, the FCC changes its technical requirements for unlicensed digital devices, further testing and/or modifications of devices may be necessary. Failure to comply with any FCC technical requirements could impair our ability to sell our products in certain markets and could have a negative impact on our business and results of operations.

PRODUCTS SOLD BY OUR COMPETITORS COULD BECOME MORE POPULAR THAN OUR PRODUCTS OR RENDER OUR PRODUCTS OBSOLETE.

The market for powerline communications products is highly competitive. Although we are presently the only company marketing PLC products to the commercial segment, Linksys Group, Inc. (recently acquired by Cisco Systems) and Netgear, Inc. offer similar PLC solutions for the residential market. There can be no assurance that Linksys Group, Netgear or any other company will not develop PLC products that compete with our products in the future. These potential competitors have longer operating histories, greater name recognition and substantially greater financial, technical, sales, marketing and other resources. These potential competitors may, among other things, undertake more extensive marketing campaigns, adopt more aggressive pricing policies, obtain more favorable pricing from suppliers and manufacturers and exert more influence on the sales channel than we can. As a result, we may not be able to compete successfully with these potential competitors and these potential competitors may develop or market technologies and products that are more widely accepted than those being developed by us or that would render our products obsolete or noncompetitive. We anticipate that potential competitors will also intensify their efforts to penetrate our target markets. These potential competitors may have more advanced technology, more extensive distribution channels, stronger brand names, bigger promotional budgets and larger customer bases than we do. These companies could devote more capital resources to develop, manufacture and market competing products than we could. If any of these companies are successful in competing against us, our sales could decline, our margins could be negatively impacted, and we could lose market share, any of which could seriously harm our business and results of operations.

THE FAILURE OF THE INTERNET TO CONTINUE AS AN ACCEPTED MEDIUM FOR BUSINESS COMMERCE COULD HAVE A NEGATIVE IMPACT ON OUR RESULTS OF OPERATIONS.

Our long-term viability is substantially dependent upon the continued widespread acceptance and use of the Internet as a medium for business commerce. The Internet has experienced, and is expected to continue to experience, significant growth in the number of users. There can be no assurance that the Internet infrastructure will continue to be able to support the demands placed on it by this continued growth. In addition, delays in the development or

adoption of new standards and protocols to handle increased levels of Internet

activity or increased governmental regulation could slow or stop the growth of the Internet as a viable medium for business commerce. Moreover, critical issues concerning the commercial use of the Internet (including security, reliability, accessibility and quality of service) remain unresolved and may adversely affect the growth of Internet use or the attractiveness of its use for business commerce. The failure of the necessary infrastructure to further develop in a timely manner or the failure of the Internet to continue to develop rapidly as a valid medium for business would have a negative impact on our results of operations.

FAILURE OF OUR SERVICES AND PRODUCTS TO BE SUCCESSFUL IN THE MARKETPLACE COULD HAVE A NEGATIVE EFFECT ON OUR RESULTS OF OPERATIONS.

Since we are just emerging from our development stage, we do not know with any certainty whether our services and/or products will be accepted within the business marketplace. If our services and/or products prove to be unsuccessful within the marketplace, or if we fail to attain market acceptance, it could have a negative effect on our results of operations.

WE MAY NOT BE ABLE TO OBTAIN PATENTS, WHICH COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS.

Our ability to compete effectively in the powerline technology industry will depend on our success in acquiring suitable patent protection. We currently have several patents pending. We intend to file additional patent applications that we deem to be economically beneficial. If we are not successful in obtaining patents, we will have limited protection against those who might copy our technology. As a result, the failure to obtain patents could negatively impact our business and results of operations.

INFRINGEMENT BY THIRD PARTIES ON OUR PROPRIETARY TECHNOLOGY AND DEVELOPMENT OF SUBSTANTIALLY EQUIVALENT PROPRIETARY TECHNOLOGY BY OUR COMPETITORS COULD NEGATIVELY IMPACT OUR BUSINESS.

Our success depends partly on our ability to maintain patent and trade secret protection, to obtain future patents and licenses, and to operate without infringing on the proprietary rights of third parties. There can be no assurance that the measures we have taken to protect our intellectual property, including those integrated to our PlugPlusInternet product suite, will prevent misappropriation or circumvention. In addition, there can be no assurance that any patent application, when filed, will result in an issued patent, or that our existing patents, or any patents that may be issued in the future, will provide us with significant protection against competitors. Moreover, there can be no assurance that any patents issued to, or licensed by, us will not be infringed upon or circumvented by others. Infringement by third parties on our proprietary technology could negatively impact our business. Moreover, litigation to establish the validity of patents, to assert infringement claims against others, and to defend against patent infringement claims can be expensive and time-consuming, even if the outcome is in our favor. We also rely to a lesser extent on unpatented proprietary technology, and no assurance can be given that others will not independently develop substantially equivalent proprietary information, techniques or processes or that we can meaningfully protect our rights to such unpatented proprietary technology. Development of substantially equivalent technology by our competitors could negatively impact our business.

WE DEPEND ON A SMALL TEAM OF SENIOR MANAGEMENT, AND WE MAY HAVE DIFFICULTY ATTRACTING AND RETAINING ADDITIONAL PERSONNEL.

Our future success will depend in large part upon the continued services and performance of senior management and other key personnel. If we lose the services of any member of our senior management team, our overall operations could be materially and adversely affected. In addition, our future success will depend on our ability to identify, attract, hire, train, retain and motivate other highly skilled technical, managerial, marketing, purchasing and customer service personnel when they are needed. Competition for these individuals is intense. We cannot ensure that we will be able to successfully attract, integrate or retain sufficiently qualified personnel when the need arises. Any failure to attract and retain the necessary technical, managerial, marketing, purchasing and customer service personnel could have a negative effect on our financial condition and results of operations.

FORWARD-LOOKING STATEMENTS

This prospectus and any prospectus supplement may contain "forward-looking statements" which represent our expectations or beliefs, including, but not limited to, statements concerning industry performance and our results, operations, performance, financial condition, plans, growth and strategies, which include, without limitation, statements preceded or followed by or that include the words "may," "will," "expect," "anticipate," "intend," "could," "estimate," or "continue" or the negative or other variations thereof or comparable terminology. Any statements contained in this prospectus, any

prospectus supplement or the information incorporated by reference that are not statements of historical fact may be deemed to be forward-looking statements within the meaning of Section 27(A) of the Securities Act of 1933 and Section 21(F) of the Securities Exchange Act of 1934. For such statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. These statements by their nature involve substantial risks and uncertainties, some of which are beyond our control, and actual results may differ materially depending on a variety of important factors, many of which are also beyond our control. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this prospectus. We do not undertake any obligation to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this prospectus or to reflect the occurrence of unanticipated events, except to the extent such updates and/or revisions are required to prevent these forward-looking statements from being materially false or misleading.

THE COMPANY

We were formed in 1999 to develop products for use in the powerline communications (PLC) industry. PLC products use existing electrical wiring in commercial buildings and residences to carry high speed data communications signals, including the Internet. Since our formation, we have worked on the development and marketing of our patent-pending PLC technology.

Our PLC technology, the "PlugPlusInternet" product suite, consists of two separate components, the PlugPlusInternet Gateway and the PlugPlusInternet Modem. The PlugPlusInternet Gateway is a modular, self-contained unit that accepts data from an existing network on one port and distributes it via a second port. The Gateway integrates a communications processor that runs a series of proprietary applications under Linux. The signal generated by the Gateway can be directly coupled into low voltage wiring via the power cord of the Gateway. The signal may also be routed to a remote injection point via an inexpensive coaxial cable. This allows the PlugPlusInternet product suite to couple into the medium voltage and multi-phase environments found in commercial buildings. A suite of software applications running on the Gateway can perform communications functions or system management functions. The Gateway is designed to network with dozens of PlugPlusInternet Modems. The PlugPlusInternet Modem is a small, self-contained unit with a standard 110V plug on one side and an Ethernet RJ-45 connector on the other.

The PlugPlusInternet product suite delivers data at speeds in excess of 7 Mega bits per second (Mbps), with burst speeds of 12.6 Mbps. The PlugPlusInternet product suite is installed by connecting an incoming broadband signal (DSL, TL, satellite or cable modem) into the Gateway and connecting the Gateway to a building's electrical panel. Once installed, the Gateway distributes the high-speed Internet signal throughout the entire existing network of electrical wires within the building. The user may access a high-speed Internet signal by plugging the PlugPlusInternet Modem into any electrical outlet and plugging a computer Ethernet connection into the Modem. Multiple personal computers equipped with a PlugPlusInternet Modem can communicate with one another and can share a single broadband resource via the PlugPlusInternet Gateway. Moving the location of a personal computer, server, or printer is accomplished by moving the PlugPlusInternet Modem to another electrical outlet without additional wiring. Our target markets for sales of the PlugPlusInternet product suite include office buildings, hotels, schools, shopping malls, commercial buildings, multi-dwelling units, government facilities, and any other commercial facilities that have a need for Internet access and network connectivity.

We have applied for patents that cover the unique technology integrated into the PlugPlusInternet product suite. We also continue to identify, design and develop enhancements to our core technologies that will provide additional functionality, diversification of application and desirability for current and future users of the PlugPlusInternet product suite.

In July 2001, we announced the completion of our initial product development phase of the PlugPlusInternet product suite and, in August 2001, we announced that successful system tests of the PlugPlusInternet product suite had been performed.

In January 2002, we shifted our management emphasis from research and development to sales and marketing of the PlugPlusInternet product suite.

In November 2002, we successfully installed a PlugPlusInternet system at the historic Partridge Inn in Augusta, Georgia. The installation provided high-speed Internet connectivity to guest rooms, meeting rooms and a lobby kiosk. In December 2002, we conducted a product field trial at the Marriott Residence Inn-Landfall in Wilmington, NC. As part of this trial, we implemented a hotel-wide PlugPlusInternet system that provided connectivity to the hotel's 90 guest rooms, meeting rooms, common areas and a lobby kiosk.

In January 2003, we received Federal Communications Commission (FCC) approval to market the PlugPlusInternet product suite. FCC rules permit the operation of unlicensed digital devices that radiate radio frequency emissions, provided that the manufacturer complies with certain equipment authorization procedures, technical requirements, marketing restrictions and product labeling requirements. An independent, FCC-certified testing lab has verified that our PlugPlusInternet Gateway complies with the FCC technical requirements for Class A and Class B digital devices. No further testing of this device is required and the device may be manufactured and marketed for commercial and residential use.

In March 2003, we entered into a Strategic Alliance Agreement with Choice Hotels International (NYSE: CHH), one of the largest hotel franchise companies in the world with more than 3,500 hotels, inns, all-suite hotels and resorts open and under development in 46 countries under the Comfort Inn, Comfort Suites, Quality, Clarion, Sleep Inn, Rodeway Inn, EconoLodge and MainStay Suites brand names. The agreement has an initial term of two years, pursuant to which we will become a Choice Hotels-endorsed vendor offering the PlugPlusInternet product suite to Choice Hotels' U.S. franchisees. Choice Hotel franchisees that participate in our "Early Adopter Program" will receive a discount on installation and maintenance of the PlugPlusInternet product suite.

We are a member of the HomePlug(R) Powerline Alliance, an industry trade group that engages in marketing and educational initiatives, and sets standards and specifications for products, in the powerline communications industry.

Telkonet is a Utah corporation with its principal executive offices at 902-A Commerce Road, Annapolis, Maryland 21401. Our telephone number is (410) 897-5900.

COMPETITION

The market for powerline communications is highly competitive. Although we are presently the only company marketing PLC products to the commercial segment, Linksys Group, Inc. (recently acquired by Cisco Systems) and Netgear, Inc. offer similar PLC solutions for the residential market. There can be no assurance that Linksys Group, Netgear or any other company will not develop PLC products that compete with our products in the future. These potential competitors have longer operating histories, greater name recognition and substantially greater financial, technical, sales, marketing and other resources. These potential competitors may, among other things, undertake more extensive marketing campaigns, adopt more aggressive pricing policies, obtain more favorable pricing from suppliers and manufacturers and exert more influence on the sales channel than we can. As a result, we may not be able to compete successfully with these potential competitors and these potential competitors may develop or market technologies and products that are more widely accepted than those being developed by us or that would render our products obsolete or noncompetitive.

We anticipate that potential competitors will also intensify their efforts to penetrate our target markets. These potential competitors may have more advanced technologies, more extensive distribution channels, stronger brand names, bigger promotional budgets and larger customer bases than we do. These companies could devote more capital resources to develop, manufacture and market competing products than we could.

RAW MATERIALS

We have not experienced any significant or unusual problems in the purchase of raw materials or commodities. While we are dependent, in certain situations, on a limited number of vendors to provide certain raw materials and components, we have not experienced significant problems or issues procuring any essential materials, parts or components. We obtain the majority of our raw materials from the following suppliers: Arrow Electronics, Inc., Avnet Electronics Marketing, Digi-Key Corporation, Intellon Corporation and Superior Manufacturing Services.

PATENTS AND TRADEMARKS

We have various patents pending which we consider in the aggregate to constitute a valuable asset. These pending patents cover various technologies incorporated to our PlugPlusInternet product suite, including components enabling the use of electric utility power lines as a telephonic communications carrier network. We believe several of our pending patents offer us a significant competitive advantage. We are not presently a party to any license agreements.

MANUFACTURING AND INSTALLATION METHODS

Telkonet sources its own raw material components and utilizes contract

manufacturers for assembly and testing of its products. Our finished product is distributed directly from Telkonet to the customer. On July 23, 2003, Telkonet executed an agreement with CompuCom Systems, Inc. pursuant to which CompuCom has agreed to provide installation and customer support services for the PlugPlusInternet product suite. Telkonet is not presently a party to any third party distribution agreement.

RESEARCH AND DEVELOPMENT

During the six months ended June 30, 2003 and for the year ended December 31, 2002, we spent $597,550 and $280,450, respectively, on research and development activities relating to the development of new products or improvements of existing products. We spent $120,828 in 2001 (as restated) and $119,000 in 2000 on research and development activities.

MAJOR CUSTOMERS

Telkonet has just emerged from its development stage and, as of the date of this prospectus, has not had significant sales of its products or services.

ENVIRONMENTAL MATTERS

We do not anticipate any material effect on our capital expenditures, earnings or competitive position due to compliance with government regulations involving environmental matters.

SEASONALITY

We do not consider our business to be seasonal.

EMPLOYEES

As of June 30, 2003, we had 17 full time employees. The hiring of additional key staff is planned in the areas of business development, sales and marketing, engineering and support. We believe our relations with our employees are good.

GOVERNMENT REGULATION

We are subject to regulation in the United States by the Federal Communications Commission (FCC). We are also may be subject to regulation by government entities in other countries.

UNITED STATES REGULATION

FCC rules permit the operation of unlicensed digital devices that radiate radio frequency emissions if the manufacturer complies with certain equipment authorization procedures, technical requirements, marketing restrictions and product labeling requirements. Differing technical requirements apply to "Class A" devices intended for use in commercial settings and more stringent standards apply to "Class B" devices intended for residential use. An independent, FCC-certified testing lab has verified that our PlugPlusInternet Gateways comply with the FCC technical requirements for Class A and Class B digital devices. No further testing of these devices is required and the devices may be manufactured and marketed for commercial and residential use. Additional devices designed by us for commercial and residential use will be subject to the FCC rules for unlicensed digital devices. Moreover, if in the future, the FCC changes its technical requirements for unlicensed digital devices, further testing and/or modifications of devices may be necessary.

REGULATION ABROAD

Our products will be subject to compliance with applicable regulatory requirements in those foreign countries where our products are sold.

PROPERTY

We currently lease approximately 3,000 square feet office space at 902A Commerce Drive, Annapolis, Maryland 21401, where we maintain our principal business office.

We consider this property to be suitable and adequate for its present purposes, well maintained and in good operating condition.

LEGAL PROCEEDINGS

In March 2003, Jenson Services, Inc. and James P. Doolin filed an action against Telkonet 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 Telkonet, through its agents, promised to undertake a registration of certain shares of Telkonet common stock owned by plaintiffs. The action seeks damages from Telkonet in unspecified amounts. Telkonet believes that plaintiffs' claims are without merit and that Telkonet has meritorious defenses to such claims. Telkonet intends to vigorously defend itself against the plaintiffs' claims in their entirety.

MARKET PRICE OF AND DIVIDENDS ON OUR COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Our common stock is quoted on the OTC Bulletin Board (OTCBB) under the symbol "TLKO.OB." The following table shows the high and low sales prices for our common stock as quoted on the OTCBB for the periods indicated. On August 22, 2003, the last reported sale price of our common stock was $2.70. As of August 22, 2003, there were 24,011,065 shares of our common stock issued and outstanding.

	HIGH	LOW
YEAR ENDED DECEMBER 31, 2003		
First Quarter	$ 1.33	$ 1.18
Second Quarter	$ 2.67	$ 2.43
YEAR ENDED DECEMBER 31, 2002		
First Quarter	$ 0.87	$ 0.87
Second Quarter	$ 1.53	$ 1.40
Third Quarter	$ 1.08	$ 0.98
Fourth Quarter	$ 0.62	$ 0.56
YEAR ENDED DECEMBER 31, 2001		
First Quarter	$ 1.98	$ 1.98
Second Quarter	$ 1.06	$ 1.00
Third Quarter	$ 0.84	$ 0.83
Fourth Quarter	$ 0.95	$ 0.95
YEAR ENDED DECEMBER 31, 2000		
Third Quarter	$ 1.74	$ 1.29
Fourth Quarter	$ 4.08	$ 3.54

We have never paid dividends on our common stock and do not anticipate paying dividends in the foreseeable future.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

During our two most recent fiscal years and the subsequent interim periods, no independent accountant that was previously engaged as the principal accountant to audit our financial statements resigned, indicated that it declined to stand for re-election or was dismissed by us.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are presently engaging in marketing our products in Canada and contemplate future sales in various regions of the world. In connection with these foreign marketing and sales activities, we may export to and import from other countries. Our operations may, therefore, be subject to volatility because of currency fluctuations, inflation and changes in political and economic conditions in these countries. Sales and expenses may be denominated in local currencies and may be affected as currency fluctuations affect our product prices and operating costs or those of our competitors.

We presently do not use any derivative financial instruments to hedge our exposure to adverse fluctuations in interest rates, foreign exchange rates, fluctuations in commodity prices or other market risks, nor do we invest in speculative financial instruments.

Due to the nature of our borrowings, we have concluded that there is no material market risk exposure and, therefore, no quantitative tabular disclosures are required.

EXECUTIVE OFFICERS AND DIRECTORS

GENERAL

The following table furnishes the information concerning Telkonet's executive officers and directors as of June 30, 2003:

Name	Age	Title
Ronald W. Pickett	55	President & Director
Stephen Sadle	56	Chief Operating Officer & Director

E. Barry Smith	52	Chief Financial Officer
James Landry	49	Vice President, Engineering
Robert P. Crabb	55	Secretary
Warren V. Musser	76	Chairman of the Board
A. Hugo DeCesaris	44	Director
David W. Grimes	65	Director

RONALD W. PICKETT, President and Director, fostered the development of Telkonet since 1999 as Telkonet's principal investor and co-founder. He also was the founder, and for twenty years served as Chairman of the Board of Directors and President, of Medical Advisory Systems, Inc., which is now named Digital Angel Corporation (AMEX: "DOC"). A graduate of Gordon College, Mr. Pickett has engaged in various entrepreneurial activities for 35 years.

STEPHEN L. SADLE, Director and Chief Operating Officer, is a co-founder of Telkonet. From 1970 to 1986 Mr. Sadle was president of a successful infrastructure construction and development company in the Washington, D.C. metro area. From 1986 to 1999, he was Vice President of Business Development and Sales for The Driggs Corporation, a major heavy and infrastructure firm interfacing with both government and the private sectors. From 1999 to 2000, Mr. Sadle was Vice President and General Sales Manager of Internos, a provider of web-based vertical intranet applications, and developed operating extranets in the transportation and construction industries.

E. BARRY SMITH, Chief Financial Officer, is a CPA and senior financial executive with diversified experience in both public and private companies. Mr. Smith's background includes big-four public accounting experience with the firm of Deloitte & Touche, Senior Financial Partner with over 15 years executive management experience with Safeguard Scientifics, Inc. and their partner companies including: ThinAirApps, Inc. (Wireless Application Provider-sold to Palm, Inc.) and Tangram Enterprise Solutions (Software/Hardware for PC/LAN Mainframe Connectivity and Enterprise Software Management). Mr. Smith's experience also includes, Vice President of Finance & Administration for US Golf Management (Public/Private Golf Course & Restaurant Management), Vice President of Finance for International Communications Research (Market Research & Database Services) and Treasurer for The Chilton Company (Publishing).

JAMES LANDRY, Vice President, Engineering, has over 18 years experience in developing communications hardware for the enterprise/carrier market with 3Com, US Robotics, Penril Datacomm and Data General. While at 3Com/US Robotics, he was singularly responsible for the development of the xDSL product line as well as a number of modems and interface cards. At Penril, he served as the product development leader for the Series 1544 multiplexer/channel bank and at Data General he was technical leader of system integration for ISDN WAN. Mr. Landry brings a wealth of practical design leadership and a solid history of delivering products to the marketplace. He holds four United States patents.

ROBERT P. CRABB, Secretary, has over 35 years of sales, marketing and corporate management experience, including a career in sales and management with the Metropolitan Life Insurance Company. His entrepreneurial expertise also includes public company administration, financial consulting and commercial/residential real estate development. Mr. Crabb oversees Telkonet's public company administration and corporate governance, is a former Director of Telkonet and has been involved with Telkonet since 1999.

WARREN V. MUSSER, Chairman of the Board of Directors, has had extensive experience with public companies during his distinguished and successful career as an entrepreneur. A partial list of his accomplishments includes: Chairman Emeritus, Safeguard Scientifics, Inc. (formerly Safeguard Industries, Inc.), Chairman of the Board and Chief Executive Officer, Safeguard Scientifics, Inc., Founder, Chairman of the Board and President, Lancaster Corporation (became Safeguard Industries, Inc.), Founder & President, Musser and Company, Inc. (Investment Banking Firm). In addition, Mr. Musser is a Director of CompuCom Systems, Inc. and Internet Capital Group, Inc., Vice Chairman of Nutri/System, Inc. and Eastern Technology Council and Chairman of Economics, PA. He also serves as the Vice President/Development, Cradle of Liberty Council of the Boy Scouts of America.

A. HUGO DECESARIS, Director, has over 25 years experience in the homebuilding industry with Washington Homes, Inc., where he served as Vice President and a member of the Board of Directors. In January of 2001, Washington Homes, Inc. became a wholly-owned subsidiary of K. Hovnanian Enterprises, Inc. and is now one of the top ten homebuilders in the nation. Mr. DeCesaris is currently the Regional Vice President for the Maryland Division of Washington Homes, Inc., President and owner of Southern Maryland's largest Marina and a

member of the Board of Directors of MNCBIA Volume Builders Council.

DAVID W. GRIMES, Director, is a co-founder of Telkonet. From 1963 to 1982, Mr. Grimes was a senior executive with NASA, heading the $200 million per year Delta Program. He also was founder, and from 1982 to 1989 served as Chief Executive Officer, of Transpace Carriers Inc., a venture to commercialize the Delta launch vehicle. From 1989 to 1992, he was the Engineering Division

Director at EER Inc., with supervisory responsibility for more than 100 engineers and technicians on electrical mechanical and thermal tasks for Goddard Space Flight Center. From 1992 to 1999, Mr. Grimes served as Chief Engineer for 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. Mr. Grimes is a recognized expert in space and ground communications systems.

EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table sets forth information concerning the annual and long-term compensation for services in all capacities to Telkonet for the fiscal year ended December 31, 2002 for each of the three highest paid persons who are officers or directors of Telkonet.

<TABLE>
<CAPTION>

NAME AND PRINCIPAL POSITION	YEAR	BASE SALARY($)	BONUS ($)	OTHER ANNUAL COMPENSATION($)
<S>	<C>	<C>	<C>	<C>
	2000	$ 76,747	$ 0	$ 0
Peter Larson (1)	2001	$ 160,484	$ 0	$ 0
Chief Executive Officer	2002	$ 4,000	$ 0	$ 0
	2000	$ 0	$ 0	$ 0
J. Gregory Fowler (2)	2001	$ 0	$ 0	$ 0
Chief Executive Officer	2002	$ 114,000	$ 0	$ 0
	2000	$ 0	$ 0	$ 0
David S. Yaney (3)	2001	$ 0	$ 0	$ 0
Chief Technology Officer	2002	$ 73,000	$ 0	$ 0
	2000	$ 0	$ 0	$ 0
James Landry	2001	$ 29,000	$ 0	$ 0
Vice President, Engineering	2002	$ 116,000	$ 0	$ 0
	2000	$ 78,270	$ 0	$ 0
Stephen L. Sadle	2001	$ 160,484	$ 0	$ 0
Chief Operating Officer	2002	$ 130,000	$ 0	$ 0

</TABLE>

(1) Mr. Larson resigned as Chief Executive Officer of Telkonet on January 12, 2002.
(2) On January 30, 2002, Mr. Fowler was appointed Chief Executive Officer of Telkonet. Mr. Fowler resigned as Chief Executive Officer of Telkonet on December 12, 2002.
(3) Dr. Yaney was appointed Chief Technology Officer of Telkonet on February 15, 2002. Dr. Yaney resigned as Chief Technology Officer of Telkonet on September 3, 2002.

OPTION/SAR GRANTS

The following table sets forth information concerning stock options granted in the fiscal year ended December 31, 2002, to the persons listed on the Summary Compensation Table.

<TABLE>
<CAPTION>

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS/SARS GRANTED	PERCENT OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEE IN FISCAL YEAR	EXERCISE OF BASE PRICE ($/SH)	EXPIRATION DATE
<S>	<C>	<C>	<C>	<C>
Peter Larson	0	0	$ 0	0

J. Gregory Fowler	650,000 (1)	22.9%	$ 1.00	1/29/2012
David S. Yaney	400,000	14.1%	$ 1.00	2/15/2012
James Landry	100,000	3.5%	$ 1.00	2/15/2012
Stephen L. Sadle	1,000,000	35.5%	$ 1.00	1/12/2012

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(1) This includes 450,000 shares of our common stock subject to purchase pursuant to options that were forfeited by Mr. Fowler upon his resignation on December 12, 2002.

AGGREGATED OPTION/SAR EXERCISES

The following table summarizes information relating to stock option exercises during the year ended December 31, 2002 by those persons listed on the Summary Compensation Table.

AGGREGATE OPTION EXERCISES IN 2002 AND OPTION VALUES AS OF DECEMBER 31, 2002

			NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT DECEMBER 31, 2002		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 2002 (1)	
NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Peter Larson	0	$ 0	0	0	$ 0	$ 0
J. Gregory Fowler	0	$ 0	200,000	0	$ 0	$ 0
David S. Yaney	0	$ 0	50,000	0	$ 0	$ 0
James Landry	0	$ 0	78,845	0	$ 0	$ 0
Stephen L. Sadle	1,000,000(2)	$ 8,330	0	0	$ 0	$ 0

- ----------
(1) Based on a stock price of $0.55, which was the average of the high asked and low bid prices reported on December 31, 2002.
(2) Mr. Sadle sold 166,600 shares in a private sale in 2002 and returned the remaining 833,400 shares to the Company as part of a recapitalization. See, "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS" on page 25 of this prospectus.

DIRECTORS' COMPENSATION

Telkonet reimburses directors for costs and expenses in connection with their attendance and participation at Board of Directors meetings and for other travel expenses incurred on Telkonet's behalf. Telkonet has the authority to compensate each non-management director $250.00 for each meeting of the Board of Directors. As of the date of this prospectus, no such payments have been made.

In January 2003, options to purchase the following number of shares were granted to the following non-employee directors of Telkonet under the Stock Incentive Plan: David Grimes (900,000 shares) and Warren Musser (2,000,000 shares). These options entitle the holder to purchase shares of Telkonet common stock at $1.00 per share and vest ratably over twelve quarters beginning January 1, 2003. These options are not "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code of 1986. Approval of the grant of these options will be submitted to Telkonet's stockholders at the 2003 annual meeting of stockholders.

EMPLOYMENT AGREEMENTS

Peter Larson, former Chief Executive Officer, was employed pursuant to an employment agreement for a three-year term that commenced June 19, 2000 and provided for an annual salary of $130,000 and bonuses and benefits based upon Telkonet's internal policies. Mr. Larson resigned from his employment on January

12, 2002.

Mr. Sadle, Chief Operating Officer, is employed pursuant to an employment agreement for a three-year term that commenced June 19, 2000 and provides for an annual salary of $130,000 and bonuses and benefits based upon Telkonet's internal policies. On April 24, 2002, Mr. Sadle's employment agreement was amended to, among other things, extend the term through December 31, 2004. On January 18, 2003, Telkonet and Mr. Sadle executed a new employment agreement, the terms of which superceded the terms of the April 24, 2002 amended employment agreement. The January 18, 2003 employment agreement has a term of three years and provides for an annual salary of $130,000 and bonuses and benefits based upon Telkonet's internal policies.

Mr. Fowler, former Chief Executive Officer, was employed pursuant to an employment agreement for a three-year term that commenced January 30, 2002 and provided for an annual salary of $130,000 and bonuses and benefits based upon Telkonet's internal policies. Mr. Fowler resigned effective December 12, 2002.

David S. Yaney, former Chief Technology Officer, was employed pursuant to an employment agreement for a three-year term that commenced February 15, 2002 and provided for an annual salary of $130,000 and bonuses and benefits based upon Telkonet's internal policies. Dr. Yaney resigned effective September 3, 2002.

Mr. Landry, Vice President--Engineering, has been employed since September 24, 2001 with an annual salary of $160,000 with bonuses and benefits based upon Telkonet's internal policies.

Mr. Crabb, corporate secretary, is employed pursuant to an employment agreement for a three year term that commenced January 18, 2003 and provides for an annual salary of $120,000 and bonuses and benefits based upon Telkonet's internal policies.

Mr. Pickett, President, is employed pursuant to an employment agreement for an unspecified term that commenced January 30, 2003 and provides for an annual salary $100,000, 3,000 shares of our common stock per month for each month of his employment and bonuses and benefits based upon Telkonet's internal policies.

Mr. Smith, Chief Financial Officer, is employed pursuant to an employment agreement for a one-year term that commenced February 17, 2003 and provides for an annual salary of $130,000 and bonuses and benefits based upon Telkonet's internal policies.

Mr. Lubert, former Chief Executive Officer, was employed pursuant to an employment agreement for a two-year term that commenced January 1, 2003 and provided for an annual salary of $130,000 and bonuses and benefits based upon Telkonet's internal policies. Mr. Lubert resigned effective June 16, 2003, however, Telkonet has agreed to pay Mr. Lubert's salary through December 17, 2004.

In addition, under the Stock Incentive Plan, stock options are periodically granted to employees at the discretion of the Board of Directors. Executives of Telkonet are eligible to receive stock option grants, based upon individual performance and the performance of Telkonet as a whole.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Telkonet presently does not have any committees of the Board of Directors. However, on August 12, 2003 the Board of Directors voted unanimously to expand our Board of Directors to seven. The Board of Directors is presently considering candidates for appointment to these vacant board seats. We intend that these new directors will be "independent" as such term is defined by Rule 4200(a)(14) of the Rules of the National Association of Securities Dealers. Once appointed, each independent director will serve until the next annual meeting of our stockholders and his successor is duly elected and qualified.

SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS

The following table sets forth, as of August 22, 2003, the number of shares of Telkonet's common stock beneficially owned by each director and executive officer of Telkonet, by all directors and executive officers as a group, and by each person known by Telkonet to own beneficially more than 5.0% of the outstanding common stock.

<TABLE>
<CAPTION>

BENEFICIAL OWNER (1)	SHARES BENEFICIALLY OWNED	PERCENT OF CLASS

<S>	<C>	<C>
Howard Lubert 435 Devon Park Drive Building 500 Wayne, PA 19087	83,333 (2)	0.3%
E. Barry Smith 435 Devon Park Drive Building 500 Wayne, PA 19087	87,501 (3)	0.4%
Stephen Sadle, 902-A Commerce Road Annapolis, MD 21401	3,946,600 (4)	16.3%
James Landry 902-A Commerce Road Annapolis, MD 21401	176,763 (5)	0.7%
Robert P. Crabb 902-A Commerce Road Annapolis, MD 21401	641,331 (6)	2.6%
Warren V. Musser 435 Devon Park Drive Building 500 Wayne, PA 19087	500,001 (7)	2.0%
Ronald W. Pickett 902-A Commerce Road Annapolis, MD 21401	2,679,964 (8)	11.2%
David Grimes 902-A Commerce Road Annapolis, MD 21401	1,523,000 (9)	6.3%
L. Peter Larson 902-A Commerce Road Annapolis, MD 21401	2,505,285 (10)	10.0%
Hugo DeCesaris 902-A Commerce Road Annapolis, MD 21401	1,375,000 (11)	5.5%
Jenson and Associates, 5525 South 900 East Suite 110 Salt Lake City, Utah 84117	1,980,000	8.2%
All directors and executive officers as a group	13,518,778	49.2%

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(1) Unless otherwise indicated, each person has sole power to vote and dispose, or direct the disposition of, all shares of common stock beneficially owned, subject to applicable community property and similar laws.

(2) Includes immediately exercisable options to purchase 83,333 shares of Telkonet common stock at $1.00 per share.

(3) Includes immediately exercisable options to purchase 58,334 shares of Telkonet common stock at $1.00 per share.

(4) Includes immediately exercisable options to purchase 225,000 shares of Telkonet common stock at $1.00 per share.

(5) Includes immediately exercisable options to purchase 176,763 shares of Telkonet common stock at $1.00 per share.

(6) Includes immediately exercisable options to purchase 125,000 shares of Telkonet common stock at $1.00 per share. Also includes 279,793 shares of Telkonet common stock and immediately exercisable options to purchase 236,538 shares of Telkonet common stock at $1.00 per share owned by Susquehanna Development Company, LLC of which Mr. Crabb is the managing member.

(7) Includes immediately exercisable options to purchase 500,001 shares of Telkonet common stock at $1.00 per share.

(8) Includes 21,000 shares of our common stock subject to issuance pursuant to Mr. Pickett's employment agreement.

(9) Includes immediately exercisable options to purchase 225,000 shares of Telkonet common stock at $1.00 per share.

(10) Includes immediately exercisable options to purchase 1,000,000 shares

of Telkonet common stock at $1.00 per share.

(11) Includes an immediately exercisable warrant to purchase 815,000 shares of Telkonet common stock at $0.50 per share.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

STOCK REPURCHASES

On January 12, 2002, the Board of Directors approved a plan authorizing the repurchase of certain shares of, and options to purchase, Telkonet common stock owned by Messrs. Grimes, Larson and Sadle. Each of Messrs. Grimes, Larson and Sadle, at the time of the stock repurchase, owned in excess of five percent of the issued and outstanding shares of Telkonet common stock and were directors and executive officers of Telkonet.

As part of the stock repurchase, Mr. Grimes surrendered 3,721,918 shares of Telkonet common stock and options to purchase 160,000 shares of Telkonet common stock owned by him. In consideration of the surrender of these shares and options, Telkonet retained Mr. Grimes as a consultant for a period of three years and issued to Mr. Grimes fully vested options to purchase 1,000,000 shares of Telkonet common stock at fair market value on the date of exercise, but not less than $1.00 per share. In addition, Mr. Grimes agreed that certain shares of Telkonet common stock owned by him would be subject to a 36-month lock-up agreement under which 50,000 shares would be released on each of December 1, 2002 and December 1, 2003 and the remaining shares would be released on January 1, 2005. On April 24, 2002, the terms of Mr. Grimes' lock-up agreement were amended to permit the immediate release of 139,280 shares of Telkonet common stock, the release of 50,000 shares of Telkonet common stock on December 1, 2002, the release of 50,000 shares of Telkonet common stock on December 1, 2003 and the release of the remaining Telkonet common stock on January 1, 2005. The revised lock-up agreement also provided for the release of common stock in proportion to the number of options to purchase Telkonet common stock exercised by Mr. Grimes from time to time during the term of the lock-up agreement. As of December 31, 2002, Mr. Grimes had exercised all of the options issued to Mr. Grimes in the repurchase. Consequently, all of the shares subject to Mr. Grimes' revised lock-up agreement were released as of December 31, 2002.

Mr. Larson surrendered 705,000 shares of Telkonet common stock and options to purchase 200,000 shares of Telkonet common stock owned by him. In consideration of the surrender of these shares and options, Telkonet retained Mr. Larson as a consultant for a period of three years and issued to Mr. Larson fully vested options to purchase 1,000,000 shares of Telkonet common stock at fair market value on the date of exercise, but not less than $1.00 per share. In addition, Mr. Larson agreed that certain shares of Telkonet common stock owned

by him would be subject to a 36-month lock-up agreement under which 50,000 shares would be released on each of December 1, 2002 and December 1, 2003 and the remaining shares would be released on January 1, 2005. On April 24, 2002, the terms of Mr. Larson's lock-up agreement were amended to permit the immediate release of 139,280 shares of Telkonet common stock, the release of 50,000 shares of Telkonet common stock on December 1, 2002, the release of 50,000 shares of Telkonet common stock on December 1, 2003 and the release of the remaining Telkonet common stock on January 1, 2005. The revised lock-up agreement also provides for the release of common stock in proportion to the number of options to purchase Telkonet common stock exercised by Mr. Larson from time to time during the term of the lock-up agreement.

Mr. Sadle surrendered 2,147,694 shares of Telkonet common stock and options to purchase 200,000 shares of Telkonet common stock owned by him. In consideration of the surrender of these shares and options, the Board of Directors granted Mr. Sadle options to purchase 1,000,000 shares of Telkonet common stock at fair market value on the date of exercise, but not less than $1.00 per share. In addition, Mr. Sadle agreed that certain shares of Telkonet common stock owned by him would be subject to a 36-month lock-up agreement under which 50,000 shares would be released on each of December 1, 2002 and December 1, 2003 and the remaining shares would be released on January 1, 2005. On April 24, 2002, the terms of Mr. Sadle's lock-up agreement were amended to permit the immediate release of 139,280 shares of Telkonet common stock, the release of 50,000 shares of Telkonet common stock on December 1, 2002, the release of 50,000 shares of Telkonet common stock on December 1, 2003 and the release of the remaining Telkonet common stock on January 1, 2005. The revised lock-up agreement also provides for the release of common stock in proportion to the number of options to purchase Telkonet common stock exercised by Mr. Sadle from time to time during the term of the lock-up agreement. As of December 31, 2002, Mr. Sadle had exercised all of the options issued to Mr. Sadle in the repurchase. Consequently, all of the shares subject to Mr. Sadle's revised lock-up agreement were released as of December 31, 2002.

Mr. Sadle's employment agreement was also amended to include a provision by which Mr. Sadle would be required to forfeit shares of Telkonet

common stock owned by him, up to an aggregate of 1,500,000 shares of common stock, in the event he voluntarily terminated his employment prior to the end of its 36-month term. Pursuant to the amended employment agreement, Mr. Sadle was required to forfeit 40,000 shares for each month following the month in which he resigned until the expiration of the amended employment agreement. The amended employment agreement also extended the term of Mr. Sadle's employment until December 31, 2004. On January 30, 2003, the Board of Directors approved an amendment to Mr. Sadle's employment agreement that permits the release of the 1,500,000 shares of common stock subject to forfeiture upon Mr. Sadle's resignation in proportion to the number of options to purchase Telkonet common stock exercised by Mr. Sadle from time to time during the term of the employment agreement. As of December 31, 2002, Mr. Sadle had exercised all of the options issued to Mr. Sadle in the repurchase. Consequently, all of the shares subject to forfeiture pursuant to Mr. Sadle's revised employment agreement were released from such forfeiture restriction as of January 30, 2003.

PERSONAL GUARANTY BY A DIRECTOR OF TELKONET

On March 9, 2001, we issued A. Hugo DeCesaris, a Telkonet director and stockholder owning in excess of 5.0% of Telkonet's issued and outstanding common stock, a warrant to purchase 1,000,000 shares of our common stock at $0.50 per share as consideration for his personal guaranty of Telkonet's $250,000 line of credit with First Mariner Bank.

LOANS BY OFFICERS AND SIGNIFICANT STOCKHOLDERS

In 2001 and 2002, Ronald W. Pickett and Stephen Sadle, each of whom is a director and officer of Telkonet and owns in excess of 5.0% of the issued outstanding Telkonet common stock, loaned $200,000 and $4,830, respectively, to Telkonet for working capital purposes. At the time of such loans, no formal repayment terms or arrangements were agreed to by the parties. On December 30, 2002, the aggregate remaining principal balance owed by Telkonet to Mr. Pickett was forgiven in exchange for Telkonet Series B Debentures. On January 31, 2003, the aggregate principal balance owed by Telkonet to Mr. Sadle was repaid in full, without interest.

On June 1, 2001, Hugo DeCesaris, a director of Telkonet and a stockholder owning in excess of 5.0% of Telkonet's issued and outstanding common stock, loaned $7,500 to Telkonet for working capital purposes. At the time of such loan, no formal repayment terms or arrangements were agreed to by the parties. As of December 31, 2002, the aggregate remaining principal balance owed by Telkonet to Mr. DeCesaris was $7,500.

PURCHASE OF CONVERTIBLE DEBENTURES

During the third quarter of 2001, Telkonet commenced an offering of up to $1,689,100 principal amount of Series A Debentures. The Series A Debentures each accrue interest at 8.0% per annum and mature three years from the date of purchase. Each Series A Debenture is convertible at any time following the six month anniversary of the date of issuance of such Series A Debenture into shares of Telkonet common stock at a conversion price equal to $0.50 per share for each $10,000 principal amount plus interest of the Series A Debenture converted. In connection with the placement of the Series A Debentures, Telkonet issued non-detachable warrants granting holders the right to acquire 1,689,100 share of our common stock at $1.00 per share.

During the fourth quarter of 2002, Telkonet commenced an offering of up to $2,500,000 principal amount of Series B Debentures. The Series B Debentures each accrue interest at 8.0% per annum and mature three years from the date of purchase. Each Series B Debenture is convertible at any time following the six month anniversary of the date of issuance of such Series B Debenture into shares of Telkonet common stock at a conversion price equal to $0.55 per share for each $10,000 principal amount plus interest of the Series B Debenture converted. In connection with the placement of the Series B Debentures, Telkonet issued non-detachable warrants granting holders the right to acquire 2,500,000 shares of our common stock at $1.00 per share.

As of March 26, 2003, Telkonet sold Series A and Series B Debentures having an aggregate principal value of $4,189,100, of which $824,000 was attributable to sales to the following Telkonet directors, officers and 5.0% shareholders, and members of their immediate family:

NAME	PURCHASE PRICE
Stephen L. Sadle	$ 65,000
David Grimes	$ 65,000
Hugo DeCesaris	$ 42,000 (1)

Ronald W. Pickett	$ 200,000
E. Barry Smith	$ 20,000
Howard E. Lubert	$ 100,000
Robert P. Crabb	$ 7,000
Warren V. Musser	$ 325,000 (2)

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(1) Includes Series A Debentures having an aggregate principal value of $20,000 and Series B Debentures having an aggregate principal value of $22,000 purchased by a members of Mr. DeCesaris' immediate family.

(2) Includes Series B Debentures having an aggregate principal value of $25,000 purchased by Mr. Musser's wife, and Series B Debentures having an aggregate principal value of $200,000 purchased by The Musser Foundation, of which Mr. Musser is the founder.

ARRANGEMENT WITH A DIRECTOR AND EXECUTIVE OFFICER

On January 29, 2002, we granted Susquehanna Development, LLC options to purchase 300,000 shares of our common stock at $1.00 per share as consideration for certain business services provided by Susquehanna Development. Robert P. Crabb, our corporate secretary, is the managing member of Susquehanna Development.

In January, 2003, we entered into an oral agreement with Warren V. Musser, Chairman of our Board of Directors, pursuant to which we agreed to pay Mr. Musser a commission equal to 8.0% of the aggregate value of Series B Debentures purchased by persons referred to Telkonet by Mr. Musser. Pursuant to this agreement, Mr. Musser received $8,000.

In January, 2003, we entered into an oral agreement with Howard Lubert, Telkonet's former Chief Executive Officer, pursuant to which we agreed to pay Mr. Lubert a commission equal to 8.0% of the aggregate value of Series B Debentures purchased by persons referred to Telkonet by Mr. Lubert. Pursuant to this agreement, Mr. Lubert received $12,000.

USE OF PROCEEDS

All net proceeds from the sale of our common stock will go to the selling stockholders selling common stock under this prospectus. We will not receive any proceeds from the sale of the common stock sold by the selling stockholders. The proceeds Telkonet receives from the exercise of warrants, the underlying shares of our common stock of which are included in this prospectus, will be used to expand sales and marketing efforts, support strategic partnership programs, build required infrastructure and fund working capital requirements.

SELLING STOCKHOLDERS

During the third quarter of 2001, we commenced an offering of up to $1,689,100 principal amount of Series A Debentures. The Series A Debentures each accrue interest at 8.0% per annum and mature three years from the date of purchase. Each Series A Debenture is convertible at any time following the six month anniversary of the date of issuance of such Series A Debenture into shares of Telkonet common stock at a conversion price equal to $0.50 per share for each $10,000 principal amount plus interest of the Series A Debenture converted. In connection with the placement of the Series A Debentures, Telkonet issued non-detachable warrants granting holders the right to acquire 1,689,100 share of our common stock at $1.00 per share. As of May 23, 2002, the Series A Debenture offering was fully subscribed.

During the fourth quarter of 2002, we commenced an offering of up to $2,500,000 principal amount of Series B Debentures. The Series B Debentures each accrue interest at 8.0% per annum and mature three years from the date of purchase. Each Series B Debenture is convertible at any time following the six month anniversary of the date of issuance of such Series B Debenture into shares of our common stock at a conversion price equal to $0.55 per share for each $10,000 principal amount plus interest of the Series B Debenture converted. In connection with the placement of the Series B Debentures, we also issued non-detachable warrants granting holders the right to acquire 2,500,000 shares of our common stock at $1.00 per share. As of February 14, 2003, the Series B Debenture offering was fully subscribed.

During the second quarter of 2003, we commenced an offering of up to $5,000,000 principal amount of Senior Notes. The Senior Notes each accrue interest at 8.0% per annum, mature three years from the date of purchase and are

secured by a first priority security interest in all of the intellectual property assets of Telkonet. In connection with the placement of the Senior Notes, we also issued non-detachable warrants granting holders the right to acquire 6,250,000 shares of our common stock at $1.00 per share. As of June 26, 2003, the Senior Note offering was fully subscribed.

The shares of our common stock covered by this prospectus include shares of common stock acquired by the selling stockholders pursuant to the conversion of the Series A and Series B Debentures (including outstanding principal and accrued interest) and shares of our common stock that have been issued or will be issued upon the exercise of warrants to purchase shares of our common stock issued in the Series A and Series B Debenture offerings and the Senior Note offering. The following table provides certain information regarding the selling stockholders' beneficial ownership of our common stock prior to and after the offering. Beneficial ownership is determined under the SEC's rules, and generally includes voting or investment power with respect to securities.

<TABLE>
<CAPTION>

SELLING STOCKHOLDER	NUMBER OF SHARES OWNED PRIOR TO THE OFFERING	NUMBER OF SHARES BEING OFFERED FOR SALE	NUMBER OF SHARES OWNED AFTER THE OFFERING (1)	PERCENTAGE OF CLASS
<S>	<C>	<C>	<C>	<C>
Cynthia S. Abshire	37,455	37,455	0	0%
Robert Abshire	16,027	16,027	0	0%
Michael G. and Maria Accattato	90,539	90,539	0	0%
F. Scott and Barbara Addis	57,455	57,455	0	0%
Steven Agnoff	68,013	68,013	0	0%
Burgess M. Allen, Jr.	43,914	43,914	0	0%
Henry Alperin	303,138	303,138	0	0%
Mark D. Anderson	10,055	10,055	0	0%
George Anthony	28,763	28,763	0	0%
Fred C. Applegate Trust	250,000	250,000	0	0%
Ozcan Ardan	16,194	16,194	0	0%
Wendel B. Ardrey	28,735	28,735	0	0%
Kerry Armbruster	144,227	144,227	0	0%
Tonya Armstrong	11,569	11,569	0	0%
Nancy P. Arnold	48,583	48,583	0	0%
Sonan L. Ashley	234,264	234,264	0	0%
Attkisson, Carter, and Akers, Incorporated	677,788	677,788	0	0%
Augusta Cardiology Clinic	182,958	182,958	0	0%
John W. Baker	125,000	125,000	0	0%
Burton Barmore	12,389	12,389	0	0%
Bryan W. Baughman	22,672	22,672	0	0%
Matthew K. Beckstead	211,476	211,476	0	0%
Rod K. Beckstead	53,105	53,105	0	0%
Berkin Business S.A.	125,000	125,000	0	0%
Valerie Biskey	155,368	155,368	0	0%
Horace Blalock	174,673	174,673	0	0%
A. Boardman Oil Company	28,743	28,743	0	0%
J. Dickey Boardman, Jr.	7,185	7,185	0	0%

SELLING STOCKHOLDER	NUMBER OF SHARES OWNED PRIOR TO THE OFFERING	NUMBER OF SHARES BEING OFFERED FOR SALE	NUMBER OF SHARES OWNED AFTER THE OFFERING	PERCENTAGE OF CLASS
Robert L. Bower	63,966	63,966	0	0%
Barbara Sue Bramlett	32,389	32,389	0	0%
Jackie Brooks	222,891	222,891	0	0%
Barry S. Bryant	70,337	70,337	0	0%
Carolyn H. Byrd	125,000	125,000	0	0%
Patsy D. Clayton	14,381	14,381	0	0%
Lynn Claytor	125,000	125,000	0	0%
Robert Clemmens	14,397	14,397	0	0%
Bryan Coats	14,371	14,371	0	0%
Kathy Coleman	70,994	70,994	0	0%
I.R. Collier	19,233	19,233	0	0%
Edward A. Corley	189,778	189,778	0	0%
William D. Corley	128,902	128,902	0	0%
James Cosper	972	972	0	0%
Robert P. and Kriss Crabb	20,109 (2)	20,109	0	0%
John R. Cralle	61,232	61,232	0	0%
Tony and Johanna Currin	37,231	37,231	0	0%
John Daily	15,817	15,817	0	0%
Charles Daniel	178,180	178,180	0	0%
Anthony DeCesaris, Jr.	63,350 (3)	63,350	0	0%
Joseph A. and Donna M. DeCesaris	44,778 (4)	44,778	0	0%
Amy Dickson	10,055	10,055	0	0%
Milton O. Dickson, Sr.	10,055	10,055	0	0%
Tommy Duncan	239,910	239,910	0	0%
Barry Dunn	169,108	169,108	0	0%
William A. Dunn, Jr.	211,887	211,887	0	0%
J. Martin Echols	355,475	355,475	0	0%
Robert Edmond	109,138	109,138	0	0%
Verda C. Elrod	10,077	10,077	0	0%
EPM AG	125,000	125,000	0	0%
EPM Holdings AG	125,000	125,000	0	0%
Paul Facchina, Jr.	15,837	15,837	0	0%
D. Greer Falls	15,885	15,885	0	0%
Dorth G. Falls	28,850	28,850	0	0%
Frank A. Farnesi	31,250	31,250	0	0%

SELLING STOCKHOLDER	OWNED PRIOR TO THE OFFERING	NUMBER OF SHARES BEING OFFERED FOR SALE	AFTER THE OFFERING	PERCENTAGE OF CLASS
Edward J. Farrell	312,500	312,500	0	0%
Robert J. Ferrara	125,930	125,930	0	0%
First Mirage, Inc.	125,000	125,000	0	0%
First Montauk Securities Corp.	50,000	50,000	0	0%
Patsy A. Fisher	45,029	45,029	0	0%
H.E. and Paula Fowler	64,357 (5)	64,357	0	0%
Joseph A. and Cecelia A. Fowler	64,357 (6)	64,357	0	0%
J. Gregory and Sherry L. Fowler	31,976 (7)	31,976	0	0%
Kurt Friemann	125,000	125,000	0	0%
Donna Michelle Godwin Trust	15,817	15,817	0	0%
David W. and Suzanne Grimes	207,109 (8)	207,109	0	0%
Donnie W. Guy	70,246	70,246	0	0%
Thomas M. Hall	315,298	315,298	0	0%
Richard A. Hansen	312,500	312,500	0	0%
Franklin D. Hart, Jr.	96,521	96,521	0	0%
The Hart Organization Corp.	62,500	62,500	0	0%
James A. Hendrickson	302,410	302,410	0	0%
Robert F. Heishman	60,450	60,450	0	0%
High Capital Funding, LLC	187,500	187,500	0	0%
James H. Hillis, Jr.	57,487	57,487	0	0%
Hitschler Enterprises, LLC	500,000	500,000	0	0%
Kevin J. Hoban	38,959	38,959	0	0%
Judith Hollington	45,817	45,817	0	0%
Larry Hollington	64,444	64,444	0	0%
A. Louis Hook, Jr.	32,389	32,389	0	0%
Kenneth S. Hudson	103,449	103,449	0	0%
Dale L. Hutchins	5,000	5,000	0	0%
Ronald Jacobson	14,491	14,491	0	0%
Faye S. Jennings	28,727	28,727	0	0%
Joseph L. and Karen L. Johnson, III	32,231	32,231	0	0%
David E. Jones	4,329	4,329	0	0%
Glen E. Jones	25,000	25,000	0	0%
J. Pope and Gail W. Jones	18,467	18,467	0	0%
John Pope Jones	7,478	7,478	0	0%
David Jordon	316,093	316,093	0	0%

SELLING STOCKHOLDER	NUMBER OF SHARES OWNED PRIOR TO THE OFFERING	NUMBER OF SHARES BEING OFFERED FOR SALE	NUMBER OF SHARES OWNED AFTER THE OFFERING	PERCENTAGE OF CLASS
Richard L. Keller	16,194	16,194	0	0%

James R. Kelley	60,872	60,872	0	0%
Nancy Kines	64,778	64,778	0	0%
Michael Kingoff	5,000	5,000	0	0%
Richard Knight, Sr.	14,405	14,405	0	0%
Richard L. Kunkle	21,572	21,572	0	0%
Langtry Trust Group	125,000	125,000	0	0%
P. David and Jennifer Leinwand	5,000	5,000	0	0%
Joanne Leonard	8,277	8,277	0	0%
Tom Leonard	73,097	73,097	0	0%
James T. Lewis	161,945	161,945	0	0%
Ronald and Brenda Boyette Lindquist	29,154	29,154	0	0%
Dianne H. Lollis	15,800	15,800	0	0%
Hoyt G. Louder	250,000	250,000	0	0%
Howard and Barbara Lubert	287,357 (9)	287,357	0	0%
Earl Marshall	57,671	57,671	0	0%
Phillip R. Mason	229,208	229,208	0	0%
Joseph H. May	22,893	22,893	0	0%
Alice McCoy	34,200	34,200	0	0%
J. Lavern McCullough	48,583	48,583	0	0%
Cynthia L. McDonald	171,319	171,319	0	0%
Daniel McGinnis	62,500	62,500	0	0%
M. Dixon McKay	339,098	339,098	0	0%
Charles McPherson	15,837	15,837	0	0%
Meadow Ventures	103,939	103,939	0	0%
Eugenia Medlock	197,713	197,713	0	0%
Claire Merica	15,817	15,817	0	0%
Jan O. and Janice M. Miller	15,846	15,846	0	0%
Lawrence W. and Crystal D. Moeller	32,178	32,178	0	0%
Robert A and Cathleen Parlett Moeller	38,614	38,614	0	0%
Maria Molinsky	31,250	31,250	0	0%
Louis Mulherin, Jr.	254,436	254,436	0	0%
Julian I. Murphy	28,743	28,743	0	0%
Hilary Musser	71,819 (10)	71,819	0	0%
Peter Musser, Jr.	824,555 (11)	824,555	0	0%

SELLING STOCKHOLDER	NUMBER OF SHARES OWNED PRIOR TO THE OFFERING	NUMBER OF SHARES BEING OFFERED FOR SALE	NUMBER OF SHARES OWNED AFTER THE OFFERING	PERCENTAGE OF CLASS
The Musser Foundation	60,004 (12)	60,004	0	0%
Eric Newquist	15,817	15,817	0	0%
Patrick L. O'Donnell	24,479	24,479	0	0%

John G. and Nancy Lee Page	71,105	71,105	0	0%
John Parlett, Jr.	28,727 (13)	28,727	0	0%
W. Timothy Parlett	5,000 (14)	5,000	0	0%
William Parlett	28,731 (15)	28,731	0	0%
Pasquale Patrizio	12,500	12,500	0	0%
Walter M. and Susan R. Patterson, III	28,763	28,763	0	0%
Selena Peregoy	15,817	15,817	0	0%
Brian K. Phelan	287,915	287,915	0	0%
Jana S. Pine	110,085	110,085	0	0%
Ted A. Poore	34,774	34,774	0	0%
Randall Redmond	14,395	14,395	0	0%
Kenneth J. Remington	48,583	48,583	0	0%
Gerry Rhodes	28,791	28,791	0	0%
Caroline T. Richardson	241,164	241,164	0	0%
Furman Terry Richardson	8,621	8,621	0	0%
Pamela K. Richardson	2,866	2,866	0	0%
Michael C. and Pamela Rogers	60,529	60,529	0	0%
Collin and Susan P. Royster	57,514	57,514	0	0%
Stephen L. and Barbara J. Sadle	207,109 (16)	207,109	0	0%
Dawn Saggus	48,583	48,583	0	0%
Clayton Reed Shop	41,938	41,938	0	0%
Kenneth D. Simpson	126,945	126,945	0	0%
Kimberly Sligh	97,076	97,076	0	0%
E. Barry and Donna Smith	1,107 (17)	1,107	0	0%
William A. Smith	64,778	64,778	0	0%
Scott Stolz	15,846	15,846	0	0%
H. Swain	86,947	86,947	0	0%
James J. and Diane J. Swiggard	1,091	1,091	0	0%
Ronald K. Taylor	40,000	40,000	0	0%
Thomas D. Thompson	84,011	84,011	0	0%
John W. Thurmound, III	28,727	28,727	0	0%
John and Robin Tinney	10,000	10,000	0	0%

SELLING STOCKHOLDER	NUMBER OF SHARES OWNED PRIOR TO THE OFFERING	NUMBER OF SHARES BEING OFFERED FOR SALE	NUMBER OF SHARES OWNED AFTER THE OFFERING	PERCENTAGE OF CLASS
Phoebe Tuten	14,363	14,363	0	0%
Hilton E. Vaughn, Sr.	64,778	64,778	0	0%
John R. Velky	281,678	281,678	0	0%
David Ventresca	126,770	126,770	0	0%
Gerald Ventresca	15,817	15,817	0	0%
John Ventresca	93,540	93,540	0	0%

Ventresca Enterprises	72,029	72,029	0	0%
Gina Ventresca Trust	15,817	15,817	0	0%
VFinance Investments, Inc.	35,000	35,000	0	0%
Geraldine N. Videtto	58,300	58,300	0	0%
WEC Partners LLC	125,000	125,000	0	0%
Pamela Weinbach	143,977	143,977	0	0%
Jimmy Wilcher	46,325	46,325	0	0%
Regina Wilcher	6,374	6,374	0	0%
Laurie Wiley	64,868	64,868	0	0%
Jack Williams	110,122	110,122	0	0%
David L. and Katherine W. Wilson	37,226	37,226	0	0%
George M. Wilson	8,621	8,621	0	0%
Ken Wilson	28,867	28,867	0	0%
Dr. R. Warner Wood	114,974	114,974	0	0%
I. Camille Woodruff	22,672	22,672	0	0%
Alan and Rose Zimmer	57,527	57,527	0	0%
Monica Zimmerman	28,735	28,735	0	0%

</TABLE>

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(1) Assumes full conversion of the Series A and Series B Debentures (including principal and interest), exercise of all warrants issued in the Series A Debenture, Series B Debenture and Senior Note offerings and the sale of these shares pursuant to this prospectus.
(2) Mr. Crabb is the corporate secretary and an employee of Telkonet.
(3) Mr. DeCesaris is an immediate family member of A. Hugo DeCesaris, a director of Telkonet.
(4) Mr. and Mrs. DeCesaris are immediate family members of A. Hugo DeCesaris, a director of Telkonet.
(5) Mr. and Mrs. Fowler are immediate family members of J. Gregory Fowler, the former Chief Executive Officer of Telkonet.
(6) Mr. and Mrs. Fowler are immediate family members of J. Gregory Fowler, the former Chief Executive Officer of Telkonet.
(7) Mr. Fowler is the former Chief Executive Officer of Telkonet. Mr. Fowler resigned as Chief Executive Officer effective December 12, 2002.
(8) Mr. Grimes is a director and co-founder of Telkonet.
(9) Mr. Lubert is the former Chief Executive Officer of Telkonet. Mr. Lubert resigned as Chief Executive Officer effective June 16, 2003.
(10 Ms. Musser is an immediate family member of Warren V. Musser, Chairman of the Board of Directors of Telkonet.
(11) Mr. Musser is an immediate family member of Warren V. Musser, Chairman of the Board of Directors of Telkonet.

(12) Mr. Musser, chairman of Telkonet's board of directors, is the founder of the Musser Foundation.
(13) Mr. Parlett is an immediate family member of Ronald W. Pickett, President, a director and co-founder of Telkonet.
(14) Mr. Parlett is an immediate family member of Ronald W. Pickett, President, a director and co-founder of Telkonet.
(15) Mr. Parlett is an immediate family member of Ronald W. Pickett, President, a director and co-founder of Telkonet.
(16) Mr. Sadle is the Chief Operating Officer, a director and co-founder of Telkonet.
(17) Mr. Smith is the Chief Financial Officer Telkonet.

SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with our financial statements and related notes included in this prospectus, the information contained in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," and other financial information appearing elsewhere in this prospectus.

We derived the following historical financial information from the unaudited consolidated financial statements of Telkonet for the six months ended June 30, 2003 and 2002 and the consolidated financial statements of Telkonet for the year ended December 31, 2002, 2001 and 2000 which have been audited by Russell Bedford Stefanou Mirchandani LLP. Russell Bedford Stefanou Mirchandani LLP's report on our financial statements contained explanatory paragraphs expressing substantial doubt about our ability to continue as a going concern.

The unaudited financial data as of and for the six months ended June 30, 2003 and 2002 include adjustments, all of which are normal recurring adjustments, which our management considers necessary for the fair presentation of our results for these unaudited periods. The results of operations for the six months ended June 30, 2003 are not necessarily indicative of the results that may be expected for the full year. Certain reclassifications have been made to conform this data to the current presentation.

<TABLE>
<CAPTION>

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(Amounts in thousands, except per share data)	FOR THE SIX MONTHS ENDED JUNE 30,		FOR THE YEARS ENDED DECEMBER 31,		
	2003	2002 (AS RESTATED)	2002	2001 (AS RESTATED)	2000
<S>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:					
Product revenue	$ --	$ --	$ --	$ --	$ --
Service Revenue	--	--	--	--	--
Total net revenue	--	--	--	--	--
Cost of products sold	--	--	--	--	--
Cost of services sold	--	--	--	--	--
Gross profit	--	--	--	--	--
Selling, general and administrative expenses	2,063	655	2,875	1,417	795
Management fees	--	--	--	--	--
Research and development expenses	598	602	280	121	119
Asset impairment charge	--	--	--	39	--
Interest income	--	--	--	--	--
Interest expense	799	218	626	141	16
Interest expense-others	--	--	--	--	--
Other income	--	--	(3)	(1)	--
Provision for income taxes	--	--	--	--	--
Minority interest share of losses (income)	--	--	--	--	--
Net (loss) income	$ (3,460)	$ (1,475)	$ (3,778)	$ (1,717)	$ (930)
Net (loss) income per common share-basic and diluted	$ (0.22)	$ (0.09)	$ (0.22)	$ (0.08)	$ (0.04)
Weighted average common shares outstanding-basic	15,775	17,245	17,120	21,974	20,891
Weighted average common shares outstanding-diluted					

</TABLE>

<TABLE>
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(Amounts in thousands)	JUNE 30,	DECEMBER 31,		
	2003	2002	2001 (AS RESTATED)	2000
BALANCE SHEET DATA:				
<S>	<C>	<C>	<C>	<C>
Cash and cash equivalents	$ 4,581	$ 19	$ 22	$ 10
Property and equipment, net	107	38	27	67
Goodwill and other intangibles, net	--	--	--	--
Total assets	5,430	295	236	82
Long-term debt and notes payable	6,453	863	126	--
Total debt	7,752	1,822	650	264

Minority interest	--	--	--	--
Total stockholders' equity	(2,322)	(1,527)	(414)	(182)

</TABLE>
<TABLE>
<CAPTION>

(Amounts in thousands)	FOR THE SIX MONTHS ENDED JUNE 30,		FOR THE YEARS ENDED DECEMBER 31,		
	2003	2002 (AS RESTATED)	2002	2001 (AS RESTATED)	2000
<S>	<C>	<C>	<C>	<C>	<C>
OTHER FINANCIAL DATA:					
Depreciation and amortization	$ 82	$ 71	$ 84	$ 31	$ 22
Net cash provided by (used in) operating activities	(2,420)	(842)	(2,070)	(1,349)	(660)
Net cash provided by (used in) investing activities	(29)	(19)	(18)	(5)	(89)
Net cash provided by financing activities	7,011	982	2,086	1,366	759
Capital expenditures	29	19	18	5	89

</TABLE>

Effective January 1, 2002, we adopted Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142). SFAS No. 142 requires that goodwill and certain intangibles no longer be amortized but instead tested for impairment at least annually.

The following table presents the impact of SFAS No. 142 on our summary financial data as indicated:

<TABLE>
<CAPTION>

(Amounts in thousands, except per share data)	FOR THE YEARS ENDED DECEMBER 31,	
	2001 (AS RESTATED)	2000
<S>	<C>	<C>
Net (loss) income:		
Net (loss) income as reported	$ (1,717)	$ (930)
Goodwill amortization	--	--
Equity method investment amortization	--	--
Adjusted net (loss) income	$ (1,717)	$ (930)
Basic and diluted (loss) income per share:		
Net (loss) income per share, basic and diluted, as reported	$ (0.08)	$ (0.04)
Goodwill amortization	--	--
Equity method investment amortization	--	--
Adjusted (loss) income per share, basic and diluted	$ (0.08)	$ (0.04)

</TABLE>

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE FOLLOWING DISCUSSION AND ANALYSIS OF OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS SHOULD BE READ IN CONJUNCTION WITH THE ACCOMPANYING FINANCIAL STATEMENTS AND RELATED NOTES THERETO.

SIX MONTHS ENDED JUNE 30, 2003 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2002

Telkonet is commencing its transition from a development stage company with its planned PlugPlus product suite launched during the second quarter of 2003. Telkonet may experience fluctuations in operating results in the future 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 Telkonet's products, our ability to acquire and deliver high quality products at a price lower than currently available to consumers, our ability to obtain additional financing in a timely manner and on terms favorable to Telkonet, our ability to successfully attract customers at a steady rate and maintain customer satisfaction, promotions, branding and sales programs, the amount and timing of operating costs and capital expenditures relating to the expansion of Telkonet's business, operations and infrastructure and the implementation of marketing programs, key agreements and strategic alliances, the number of products offered the number of returns experienced, 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 generating revenues from operations within the next three to six months with the acceleration of its sales and marketing efforts.

COSTS AND EXPENSES

From its inception on November 3, 1999 through June 30, 2003, Telkonet has incurred operating expenses of $8,340,971. These expenses were associated principally with compensation to employees, product development costs, professional services and costs associated with non-employee stock options.

Overall expenses increased for the three and six months ended June 30, 2003 over the comparable period in 2002 by $870,086 or 124% and $1,402,843 or 112%, respectively. These increases are principally due to an increase in payroll and related costs for development, sales and marketing and administrative functions, and external costs associated with product development, pre-production costs for the PlugPlus powerline products, ramp-up of sales and marketing activities and costs associated with non-employee stock options issued in connection with services rendered.

LIQUIDITY AND CAPITAL RESOURCES

To date Telkonet has not generated revenues to offset any development and organizational expenses. As a result of Telkonet's operating losses from its inception through June 30, 2003, Telkonet has generated a cash flow deficit of $6,520,252 from operating activities. Telkonet's current assets exceeded its current liabilities by $3,808,222 as of June 30, 2003. For the period from inception through June 30, 2003, Telkonet has accumulated losses of $9,918,391. Consequently, its operations are subject to all risks inherent in the establishment of a new business enterprise. See, RISK FACTORS, "Telkonet is emerging from its development stage and has no operating history on which to base an evaluation of its current business and future prospects."

While Telkonet has raised capital to meet its working capital and financing needs to date, additional financing may be required in order to meet Telkonet's current and projected cash flow deficits from operations and development during the next twelve months. Management believes Telkonet has sufficient 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.

During the second quarter of 2003, Telkonet completed its $5,000,000, principal amount 8.0% senior note offering, the proceeds of which were used to provide the necessary working capital. These notes provide for interest payable quarterly and include non-detachable warrants to purchase 125,000 shares of our common stock for each $100,000 of units sold. The warrants are exercisable for three years from issuance at an exercise price of $1.00 per share.

After June 30, 2003, the Series A Debenture holders demanded registration of shares of common stock sufficient to cover the conversion of their debentures and exercise of the attached warrants. Accordingly, Telkonet notified the Series B Debenture holders, Senior Noteholders and Warrant holders with piggy-back registration rights of the right to participate in the registration. Telkonet anticipates that additional cash resources will be generated as the result of exercise of the warrants. However, the amount of such funding cannot be determined until September 12, 2003, at which time the exercise price for the warrants is required to be paid to Telkonet.

Telkonet's independent certified public accountants have stated in their report included in Telkonet's December 31, 2002 Form 10-KSB, that Telkonet has incurred operating losses in the last two years, and that Telkonet is dependent upon management's ability to develop profitable operations. These factors, among others, may raise substantial doubt about Telkonet's ability to continue as a going concern. SEE, RISK FACTORS, "Telkonet's independent accountants have expressed substantial doubts about Telkonet'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 expensed in the period incurred. Total expenses for the three and six months ended June 30, 2003 decreased over the comparable period in 2002 by $48,882 or 15.0% and $4,773 or 1.0%, respectively. During the second quarter of 2002, non-recurring costs of approximately $49,000 related to

the purchase of prototype units, PCB board testing and UL and FCC testing were incurred.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses increased for the three and six months ended June 30, 2003 over the comparable periods in 2002 by $937,354 or 397.0% and $1,335,966 or 373.0%, respectively. These increases were related to one-time costs associated with the Senior Note and Series B Debenture offerings, including commissions, public relations and employee separation costs.

ACQUISITION OR DISPOSITION OF PLANT AND EQUIPMENT

During the six months ended June 30, 2003, Telkonet renewed certain operating equipment leases and added a $1.00 buy-out option at the end of the new 18 month lease term. Accordingly, the leases and the related debt obligations for approximately $52,000 were capitalized. Telkonet does not anticipate the sale of any significant property, plant or equipment or the acquisition of any significant property, plant or equipment during the next twelve months, other than leasehold improvements, computer equipment and peripherals used in Telkonet's day-to-day operations.

NUMBER OF EMPLOYEES

During the period ended June 30, 2003, Telkonet had 17 employees. In order for Telkonet to attract and retain quality personnel, Telkonet anticipates it will continue to offer competitive salaries to current and future employees. We anticipate incurring additional costs for personnel in connection with future expansion efforts. This anticipated increase in personnel is dependent upon Telkonet generating revenues and obtaining sources of financing. There can be no assurance Telkonet 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 is not aware of any trends or uncertainties that have had or are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. 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. SEE, RISK FACTORS beginning on p. 7 of this propsectus. Investors should carefully consider all such risk factors before making an investment in Telkonet's common stock.

FISCAL YEAR ENDED DECEMBER 31, 2002

PLAN OF OPERATION

We are still in the development stage and have yet to generate revenues from operations. We 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 requiring high-speed Internet access utilizing our products, our ability to acquire and deliver high quality products at a price lower than currently available to consumers, our ability to obtain additional financing in a timely manner and on terms favorable to us, our ability to successfully attract customers at a steady rate and maintain customer satisfaction, promotions, branding and sales programs, the amount and timing of operating costs and capital expenditures relating to the expansion of our business, operations and infrastructure and the implementation of marketing programs, key agreements and strategic alliances, the number of products offered by us, the number of returns experienced by us, and general economic conditions specific to the Internet, power-line communications, and the communications industry.

REVENUES

Telkonet is transitioning from a development stage company to that of an active growth and acquisition stage company. Initial hospitality market revenues are projected to commence in the second quarter 2003 primarily driven by the recent Strategic Alliance Agreement with Choice Hotels International pursuant to which Telkonet became a Choice Hotels-endorsed vendor offering the PlugPlusInternet product suite to Choice Hotels' U.S. franchisees. SEE, RISK FACTORS, "The powerline communications industry is intensely competitive and rapidly evolving."

COSTS AND EXPENSES

From our inception on November 3, 1999 through December 31, 2002, we have not generated any revenues. We have incurred total costs and expenses of $6,458,676 during this period. These expenses were associated principally with compensation to employees, product development costs, amortization of debt discount costs related to our convertible debentures, and issuance of equity-based compensation to non-employees in exchange for consulting services and financing.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2002, we had a deficiency in working capital of $894,403. To date we have no operating revenues, have incurred significant expenses, and have sustained losses from operating activities. As a result of our operating losses from our inception through December 31, 2002, we generated a cash flow deficit of $4,100,225 from operating activities. Cash flows used in investing activities were $112,502 during the period November 3, 1999 through December 31, 2002. We met our cash requirements during this period through the private placement of $1,751,224 of our common stock, loan proceeds (net of repayments) of $440,330 from banks and shareholders, and $2,040,000 proceeds (net of financing fess) from issuance of convertible debentures.

While we have raised capital to meet our working capital and financing needs in the past, additional financing is required in order to meet our current and projected cash flow deficits from operations and development. Such financing may be upon terms that are dilutive or potentially dilutive to our shareholders. We are presently seeking financing in the form of debt or equity in order to provide the necessary working capital. We currently have no commitments for financing. There can be no assurances that we will be successful in raising the funds required.

By adjusting its operations and development to the level of capitalization, management believes it has sufficient 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 affect on our business, results of operations, liquidity and financial condition.

The independent auditors report on our December 31, 2002 financial statements included in this prospectus states that our recurring losses raise substantial doubt about our 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 expensed in the period incurred. Total expenditures on research and product development for the period November 3, 1999 (date of inception) through December 31, 2002 were $520,278. We anticipate continuing to incur approximately $500,000 in research and development expenditures in connection with the development of Telkonet PlugPlusInternet product suite the Telkonet PlugPlusInternet Gateway and the Telkonet PlugPlusInternet Modem.

These projected expenditures are dependent upon our generating revenues and obtaining sources of financing in excess of our existing capital resources. There is no guarantee that we will be successful in raising the funds required or generating revenues sufficient to fund the projected costs of research and development during the next twelve months.

ACQUISITION OR DISPOSITION OF PLANT AND EQUIPMENT

We do not anticipate the sale of any significant property, plant or equipment during the next twelve months, other than computer equipment and peripherals used in the day-to-day operations. We believe we have sufficient resources available to meet these acquisition needs.

NUMBER OF EMPLOYEES

As of March 26, 2003, we had 14 full time employees. In order for us to attract and retain quality personnel, we anticipate that we will continue to offer competitive salaries to current and future employees. We anticipate increasing our employment base to meet the needs outlined in the business plan.

As we continue to expand, we will incur additional costs for personnel. This projected increase in personnel is dependent upon us generating revenues and obtaining sources of financing in excess of our existing capital resources. There can be no assurance that we 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 is not aware of any trends or uncertainties that have had or are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. Telkonet has sought to identify what it believes to be the most significant risks to our 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 our stock. SEE, RISK FACTORS, beginning of p. 7 of this prospectus.

FISCAL YEAR ENDED DECEMBER 31, 2001

PLAN OF OPERATION

Telkonet is still in the development stage and is yet to earn revenues from operations. We 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 our products, our ability to acquire and deliver high quality products at a price lower than currently available to consumers, our ability to obtain additional financing in a timely manner and on terms favorable to us, our ability to successfully attract customers at a steady rate and maintain customer satisfaction, our promotions, branding and sales programs, the amount and timing of operating costs and capital expenditures relating to the expansion of our business, operations and infrastructure and the implementation of marketing programs, key agreements and strategic alliances, the number of products offered by us, the number of returns experienced by us, and general economic conditions specific to the Internet, power-line communications, and the communications industry.

REVENUES

We have generated no revenues from operations from our inception. We believe we will begin earning revenues from operations within the next twelve months as we transition from a development stage company to that of an active growth and acquisition stage company.

On October 3, 2000 we entered into a Sales/Marketing Agreement with Medical Advisory Systems, Inc. (AMEX: DOC) that provides for Medical Advisory Systems to perform international business development, marketing (including demographic analysis), and sales/support services for our products and services through an international network of call centers owned by CORIS Group International of Paris, France. Through its agreement with CORIS, Medical Advisory Systems may market our power-line technology in up to 38 countries located on six continents. This geographic focus would include all the former Soviet Republics in Eastern Europe where the need for basic telephony exists for most rural citizens. Also, Medical Advisory Systems, through CORIS, would provide legal, business, regulatory and technical consulting for countries targeted by Telkonet where CORIS is positioned. CORIS would make introductions with other potential partners for Telkonet for the purpose of increasing the scope and deployment of its power-line technology. Telkonet would reimburse CORIS for all costs associated with pursuing the agreed upon services plus an administrative fee for sales contracts that are successfully completed on behalf of Telkonet.

PRIVATE PLACEMENTS 2001

In June 2001, Telkonet commenced a private placement offering of investment units consisting of one share of our common stock valued at $0.50, and one warrant to purchase 0.5 shares of our common stock at any time on or before the date which occurs three years from the date of issuance of the warrant at an exercise price of $1.00 per share. The offering was concluded on June 30, 2001. In August of 2001, Telkonet commenced a private placement offering of convertible debentures. The debentures each accrue interest at 8% per annum and mature three years from the date of purchase. The debentures may be converted to shares of our common stock at any time after the date which occurs six months following the date of issuance by the holder at a price of $0.50 per share. In connection with the placement of the debenture, Telkonet issued non-detachable warrants granting holders the right to acquire 1,689,000 shares of our common stock at $1.00 per share. We paid Attkisson, Carter and Akers, Incorporated, as our placement agent, a fee consisting of: (a) a retainer of $25,000 payable from the first funds received, (b) a commission equal to 8.0% of the selling price for each investment unit, (c) an investment banking fee of 2.0% of the selling price of each investment unit, and (d) warrants for the

purchase of shares of our common stock in a number equal to 20.0% multiplied by the aggregate selling price for each unit sold, with an exercise price of $0.525 per share.

COSTS AND EXPENSES

From its inception on November 3, 1999 through December 31, 2001, Telkonet has not generated any revenues. We have incurred expenses of $2,680,188 (as restated)during this period. These expenses were associated principally with compensation to employees, product development costs and professional services.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2001, Telkonet had a deficiency in working capital of $502,356 (as restated). As a result of our operating losses from our inception through December 31, 2001, Telkonet generated a cash flow deficit of $2,069,216 (as restated) from operating activities. Cash flows used in investing activities was $54,950 during the period November 3, 1999 through December 31, 2001. Telkonet met its cash requirements during this period through the private placement of $818,000, net of costs of convertible debentures, the sale of our common stock of $920,551, net of costs and bank loan proceeds of $400,000.

While Telkonet has raised capital to meet its working capital and financing needs in the past, additional financing is required in order to meet our current and projected cash flow deficits from operations and development. Telkonet is seeking financing in the form of equity in order to provide the necessary working capital. Telkonet currently has no commitments for financing. There are no assurances Telkonet will be successful in raising the funds required.

Telkonet's independent certified public accountants have stated in their report included in this prospectus, that Telkonet has incurred operating loss losses from its inception, and that Telkonet is dependent upon management's ability to develop profitable operations. These factors among others, may raise substantial doubt about Telkonet'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 period November 3, 1999 (date of inception) through December 31, 2001 were approximately $279,115. The current generation of the Telkonet PlugPlusInternet product suite delivers data at speeds in excess of 7 Mega bits per second (Mbps), with burst speeds of 12.6 Mbps. The Telkonet PlugPlusInternet Gateway provides the connection to the broadband connection (DSL, TL, Satellite, Cable Modem) and the Telkonet PlugPlusInternet Terminal connects to a user device. Many PCs, each equipped with one Telkonet PlugPlusInternet Terminal, can communicate amongst themselves and can share a single expensive broadband resource via the single Telkonet PlugPlusInternet Gateway.

NUMBER OF EMPLOYEES

As of March 5, 2002, Telkonet had five full time employees. In order for Telkonet to attract and retain quality personnel, Telkonet anticipates it will continue to offer competitive salaries to current and future employees. Telkonet anticipates increasing its employment base to meet the needs outlined in the business plan.

As Telkonet continues to expand, Telkonet will incur additional costs for personnel. This projected increase in personnel is dependent upon Telkonet generating revenues and obtaining sources of financing in excess of our existing capital resources. There can be no assurance that Telkonet 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 is not aware of any trends or uncertainties that have had or are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. 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 Telkonet's stock. SEE, RISK FACTORS, beginning of p. 7 of this prospectus.

RECENT ACCOUNTING PRONOUNCEMENTS

In March 2000, the Financial Accounting Standards Board (FASB) issued interpretation No. 44 ("FIN 44"), "Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No. 25". FIN 44 clarifies the application of APB No. 25 for (a) the definition of employee for purposes of applying APB No. 25, (b) the criteria for determining whether a plan qualifies as a noncompensatory plan, (c) the accounting consequences of various modifications to previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. FIN 44 is effective July 2, 2000 but certain conclusions cover specific events that occur after either December 15, 1998 or January 12, 2000. The adoption of FIN 44 did not have an affect on Telkonet's financial statements but may impact the accounting for grants or awards in future periods.

In July 2001, FASB issued Statement of Financial Accounting Standards No. 141, Business Combinations (FAS 141), and FAS 142, Goodwill and Other Intangible Assets (FAS 142). FAS 141 addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. FAS 142 addresses the initial recognition and measurement of intangible assets acquired outside of a business combination, whether acquired individually or with a group of other assets, and the accounting and reporting for goodwill and other intangibles subsequent to their acquisition. These standards require all future business combinations to be accounted for using the purchase method of accounting. Goodwill will no longer be amortized but instead will be subject to impairment tests at least annually. Telkonet is required to adopt FAS 141 and FAS 142 on a prospective basis as of January 1, 2002; however, certain provisions of these new standards may also apply to any acquisitions concluded subsequent to June 30, 2001. As a result of implementing these new standards, Telkonet will discontinue the amortization of goodwill as of December 31, 2001. Telkonet does not believe that the adoption of FAS 141 or 142 will have a material impact on its consolidated financial statements.

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

In July 2001, FASB issued Statement of Financial Accounting Standards No. 141, "Business Combinations" (SFAS No. 141), and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142). The FASB also issued Statement of Financial Accounting Standards No. 143, "Accounting for Obligations Associated with the Retirement of Long-Lived Assets" (SFAS No. 143), and Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144) in August and October 2001, respectively.

SFAS No. 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interest method. The adoption of SFAS No. 141 had no material impact on our consolidated financial statements.

Effective January 1, 2002, we adopted SFAS No. 142. Under the new rules, we will no longer amortize goodwill and other intangible assets with indefinite lives, but such assets will be subject to periodic testing for impairment. On an annual basis, and when there is reason to suspect that their values have been diminished or impaired, these assets must be tested for impairment, and write-downs to be included in results from operations may be necessary. SFAS No. 142 also requires us to complete a transitional goodwill impairment test six months from the date of adoption.

Any goodwill impairment loss recognized as a result of the transitional goodwill impairment test will be recorded as a cumulative effect of a change in accounting principle no later than the end of fiscal year 2002. The adoption of SFAS No. 142 had no material impact on our consolidated financial statements.

SFAS No. 143 establishes accounting standards for the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. It also provides accounting guidance for legal obligations associated with the retirement of tangible long-lived assets. SFAS No. 143 is effective in fiscal years beginning after June 15, 2002, with early adoption permitted. We expect that the provisions of SFAS No. 143 will not have a material impact on our consolidated results of operations and financial position upon adoption. We plan to adopt SFAS No. 143 effective January 1, 2003.

SFAS No. 144 establishes a single accounting model for the impairment or disposal of long-lived assets, including discontinued operations. SFAS No. 144 superseded Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (SFAS No. 121), and APB Opinion No. 30, "Reporting the Results of Operations - - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". We adopted SFAS No. 144 effective January 1, 2002. The adoption of SFAS No. 144 had no material impact on our consolidated financial statements.

In April 2002, FASB issued Statement No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This Statement rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt", and an amendment of that Statement, FASB Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements" and FASB Statement No. 44, "Accounting for Intangible Assets of Motor Carriers". This Statement amends FASB Statement No. 13, "Accounting for Leases", to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. We do not expect the adoption to have a material impact on our financial position or results of operations.

In June 2002, FASB issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. We do not expect the adoption to have a material impact to our financial position or results of operations.

In October 2002, FASB issued Statement No. 147, "Acquisitions of Certain Financial Institutions-an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9", which removes acquisitions of financial institutions from the scope of both Statement 72 and Interpretation 9 and requires that those transactions be accounted for in accordance with Statements No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets. In addition, this Statement amends SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, to include in its scope long-term customer-relationship intangible assets of financial institutions such as depositor- and borrower-relationship intangible assets and credit cardholder intangible assets. The requirements relating to acquisitions of financial institutions is effective for acquisitions for which the date of acquisition is on or after October 1, 2002. The provisions related to accounting for the impairment or disposal of certain long-term customer-relationship intangible assets are effective on October 1, 2002. The adoption of this Statement did not have a material impact on our financial position or results of operations as we have not engaged in either of these activities.

In December 2002, FASB issued Statement No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure", which amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 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 transition guidance and annual disclosure provisions of Statement 148 are effective for fiscal years ending after December 15, 2002, with earlier application permitted in certain circumstances. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The adoption of this statement did not have a material impact on our financial position or results of operations as we have not elected to change to the fair value based method of accounting for stock-based employee compensation.

In January 2003, 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. We do not expect the adoption to have a material impact on our financial position or results of operations.

PLAN OF DISTRIBUTION

The selling stockholders, or their pledgees, donees, transferees or other successors in interest may, from time to time, sell all or a portion of the shares at fixed prices that may be changed, at market prices prevailing at the time of sale, at prices related to such market prices or at negotiated prices. The selling stockholders may offer their shares at various times in one or more of the following transactions:

- on any national securities exchange, or other market on which our common stock may be listed at the time of sale;
- in the over-the-counter market;
- through block trades in which the broker or dealer so engaged will attempt to sell the shares as agent, but may position and resell a portion of the block as principal to facilitate the transaction;
- through purchases by a broker or dealer as principal and resale by such broker or dealer for its account pursuant to this prospectus;
- in ordinary brokerage transactions and transactions in which the broker solicits purchasers;
- through options, swaps or derivatives;
- in privately negotiated transactions;
- in transactions to cover short sales; and
- through a combination of any such methods of sale.

In addition, the selling stockholders may also sell their shares that qualify for sale pursuant to Rule 144 under the Securities Act of 1933 under the terms of such rule rather than pursuant to this prospectus.

The selling stockholders may sell their shares directly to purchasers or may use brokers, dealers, underwriters or agents to sell their shares upon terms and conditions that will be described in the applicable prospectus supplement. In effecting sales, brokers and dealers engaged by the selling stockholders may arrange for other brokers or dealers to participate. Brokers or dealers may receive commissions, discounts or concessions from a selling stockholder or, if any such broker-dealer acts as agent for the purchaser of such shares, from such purchaser in amounts to be negotiated. Such compensation may, but is not expected to, exceed that which is customary for the types of transactions involved. Broker-dealers may agree with a selling stockholder to sell a specified number of such shares at a stipulated price per share, and, to the extent such broker-dealer is unable to do so acting as agent for a selling stockholder, to purchase as principal any unsold shares at the price required to fulfill the broker-dealer commitment to the selling stockholders. Broker-dealers who acquire shares as principal may thereafter resell such shares from time to time in transactions, which may involve block transactions and sales to and through other broker-dealers, including transactions of the nature described above, in the over-the-counter market or otherwise at prices and on terms then prevailing at the time of sale, at prices then related to the then-current market price or in negotiated transactions. In connection with such resales, broker-dealers may pay to or receive from the purchasers of such shares commissions as described above.

The selling stockholders and any broker-dealers or agents that participate with the selling stockholders in sales of the shares may be deemed to be "underwriters" within the meaning of the Securities Act of 1933 in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act of 1933.

From time to time the selling stockholders may be engaged in short sales, short sales against the box, puts and calls and other hedging

transactions in our securities, to the extent permitted by applicable law and exchange regulations, and may sell and deliver the shares in connection with such transactions or in settlement of securities loans. These transactions may be entered into with broker-dealers or other financial institutions. In addition, from time to time, a selling stockholder may pledge its shares pursuant to the margin provisions of its customer agreements with its broker-dealer. Upon delivery of the shares or a default by a selling stockholder, the broker-dealer or financial institution may offer and sell the pledged shares from time to time.

We are required to pay all of the fees and expenses incident to the registration of our common stock hereunder. Additionally, we have agreed to indemnify certain selling stockholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act of 1933.

DESCRIPTION OF OUR COMMON STOCK

Our common stock is quoted on the OTC Bulletin Board under the symbol "TLKO.OB." The holders of our common stock are entitled to receive dividends when, as and if declared by the board of directors and paid by us out of funds legally available therefore and to share ratably in our assets available for distribution after the payment of all prior claims in the event we liquidate, dissolve or wind-up our business, and after payment to any holders of any of our preferred stock. Holders of our common stock are entitled to one vote per share on all matters requiring a vote of stockholders. Our common stock does not have cumulative voting rights. The rights of the holders of our common stock will be subject to any preferential rights of any class or series of our preferred stock that we might issue. As of the date of this prospectus, we had no shares of preferred stock issued or outstanding. Holders of our common stock have no preemptive or other subscription rights, and there are no conversion, redemption or sinking fund provisions applicable thereto.

EXPERTS

The consolidated financial statements of Telkonet included in this prospectus from our Form 10-KSB for the years ended December 31, 2002 and 2001 have been audited by Russell Bedford Stefanou Mirchandani LLP, independent certified public accountants, and have been included herein in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

LEGAL MATTERS

An opinion has been rendered by the law firm of Baker & Hostetler LLP to the effect that the shares of our common stock offered by the selling stockholders under this prospectus, when paid for and issued in accordance with the Series A and Series B Debentures and the warrants, are legally issued, fully paid and non-assessable.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934 pursuant to which we file reports and other information with the SEC. These reports and other information may be inspected and copied at public reference facilities maintained by the SEC at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 and at the SEC's Regional Office at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies may be obtained at prescribed rates from the Public Reference Section of the SEC at its principal office in Washington, D.C. The SEC also maintains an internet web site that contains periodic and other reports, proxy and information statements and other information regarding registrants, including us, that file electronically with the SEC. The address of the SEC's web site is http://www.sec.gov.

All information concerning us contained in this prospectus has been furnished by us. No person is authorized to make any representation with respect to the matters described in this prospectus other than those contained in this prospectus and if given or made must not be relied upon as having been authorized by us or any other person.

We have not authorized anyone to give any information or make any representation about our company that is different from, or in addition to, that contained in this prospectus. Therefore, if anyone gives you such information, you should not rely on it. This prospectus is dated August 28, 2003. You should not assume that the information contained in this document is accurate as of any other date unless the information specifically indicates that another date applies.

INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

Section 16-10a-902 of the Utah Business Corporation Act enables

Telkonet to indemnify an individual made a party to a proceeding because he is or was a director of Telkonet if (i) his conduct was in good faith, (ii) he reasonably believed his conduct was in, or not opposed to, Telkonet's best interests, and (iii) in the case of a criminal proceeding, he had no reasonable cause to believe his conduct was unlawful. Notwithstanding the foregoing, Telkonet may not indemnify a director (i) in connection with a proceeding by or in the right of the corporation in which the director was adjudged liable to Telkonet, or (ii) in connection with any other proceeding charging that the director derived an improper personal benefit, whether or not involving action in his official capacity, in which proceeding he was adjudged liable on the basis that he derived an improper personal benefit. The Utah Business Corporation Act also permits Telkonet to purchase insurance on behalf of any person that is or was a director, officer, employee, fiduciary or agent of Telkonet. Telkonet's amended and restated articles of incorporation provide, in effect, for the elimination of the personal liability of Telkonet's directors and for the indemnification by Telkonet of each director and officer of Telkonet, in each case, to the fullest extent permitted by applicable law. Telkonet purchases and maintains insurance on behalf of any person who is or was a director, officer, employee, fiduciary or agent of Telkonet against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not Telkonet would have the power or the obligation to indemnify him or her against such liability under the provisions of Telkonet's amended and restated articles of incorporation.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling the registrant pursuant to the foregoing provisions, the registrant has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is therefore unenforceable.

FINANCIAL STATEMENTS

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

<CAPTION>

	(Unaudited) June 30, 2003	(Audited) December 31, 2002
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 4,580,779	$ 18,827
Inventory, net	449,487	39,790
Other receivable	--	1,550
Prepaid expenses and deposits	75,785	4,625
Total current assets	5,106,051	64,792
PROPERTY AND EQUIPMENT:		
Furniture and equipment, at cost	161,462	73,215
Less: accumulated depreciation	54,628	35,252
	106,833	37,963
OTHER ASSETS		
Financing costs, less accumulated amortization of $164,449 and $101,692 at June 30, 2003 and December 31, 2002, respectively	217,060	192,600
	$ 5,429,945	$ 295,355
LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 981,038	$ 518,865
Notes payable and capital leases	309,291	310,000
Due to shareholders	7,500	130,330
Total current liabilities	1,297,829	959,195
Convertible debentures, net of discounts - including related parties (Note B)	1,453,720	862,682
Senior notes payable (Note C)	5,000,000	--
COMMITMENTS AND CONTINGENCIES	--	--
DEFICIENCY IN STOCKHOLDERS' EQUITY		
Preferred stock, par value $.001 per share; 15,000,000 shares authorized; none issued at June 30, 2003 and December 31, 2002 (Note E)	--	--
Common stock, par value $.001 per share; 100,000,000 shares authorized; 15,977,795 and 15,721,131 shares issued and outstanding at June 30, 2003 and December 31, 2002, respectively (Note E)	15,978	15,721
Additional paid-in-capital	7,580,809	4,916,433
Accumulated deficit during development stage	(9,918,391)	(6,458,676)
Deficiency in stockholders' equity	(2,321,604)	(1,526,522)
	$ 5,429,945	$ 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>

	For The Three Months Ended June 30,		For The Six Months Ended June 30,		For the period from November 3, 1999 (date of inception) through
	2003	2002 (As Restated - Note F)	2003	2002 (As Restated - Note F)	June 30, 2003 (As Restated - Note F)
<S>	<C>	<C>	<C>	<C>	<C>
Costs and Expenses:					
Research and Development	$ 282,821	$ 331,704	$ 597,550	$ 602,283	$ 3,010,021
Selling, General and Administrative	1,173,675	236,321	1,693,797	357,831	4,360,918
Non-Employee Stock Options (Note D)	67,884	113,115	286,904	226,230	750,954
Depreciation and Amortization	48,589	21,743	82,133	71,196	219,077
Total Operating Expense	1,572,969	702,883	2,660,384	1,257,540	(8,340,971)
Loss from Operations	(1,572,969)	(702,883)	(2,660,384)	(1,257,540)	(8,340,971)
Other Income (Expense)	--	--	--	4,579	
Interest Income (Expense)	(446,003)	(126,148)	(799,332)	(217,594)	(1,582,000)
Provision for Income Tax	--	--	--	--	
	(446,003)	(126,148)	(799,332)	(217,594)	(1,577,421)
Net Loss	$ (2,018,972)	$ (829,031)	$ (3,459,715)	$ (1,475,134)	$ (9,918,391)
Loss per common share (basic and assuming dilution)	$ (0.13)	$ (0.06)	$ (0.22)	$ (0.09)	$ (0.62)
Weighted average common shares outstanding	15,827,613	14,154,678	15,774,666	17,244,540	15,998,108

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 JUNE 30, 2003

<CAPTION>

	Preferred Stock		Common Stock		Additional Paid in	Common Stock	Deficit Accumulated During Development	
	Preferred Shares	Amount	Common Shares	Amount	Capital	Subscription	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

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TELKONET, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDERS' EQUITY
FOR THE PERIOD NOVEMBER 3, 1999 (DATE OF INCEPTION) TO JUNE 30, 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>
Balance Forward	--	$ --	21,815,371	$21,815	$ 760,316	$ --	$ (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 E)	--	--	--	--	837,874	--	--	837,874
Value of warrants attached to convertible debentures (Note E)	--	--	--	--	77,254	--	--	77,254
Net loss	--	--	--	--	--	--	(1,716,495)	(1,716,495)
BALANCE AT DECEMBER 31, 2001 (AS RESTATED- NOTE L)	--	$ --	22,115,371	$22,115	$2,244,033	$ --	$(2,680,188)	$ (414,040)

See accompanying footnotes to the unaudited condensed consolidated financial information

</TABLE>

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TELKONET, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDERS' EQUITY
FOR THE PERIOD NOVEMBER 3, 1999 (DATE OF INCEPTION) TO JUNE 30, 2003

<CAPTION>

	Preferred Stock Shares	Preferred Stock Amount	Common Stock 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>
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	--	--	47,905
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	--	--	77,909
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	--	--	233,002
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 (Note G)	--	--	--	--	452,459	--	--	452,459
Stock based compensation for the issuance of warrants to consultants in exchange for services (Note G)	--	--	--	--	170,330	--	--	170,330
Stock based compensation for the issuance of warrants to consultants in exchange for financing costs (Note G)	--	--	--	--	86,474	--	--	86,474
Beneficial conversion feature of convertible debentures (Note E)	--	--	--	--	840,877	--	--	840,877
Value of warrants attached to convertible debentures (Note E)	--	--	--	--	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)

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 JUNE 30, 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>
BALANCE FORWARD	--	$ --	15,721,131	$ 15,721	$ 4,916,433	$ --	$(6,458,676)	$(1,526,522)
Shares issued in April 2003, in exchange for convertible debentures at $.50 per share (Note E)	--	--	40,000	40	19,960	--	--	20,000
Shares issued in April 2003, in exchange for services @								

$1.54 per share (Note E)	49,998	50	76,695	76,745				
Shares issued in June 2003, for employee options exercised at $1.00 per share (Note E)	--	--	83,333	83	83,250	--	--	83,333
Shares issued in June 2003, for non-employee options exercised at $1.00 per share (Note E)	--	--	83,333	83	83,250	--	--	83,333
Stock based compensation for the issuance of stock options to consultants in exchange for services (Note D)	--	--	--	--	286,904	--	--	286,904
Stock based compensation for the issuance of warrants in exchange for financing costs (Note D)	--	--	--	--	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	--	--	--	--	--	--	(3,459,715)	(3,459,711)
BALANCE AT JUNE 30, 2003	--	$ --	15,977,795	$ 15,978	$ 7,580,809	$ --	$(9,918,391)	$(2,321,604)

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>

	Six Months Ended June 30,		For the period from November 3, 1999 (date of inception) through June 30, 2003
	2003	2002 (As Restated - Note F)	(As Re-stated - Note F)
<S>	<C>	<C>	<C>
INCREASE (DECREASE) IN CASH AND EQUIVALENTS			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss from development stage operations	$ (3,459,715)	$ (1,475,134)	$ (9,918,891)
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	538,425	183,926	1,071,847
Amortization of debt discount - value of warrants attached to convertible debentures	72,614	16,452	120,556
Stock options and warrants issued in exchange for services rendered	286,904	--	1,242,766
Common stock issued in exchange for services rendered	76,745	138,722	227,047
Common stock issued in exchange for conversion of interest	--	21,793	21,793
Impairment of property and equipment	--	--	39,287
Depreciation and amortization of financing costs	82,133	71,196	219,077

Increase (decrease) in:			
Other receivable	1,550	--	--
Inventory	(409,696)	--	(449,487)
Prepaid expenses and deposits	(71,160)	--	(75,785)
Accounts payable and accrued expenses, net	462,173	201,051	981,038
NET CASH USED IN OPERATING ACTIVITIES	(2,420,027)	(841,994)	(6,520,252)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures, net of disposals	(28,957)	(19,499)	(141,459)
NET CASH USED IN INVESTING ACTIVITIES	(28,957)	(19,499)	(141,459)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from sale of common stock, net of costs	--	99,702	1,751,224
Proceeds from (repayments of) stockholder advances	(122,830)	--	7,500
Proceeds from issuance of convertible debentures, net of costs	2,027,100	715,407	4,067,100
Proceeds from issuance of senior notes, net of costs	5,000,000	--	5,000,000
Proceeds from exercise of stock options	166,666	166,666	
Repayments of loans	(60,000)	166,500	(150,000)
Proceeds from loans	--	--	400,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	7,010,935	981,609	11,242,490
NET (DECREASE) INCREASE IN CASH AND EQUIVALENTS	4,561,952	120,116	4,580,779
Cash and cash equivalents at the beginning of the period	18,827	21,885	--
Cash and cash equivalents at the end of the period	$ 4,580,779	$ 142,001	$ 4,580,779

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>

	Six Months Ended June 30,		For the period from November 3, 1999 (date of inception) through June 30, 2003
	2003	2002	(As Restated - Note F)
	(As Re-stated - Note F)		
<S>	<C>	<C>	<C>
Supplemental Disclosures of Cash Flow Information			
Cash paid during the period for interest	$ 10,423	$ 17,216	$ 35,388
Income taxes paid	--	--	--
Non-cash transactions:	--	--	--
Issuance of stock options and warrants in exchange for services rendered	286,904	--	1,242,766

Issuance of stock warrants in exchange for financing costs	87,217	--	173,691
Common stock issued for services rendered	76,745	138,722	227,047
Common stock issued in exchange for interest	--	21,793	21,793
Common stock issued in exchange for conversion of convertible debenture	20,000	--	20,000
Notes payable issued in connection with capital lease	59,291	--	59,291
Beneficial conversion feature on convertible debentures	1,761,675	693,018	3,440,426
Value of warrants attached to convertible debentures	265,425	56,082	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
JUNE 30, 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 six-month period ended June 30, 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.

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. 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.

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 change 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

NOTE A - SUMMARY OF ACCOUNTING POLICIES
- ----------

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

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 June 30, 2003.

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 D):

<TABLE>
<CAPTION>

	For the three months ended June 30,		For the six months ended June 30,	
	2003	2002	2003	2002
<S>	<C>	<C>	<C>	<C>
Net loss - as reported	$(2,018,972)	$ (829,031)	$(3,459,715)	$(1,475,134)
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)	(1,129,199)	(52,708)	(1,291,134)	(105,416)
Net loss - Pro Forma	$(3,148,171)	$ (881,739)	$(4,750,849)	$(1,580,550)
Net loss attributable to common stockholders - Pro Forma	$(3,148,171)	$ (881,739)	$(4,750,849)	$(1,580,550)
Basic (and assuming dilution) loss per share - as reported	$ (0.13)	$ (0.06)	$ (0.22)	$ (0.09)
Basic (and assuming dilution) loss per share - Pro forma	$ (0.20)	$ (0.06)	$ (0.30)	$ (0.09)

</TABLE>

New Accounting Pronouncements
- ----------

In April 2003, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 149, AMENDMENT OF STATEMENT 133 ON DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. SFAS 149 amends SFAS No. 133 to provide clarification on the financial accounting and reporting of derivative instruments and hedging

activities and requires that contracts with similar characteristics be accounted for on a comparable basis. The provisions of SFAS 149 are effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The adoption of SFAS 149 will not have a material impact on the Company's results of operations or financial position.

TELKONET, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2003
(UNAUDITED)

NOTE A - SUMMARY OF ACCOUNTING POLICIES
- ----------

New Accounting Pronouncements (Continued)
- ----------

In May 2003, the FASB issued SFAS No. 150, ACCOUNTING FOR CERTAIN FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF BOTH LIABILITIES AND EQUITY. SFAS 150 establishes standards on the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. The provisions of SFAS 150 are effective for financial instruments entered into or modified after May 31, 2003 and to all other instruments that exist as of the beginning of the first interim financial reporting period beginning after June 15, 2003. The adoption of SFAS 150 will not have a material impact on the Company's results of operations or financial position.

NOTE B - CONVERTIBLE PROMISSORY NOTES PAYABLE

A summary of convertible promissory notes payable at June 30, 2003 and December 31, 2002 is as follows:

<TABLE>
<CAPTION>

	June 30, 2003	December 31, 2002
<S>	<C>	<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	$ 1,669,100	$ 1,689,100
Debt Discount - beneficial conversion feature, net of accumulated amortization of $787,014 and $531,858 at June 30, 2003 and December 31, 2002, respectively	(743,878)	(999,034)
Debt Discount - value attributable to warrants attached to notes, net of accumulated amortization of $69,428 and $47,216 at June 30, 2003 and December 31, 2002, respectively	(63,908)	(86,120)
	861,314	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 $284,833 and $1,564 at June 30, 2003 and December 31, 2002, respectively	(1,624,702)	(146,295)
Debt Discount - value attributable to warrants attached to notes, net of accumulated amortization of $51,128 and $726 at June 30, 2003 and December 31, 2002, respectively	(282,892)	(67,869)
	592,406	258,736
Total	$ 1,453,720	$ 862,682
Less: current portion	--	--
	$ 1,453,720	$ 862,682

========== ==========

</TABLE>

NOTE B - CONVERTIBLE PROMISSORY NOTES PAYABLE

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 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 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.

NOTE B - CONVERTIBLE PROMISSORY NOTES PAYABLE

Convertible Debentures (Continued)
- ----------

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.

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.

NOTE B - CONVERTIBLE PROMISSORY NOTES PAYABLE

Series B Debentures (Continued)
- ----------

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.

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 $611,039 and $200,377 for the six month ended June 30, 2003 and 2002, respectively.

NOTE C - SENIOR NOTES PAYABLE

In April, May and June 2003, the Company issued Senior Note to Company officers, shareholders, and sophisticated investors in exchange for $5,000,000, exclusive of placement costs and fees. The Senior Note is in units of $100,000, in quarterly installments of interest at 8% per annum and is due three years from the date of the note with the latest maturity date of June 2006. Attached to each unit of the Senior Note are 125,000 warrants to purchase the common stock of the Company. The warrants have a three-year contractual life and are exercisable immediately after the issuance of the note at exercise price of $1.00 per share. The Senior Notes are secured by a first lien priority security interest in all intellectual property assets of the Company. The Company plans to use the proceeds from Senior Note for expansion of sales, marketing and strategic partnership programs, build of required infrastructure and as working capital.

NOTE D - 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	6,775,000	9.19	$ 1.00	1,769,935	$ 1.00
$ 1.51	200,000	9.75	$ 1.51	16,667	$ 1.51
$ 2.35	465,000	9.75	$ 2.35	38,751	$ 2.35
$ 3.43	25,000	9.75	$ 3.43	2,083	$ 3.43
	7,465,000	9.27	$ 1.11	1,827,436	$ 1.04

</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	6,098,333	1.11
Exercised	(83,333)	1.00
Canceled or expired	--	--
Outstanding at June 30, 2003	7,465,000	$ 1.11

The weighted-average fair value of stock options granted to employees during the period ended June 30, 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.

NOTE D - STOCK OPTIONS AND WARRANTS

Employee Stock Options (Continued
- ---

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 $(4,750,849) and $(0.30) for the period ended June 30, 2003 and $(1,580,550) and $(0.09) for the period ended June 30, 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)	Weighed Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
$ 1.00	2,871,667	9.18	$ 1.00	1,598,750	$ 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	246,502	$ 0.70
Granted	--	--
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	1,400,000	1.00
Exercised	(83,333)	1.00
Canceled or expired	--	--
Outstanding at June 30, 2003	2,871,667	$ 1.00

The estimated value of the options granted to consultants during the period ended June 30, 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 $286,904 and $226,230 during the period June 30, 2003 and 2002, respectively.

TELKONET, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2003
(UNAUDITED)

NOTE D - STOCK OPTIONS AND WARRANTS

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)	Weighed 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
$ .66	229,700	3.00	$ .66	229,700	$ .66
$ 1.00	10,639,100	3.00	$ 1.00	10,639,100	$ 1.00
$ 2.54	50,000	3.00	$ 2.54	50,000	$ 2.54
$ 2.97	35,000	3.00	$ 2.97	35,000	$ 2.97
	12,123,260	3.34	$ 0.96	12,123,260	$ 0.96

</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	8,591,800	1.01

Exercised	--	--
Canceled or expired	--	--
Outstanding at June 30, 2003	12,123,260	$ 0.96

The estimated value of the compensatory warrants granted to non-employees in exchange for services and financing expenses during the period ended June 30, 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 financing expenses was $0 and $85,620 during the period ended June 30, 2003 and 2002, respectively. The Company also capitalized financing costs of $87,732 and $39,346 for compensatory warrants granted in connection with placement of convertible debentures for the period ended June 30, 2003 and 2002, respectively. The financing cost was amortized over the life (three years) of the convertible debenture.

NOTE E - CAPITAL STOCK

The Company has authorized 15,000,000 shares of preferred stock, with a par value of $.001 per share. As of June 30, 2003 and December 31, 2002, the Company has no preferred stock issued and outstanding. The company has authorized 100,000,000 shares of common stock, with a par value of $.001 per share. As of June 30, 2003 and December 31, 2002, the Company has 15,977,795 and 15,721,131 shares of common stock issued and outstanding, respectively.

In April 2003, the Company issued 40,000 shares of common stock at $0.50 per share to one of its Debenture-1 noteholder in exchange for $20,000 of conversion of debts.

In April 2003, the Company issued 49,998 shares of common stock at approximately $1.54 per share to consultants in exchange for services rendered, which approximated the fair value of the shares issued during the period the services were completed and rendered. Compensation costs of $76,745 were charged to income during the period ended June 30, 2003.

In June 2003, the Company issued 83,333 shares of common stock to an employee in exchange for exercised employee stock options at $1.00 per share, totaling $83,333. Additionally, the Company issued 83,333 shares of common stock to a consultant in exchange for exercised non-employee stock options at $1.00 per share, totaling $83,333.

Share amounts presented in the consolidated balance sheets and consolidated statements of stockholders' equity reflect the actual share amounts outstanding for each period presented.

NOTE F - RESTATEMENT OF FINANCIAL STATEMENTS

The Company has restated its financial statements for the year ended December 31, 2001 and for the period ended June 30, 2002 to correct the following errors in the financial statements previously filed:

- 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.
- 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).
- For the year ended December 31, 2001, the Company erroneously recorded impairment of property and equipment as research and development expense.
- For the period ended June 30, 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.

NOTE F - RESTATEMENT OF FINANCIAL STATEMENTS

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

- 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 June 30, 2002 by $231,830 from $(1,243,304) to $(1,475,134).
- 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 June 30, 2002 by $.02 from $(.07) to $(.09) per share.
- Decrease the deficiency accumulated during the development stage from November 3, 1999 to June 30, 2002, by $57,815 from $(4,213,137) to $(4,155,322).
- Decrease other assets (financing costs) as of June 30, 2002, by $507,728 from $628,525 to $120,797.
- Increase debt discount as of June 30, 2002, by $1,362,523 from $0 to $1,362,523.
- Increase additional paid in capital as of June 30, 2002, by $771,979 from $3,466,421 to $4,238,400.

NOTE G - SUBSEQUENT EVENTS

Subsequent to the date of the financial statements, the Debenture-1 Noteholders (see Note B) put forth to the Company its demand registration request for the registration of common shares of the Company sufficient to cover the conversion of their debentures and exercise of the attached warrants. Accordingly, the Company notified the Series B Debenture Noteholder (Note B), Senior Noteholders (Note C) and Warrant holders with piggy-back registration rights requesting their exercise of the warrants; however, the amount of funding cannot be determined until September 12, 2003 at which time the exercise price is required to be paid to the Company. In August 2003, the Company issued an aggregate of 7,514,541 shares of common stock in connection with the conversion of Debenture-1 of $1,517,100 and Series B Debentures of $2,180,000 and the issuance of common stock related accrued interest of $187,039 and $85,586, respectively. The pro forma balance sheet below represents the effect of the conversion of the debentures as if it had occurred as of June 30, 2003.

<TABLE>
<CAPTION>

	UNAUDITED JUNE 30, 2003	PROFORMA ADJUSTMENTS DR.	CR.	PROFORMA JUNE 30, 2003
ASSETS:				
<S>	<C>	<C>	<C>	<C>
Cash	4,580,779	3,000,000		7,580,779
Other current assets	525,272			525,272
Total current assets	5,106,051	3,000,000		8,106,051
Other assets	323,893			323,893
Total Assets	5,429,945	3,000,000		8,429,945
LIABILITIES & SHAREHOLDERS EQUITY:				
Current liabilities	1,297,829	272,625	-	1,025,204
Convertible debentures - net of discounts	1,453,720	1,453,720		-
Senior notes	5,000,000			5,000,000
Shareholders' (deficiency) equity	(2,321,604)		4,726,345	2,404,741
Total liabilities & shareholders' equity	5,429,945	1,726,345	4,726,345	8,429,945

</TABLE>

NOTES TO PROFORMA BALANCE SHEET:
(1) Conversion of convertible debentures.
(2) Assumes 30% exercise warrants.
(3) Stock issuance for debenture interest.

RUSSELL BEDFORD STEFANOU MIRCHANDANI LLP
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Telkonet, Inc.
Annapolis, MD

We have audited the accompanying consolidated balance sheets of Telkonet, Inc. and its wholly-owned subsidiary (the "Company"), a development stage company, as of December 31, 2002 and 2001 and the related consolidated statements of losses, deficiency in stockholders' equity, and cash flows for the years ended December 31, 2002 and 2001 and for the period November 3, 1999 (date of inception) to December 31, 2002. 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 audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide 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, Inc. and its wholly-owned subsidiary as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the two years then ended, and from November 3, 1999 (date of inception), to December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

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 K. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note L, the Company restated its Consolidated Balance Sheet as of December 31, 2001, and the related Statements of Losses, Deficiency in Stockholders' Equity and Cash Flows for the year ended December 31, 2001 and the period November 3, 1999 (date of Inception) to December 31, 2001.

/s/ RUSSELL BEDFORD STEFANOU MIRCHANDANI LLP

Russell Bedford Stefanou Mirchandani LLP
Certified Public Accountants

McLean, Virginia
February 27, 2003

<TABLE>

TELKONET, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2002 AND 2001

<CAPTION>

	2002	(As Restated - Note L) 2001
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS:		
Cash and equivalents	$ 18,827	$ 21,885
Inventory, net (Note A)	39,790	--
Other receivable	1,550	--
Prepaid expenses and deposits	4,625	--
Total current assets	64,792	21,885
PROPERTY AND EQUIPMENT (Note B):		
Furniture and equipment, at cost	73,215	54,950
Less: accumulated depreciation	35,252	28,108

	37,963	26,842
OTHER ASSETS:		
Financing costs, less accumulated amortization of $76,923 and $24,769 at December 31, 2002 and 2001, respectively	192,600	183,049
Prepaid expenses and deposits	--	4,625
	192,600	187,674
	$ 295,355	$ 236,401
LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 518,865	$ 116,741
Notes payable (Note D)	310,000	400,000
Due to shareholders (Note C)	130,330	7,500
Total current liabilities	959,195	524,241
Convertible debentures, net of discounts - including related parties (Note E)	862,682	126,200
COMMITMENTS AND CONTINGENCIES (Note I)	--	--
DEFICIENCY IN STOCKHOLDERS' EQUITY (Note F)		
Preferred stock, par value $.001 per share; 15,000,000 shares authorized; none issued and outstanding at December 31, 2002 and 2001	--	--
Common stock, par value $.001 per share; 100,000,000 shares authorized; 15,721,131 and 22,115,371 shares issued and outstanding at December 31, 2002 and 2001, respectively	15,721	22,115
Additional paid-in-capital	4,916,433	2,244,033
Accumulated deficit during development stage	(6,458,676)	(2,680,188)
Deficiency in stockholders' equity	(1,526,522)	(414,040)
	$ 295,355	$ 236,401

See accompanying notes to consolidated financial statements

</TABLE>

<TABLE>

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

<CAPTION>

	For the Year Ended December 31, 2002	For the Year Ended December 31, 2001 (As restated - Note L)	For the period from November 3, 1999 (date of inception) through December 31, 2002 (As restated - Note L)
<S>	<C>	<C>	<C>
Cost and expenses:			
Research and development	$ 280,450	$ 120,828	$ 520,278
Selling, general and administrative	2,790,819	1,386,222	4,984,078
Impairment of property and equipment (Note B)	--	39,287	39,287
Depreciation and amortization	84,067	30,797	136,944
Total operating expense	3,155,336	1,577,134	5,680,587
Loss from operations	(3,155,336)	(1,577,134)	(5,680,587)
Other income	3,322	1,257	4,579
Interest income (expense)	(626,474)	(140,618)	(782,668)
Provision for income tax	--	--	--
	(623,152)	(139,361)	(778,089)
Net loss	$ (3,778,488)	$ (1,716,495)	$ (6,458,676)
Loss per common share (basic and assuming dilution) (Note J)	$ (0.22)	$ (0.08)	$ (0.40)

Weighted average common shares outstanding	17,119,639	21,974,439	16,050,030

See accompanying notes to consolidated financial statements
</TABLE>

<TABLE>

TELKONET, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF DEFICIENCY IN STOCKHOLDERS' EQUITY
FOR THE PERIOD NOVEMBER 3, 1999 (DATE OF INCEPTION) TO DECEMBER 31, 2002

<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>	
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)
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

TELKONET, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF DEFICIENCY IN STOCKHOLDERS' EQUITY
FOR THE PERIOD NOVEMBER 3, 1999 (DATE OF INCEPTION) TO DECEMBER 31, 2002

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

TELKONET, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF DEFICIENCY IN STOCKHOLDERS' EQUITY
FOR THE PERIOD NOVEMBER 3, 1999 (DATE OF INCEPTION) TO DECEMBER 31, 2002

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 E)	--	--	--	--	837,874	--	--	837,874
Value of warrants attached to convertible debentures (Note E)	--	--	--	--	77,254	--	--	77,254
Net loss	--	--	--	--	--	--	(1,716,495)	(1,716,495)
BALANCE AT DECEMBER 31, 2001 (AS RESTATED- NOTE L)	--	$ --	22,115,371	$22,115	$2,244,033	$ --	$(2,680,188)	$ (414,040)
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 (Note G)	--	--	--	--	452,459	--	--	452,459
Stock based compensation for the issuance of warrants to consultants in exchange for services (Note G)	--	--	--	--	170,330	--	--	170,330
Stock based compensation for the issuance of warrants to consultants in exchange for financing costs (Note G)	--	--	--	--	86,474	--	--	86,474
Beneficial conversion feature of convertible debentures (Note E)	--	--	--	--	840,877	--	--	840,877
Value of warrants attached to convertible debentures (Note E)	--	--	--	--	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)

See accompanying notes to consolidated financial statements

</TABLE>

<TABLE>

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

<CAPTION>

	For the Year Ended December 31, 2002	For the Period November 3, 1999 (Date of Inception) to December 31, 2001 (As Restated - Note L)	For the Year Ended December 31, 2002 (As Restated - Note L)
<S>	<C>	<C>	<C>
INCREASE (DECREASE) IN CASH AND EQUIVALENTS			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss from development stage operations	$(3,778,488)	$(1,716,495)	$(6,458,676)
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 (Note E)	440,646	92,776	533,422
Amortization of debt discount - value of warrants attached to convertible debentures (Note E)	39,390	8,552	47,942
Stock options and warrants issued in exchange for services (Note G)	622,790	333,072	955,862
Common stock issued in exchange for services rendered (Note F)	138,722	--	150,302
Common stock issued in exchange for debenture interest (Note F)	21,793	--	21,793
Impairment of property and equipment, net (Note B)	--	39,287	39,287
Depreciation and amortization	84,067	30,797	136,944
Increase (decrease) in:			
Other receivable	(1,550)	--	(1,550)
Inventory	(39,790)	--	(39,790)
Deposits	--	--	(4,625)
Accounts payable and accrued expenses, net	402,124	(136,846)	518,864
NET CASH USED BY OPERATING ACTIVITIES	(2,070,296)	(1,348,857)	(4,100,225)
CASH FLOWS USED IN INVESTING ACTIVITIES:			
Capital expenditures, net	(18,265)	(5,208)	(112,502)
NET CASH USED IN INVESTING ACTIVITIES	(18,265)	(5,208)	(112,502)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from sale of common stock, net of costs	830,673	150,000	1,751,224
Proceeds from (repayments to) stockholder advances	122,830	(2,500)	130,330
Proceeds from issuance of convertible debentures, net of costs	1,222,000	818,000	2,040,000
Repayment of loans	(90,000)	--	(90,000)
Proceeds from loans	--	400,000	400,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,085,503	1,365,500	4,231,554
NET (DECREASE) INCREASE IN CASH AND EQUIVALENTS	(3,058)	11,435	18,827
Cash and cash equivalents at the beginning of the period	21,885	10,450	--
Cash and cash equivalents at the end of the period	$ 18,827	$ 21,885	$ 18,827

See accompanying notes to consolidated financial statements

</TABLE>

<TABLE>

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

<CAPTION>

	For the Year Ended December 31, 2002	For the Year Ended December 31, 2001 (As Restated - Note L)	For the Period November 3, 1999 (Date of Inception) to December 31, 2002 (As Restated - Note L)
<S>	<C>	<C>	<C>
Supplemental Disclosures of Cash Flow Information:			
Cash transaction:			
Cash paid during the period for interest	$ 30,885	$ 24,965	$ 55,850
Income taxes paid	--	--	--
Non-cash transactions:			
Issuance of warrants and options for services rendered	622,790	333,072	955,862
Common stock issued in exchange for services rendered	138,722	--	150,302
Common stock issued in exchange for debenture interest	21,793	--	21,793
Beneficial conversion feature on convertible debentures	840,877	837,874	1,678,751
Value of warrants attached to convertible debentures	124,677	77,254	201,931
Acquisition:			
Assets acquired	--	--	1
Accumulated deficit	--	--	2,643
Liabilities assumed	--	--	(2,642)
	$ --	$ --	$ 1

See accompanying notes to consolidated financial statements
</TABLE>

TELKONET, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

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, 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.

Cash and 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.

Property and Equipment

Property and equipment is stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

Long-Lived Assets

The Company has adopted Statement of Financial Accounting Standards No. 144 ("SFAS 144"). 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. Events relating to recoverability may include significant unfavorable changes in business conditions, recurring losses, or a

forecasted inability to achieve break-even operating results over an extended period. The Company evaluates the recoverability of long-lived assets based upon forecasted undercounted cash flows. Should an impairment in value be indicated, the carrying value of intangible assets will be adjusted, based on estimates of future discounted cash flows resulting from the use and ultimate disposition of the asset. SFAS No. 144 also requires assets to be disposed of be reported at the lower of the carrying amount or the fair value less costs to sell.

NOTE A - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Inventories
- ----------

Inventories are stated at the lower of cost or market determined by the first-in, first-out (FIFO) method. Inventories consist of Internet applications, routers and related products available for sale to distributors and retailers. Components of inventories as of December 31, 2002 and 2001 are as follows:

	2002	2001
Finished Goods	$ 39,790	$ --

Income Taxes
- ------------

The Company has implemented the provisions on Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109). SFAS 109 requires that income tax accounts be computed using the liability method. Deferred taxes are determined based upon the future effects of differences between the financial reporting and tax reporting bases of assets and liabilities given the provisions of currently enacted tax laws.

Net Loss Per Common Share
- -------------------------

The Company computes earnings per share under Financial Accounting Standard No. 128, "Earnings Per Share" (SFAS 128). Net loss per common share is computed by dividing net loss by the weighted average number of shares of common stock and dilutive common stock equivalents outstanding during the year. Dilutive common stock equivalents consist of shares issuable upon conversion of convertible preferred shares and the exercise of the Company's stock options and warrants (calculated using the treasury stock method). During 2002 and 2001, common stock equivalents are not considered in the calculation of the weighted average number of common shares outstanding because they would be anti-dilutive, thereby decreasing the net loss per common share.

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.

Revenue Recognition
- -------------------

The Company follows a policy of recognizing revenues as services are rendered or at the time the product is shipped to or picked up by customers.

Advertising
- -----------

The Company follows the policy of charging the costs of advertising to expenses incurred. The Company incurred no advertising costs during the years ended December 31, 2002 and 2001, and for the period from November 3, 1999 (date of inception) to December 31, 2002.

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

The Company accounts for research and development costs in accordance with the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 2 ("SFAS 2"), "Accounting for Research and Development Costs. Under SFAS 2, all research and development costs must be charged to expense as incurred. Accordingly, internal research and development costs are expenses as

incurred. Third-party research and developments costs are expenses when the contracted work has been performed or as milestone results have been achieved. Company-sponsored research and development costs related to both present and future products are expenses in the period incurred. Total expenditures on research and product development for 2002, 2001, and the period from November 3, 1999 (date of inception) to December 31, 2002 were $280,450, $120,828, and $520,278, respectively.

Liquidity
- ---------

As shown in the accompanying financial statements, the Company has incurred a net loss of $6,458,676 from its inception through December 31, 2002. The Company's current liabilities exceeded its current assets by $894,403 as of December 31, 2002.

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 related party 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 periodically reviews its trade receivables in determining its allowance for doubtful accounts. The allowance for doubtful accounts was $0 at December 31, 2002 and 2001.

Comprehensive Income
- --------------------

Statement of Financial Accounting Standards No. 130 ("SFAS 130"), "reporting Comprehensive Income," establishes standards for reporting and displaying of comprehensive income, its components and accumulated balances. Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, SFAS 130 requires that all items that are required to be recognized under current accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The Company does not have any items of comprehensive income in any of the periods presented.

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 measures 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 will adopt the interim disclosure provisions for its financial reports 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 G):

<TABLE>
<CAPTION>

	2002	2001
<S>	<C>	<C>

Net loss - as reported	$ (3,778,488)	$ (1,716,495)
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)	(210,833)	(81,852)
Net loss - Pro forma	$ (3,989,321)	$ (1,798,347)
Net loss attributable to common stockholders - Pro forma	$ (3,989,321)	$ (1,798,347)
Basic (and assuming dilution) loss per share - as reported	$ (0.22)	$ (0.08)
Basic (and assuming dilution) loss per share - Pro forma	$ (0.23)	$ (0.08)

</TABLE>

Segment Information
- ------------------

Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131") 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.

Reclassification
- ----------------

Certain reclassifications have been made in prior year's financial statements to conform to classifications used in the current year (see Note L).

New Accounting Pronouncements
- -----------------------------

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141, "Business Combinations" (SFAS No. 141), and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets: (SFAS No. 142). The FASB also issued Statement of Financial Accounting Standards No. 143, "Accounting for Obligations Associated with the Retirement of Long-Lived Assets" (SFAS No. 143), and Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144) in August and October 2001, respectively.

SFAS No. 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interest method. The adoption of SFAS No. 141 had no material impact on the Company's consolidated financial statements.

NOTE A - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (Continued)
- --

Effective January 1, 2002, the Company adopted SFAS No. 142. Under the new rules, the Company will no longer amortize goodwill and other intangible assets with indefinite lives, but such assets will be subject to periodic testing for impairment. On an annual basis, and when there is reason to suspect that their values have been diminished or impaired, these assets must be tested for impairment, the write-downs to be included in results from operations may be necessary. SFAS No. 142 also requires the Company to complete a transitional goodwill impairment test six month from the date of adoption. Any goodwill impairment loss recognized as a result of the transitional goodwill impairment test will be recorded as a cumulative effect of a change in accounting principle no later than the end of fiscal year 2002. The adoption of SFAS No. 142 had no material impact on the Company's consolidated financial statements

SFAS No. 143 establishes accounting standards for the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. It also provides accounting guidance for legal obligations associated with the retirement of tangible long-lived assets. SFAS No. 143 is effective in fiscal years beginning after June 15, 2002, with early adoption permitted. The Company expects that the provisions of SFAS No. 143 will not have a material impact on its consolidated results of operations and financial position upon adoption. The Company plans to adopt SFAS No. 143 effective January 1, 2003.

SFAS No. 144 establishes a single accounting model for the impairment or disposal of long-lived assets, including discontinued operations. SFAS No. 144 superseded Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (SFAS No. 121), and APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." The Company adopted SFAS No. 144 effective January 1, 2002. The adoption of SFAS No. 144 had no material impact on Company's consolidated financial statements.

In April 2002, the FASB issued Statement No. 145, "Rescission of FASB No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This Statement rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt", and an amendment of that Statement, FASB Statement No. 64, "Extinguishment of Debt Made to Satisfy Sinking-Fund Requirements" and FASB Statement No. 44, "Accounting for Intangible Assets of Motor Carriers." This Statement amends FASB Statement No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The Company does not expect the adoption to have a material impact to the Company's financial position or results of operations. In June 2002, the FASB issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company does not expect the adoption to have a material impact to the Company's financial position or results of operations.

NOTE A - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (Continued)
- ----------

In October 2002, the FASB issued Statement No. 147, "Acquisitions of Certain Financial Institutions-an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9," which removes acquisitions of financial institutions from the scope of both Statement 72 and Interpretation 9 and requires that those transactions be accounted for in accordance with Statements No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets. In addition, this Statement amends SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, to include in its scope long-term customer-relationship intangible assets of financial institutions such as depositor- and borrower-relationship intangible assets and credit cardholder intangible assets. The requirements relating to acquisitions of financial institutions is effective for acquisitions for which the date of acquisition is on or after October 1, 2002. The provisions related to accounting for the impairment or disposal of certain long-term customer-relationship intangible assets are effective on October 1, 2002. The adoption of this Statement did not have a material impact to the Company's financial position or results of operations as the Company has not engaged in either of these activities.

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," which amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 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 transition guidance and annual disclosure provisions of Statement 148 are effective for fiscal years ending after December 15, 2002, with earlier application permitted in certain circumstances. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The adoption of this statement did not have a material impact on the Company's financial position or results of operations as the Company has not elected to change to the fair value based method of accounting for stock-based employee compensation.

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 - PROPERTY, PLANT AND EQUIPMENT

The Company's property and equipment at December 31, 2002 and 2001 consists of the following:

	2002	2001
Office Equipment	$ 58,514	$ 42,005
Office Fixtures and Furniture	$ 14,701	$ 12,945
Total	73,215	54,950
Accumulated Depreciation	(35,252)	(28,108)
	$ 37,963	$ 26,842

Depreciation expense included as a charge to income amounted to $7,144, $,6,028, and $35,252 for the year ended December 31, 2002, 2001, and from inception to December 31, 2002, respectively.

Impairment of Property and Equipment
- ----------

During the year ended December 31, 2001, the Company recorded a charge for the impairment of certain property and equipment held and used by the Company because the estimated fair value of the assets was less than the carrying value. Considerable management judgment is necessary to estimate fair value. Accordingly, actual results could very significantly from managements' estimates. Based upon the evaluation, the Company recognized as asset impairment loss of $39,287 or $ (.00) per share during the year ended December 31, 2001.

NOTE C - RELATED PARTY TRANSACTIONS

A company officer has advanced funds to the Company for working capital purposes. No formal repayment terms or arrangements exist. The net amount of advances due the officer at December 31, 2002 was $4,830.

Significant shareholders of the Company have advanced funds to the Company for working capital purposes. The amount of the advances at December 31, 2002 and 2001 is $125,500 and $7,500, respectively. Nor formal repayment terms or arrangements exist.

NOTE D - NOTES PAYABLE

Notes payable at December 31, 2002 and 2001 consists of the following:

<TABLE>
<CAPTION>

	2002	2001
<S>	<C>	<C>
Note payable in monthly installments of interest only at 7.5% per annum, unsecured and guaranteed by a Company shareholder. Maturity date is in September 2002; the Company paid the debt in fully in February 2003	$ 60,000	$ 150,000
Note payable in monthly installments of interest only at the prime lending rate plus 1%, unsecured and guaranteed by a Company shareholder. The original maturity sate of the loan was extended from March 2002 to March 2003	250,000	250,000
	310,000	400,000
Less: current portion	(310,000)	(400,000)
	$ --	$ --

</TABLE>

NOTE E - CONVERTIBLE PROMISSORY NOTES PAYABLE

A summary of convertible promissory notes payable at December 31, 2002 and 2001 is as follows:

<TABLE>
<CAPTION>

	2002	2001
<S>	<C>	<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	$ 940,000
Debt Discount - beneficial conversion feature, net of amortization of $439,082 in 2002 and $92,776 in 2001	(999,034)	(745,098)
Debt Discount - value attributable to warrants attached to notes, net of amortization of $38,664 in 2002 and $8,552 in 2001	(86,120)	(68,702)
	603,946	126,200
Convertible notes payable ("Series B Debenture"), in quarterly installments of interest only 8% per annum, unsecured and due three years from the date of the note with the latest maturity December 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 $.55 per share six months after issuance	472,900	--
Debt Discount - beneficial conversion feature, net of amortization of $1,564 in 2002	(146,295)	--
Debt Discount - value attributable to warrants attached to notes, net of amortization of $726	(67,869)	--
	258,736	--
Total	$ 862,682	$ 126,200
Less: current portion	--	--
	$ 862,682	$ 126,200

</TABLE>

NOTE E - 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.

NOTE E - CONVERTIBLE PROMISSORY NOTES PAYABLE (CONTINUED)

Convertible Debentures (Continued)
- ----------

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 00-27"), 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.

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.

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 $480,036 and $101,328 for the years ended December 31, 2002 and 2001, respectively.

NOTE F - CAPITAL STOCK

The Company has authorized 15,000,000 shares of preferred stock, with a par value of $.001 per share. As of December 31, 2002, the Company has no preferred stock issued and outstanding. The Company has authorized 100,000,000 shares of common stock, with a par value of $.001 per share. As of December 31, 2002, the Company has 15,721,131 shares of common stock issued and outstanding.

In January 2000, the Company issued 19,300 shares to its founders, in exchange for costs and services, valued at $11,580.

In June 2000, the Company issued a total of 1,735 shares of common stock in a private placement to sophisticated investors, primarily in the United States in exchange for $644,236 net of costs and fees. In July 2000 the Predecessor issued 190 shares of common stock in exchange for exercised warrants at $375 per share, totaling $71,250

In August 2000, the Company issued 21,775,345 shares of common stock in conjunction with the merger of Comstock Coal Company, Inc. In connection with the transaction, the Company retired 21,225 shares of previously issued Telkonet Communications, Inc. common stock.

In October 2000, the Company issued 29,145 and 10,881 shares of common stock in exchange for exercised warrants with exercise prices of $1.00 and $0.40 per share, respectively.

In June 2001 and August 2001, the Company issued 260,000 and 40,000 shares of its common stock, respectively, in a private placement to sophisticated investors in exchange for $150,000, net of costs and fees.

In January 2002, the Company re-organized its capital structure, whereby the Company agreed to purchase 8,936,244 shares of the Company's common stock held by the Founders and cancel certain vested options held by the Founders to purchase the Company's common stock, in exchange for the issuance of newly issued options to purchase 3,500,000 shares of the Company's common stock. The new stock options expire in January 2012, and have an exercise price of $1.00 per share ,which is in excess of the weighted average fair value of the Company's common stock at the grant dates. The canceled options had no intrinsic value at the award date and as a result, the Company did not incur a compensation cost in connection with the cancellation of the options. In connection with this transaction, the Company issued 5,250,000 shares of common stock to founders and cancelled 13,480,961 shares of previously issued common stock.

In June and July 2002, two of the Founders exercised the stock options to purchase 2,000,000 shares of the Company's common stock. The Company entered into four promissory notes with principal amounts of $250,000 each and two promissory notes with principal amounts of $500,000 each with the two Founders to ensure payments for issued stock. The notes are due one year from the date of issuance. Interest will begin to accrue from and after the maturity dates on any unpaid principal balance at an interest rate of 6.0% per annum. During the year 2002, the Company received $194,600 proceeds from the stock subscription. In December 2002, the Founders returned a total of 1,805,400 shares of common stock to the Company and the unpaid principal amount of the promissory notes was canceled accordingly.

NOTE F - CAPITAL STOCK (CONTINUED)

In February 2002, the Company issued 43, 586 shares of common stock to its convertible debenture holders in exchange for interest of $21,793.

In June 2002, the Company issued 154,388 shares of common stock to consultants for warrants exercised at prices ranging from $.40 to $1.00 per share in exchange for services, totaling $138,722, which approximated the fair value of the shares issued during the period the services were completed and rendered. Compensation costs of $138,722 were charged to income during the year ended December 31, 2002. In 2002, the Company issued 1,444,147 shares of common stock, or $636,076 to sophisticated investors for warrants exercised at prices ranging from $.40 to $.50 per share.

Share amounts presented in the consolidated balance sheets and consolidated statements of stockholders' equity reflect the actual share amounts outstanding

for each period presented.

NOTE G - 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>	<C>
$ 1.00	1,450,000	9.08	$ 1.00	649,935	$ 1.00

</TABLE>

Transactions involving options issued to employees are summarized as follows:

<TABLE>
<CAPTION>

	Number of Shares	Weighted Average Price Per Share
<S>	<C>	<C>
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

</TABLE>

NOTE G - STOCK OPTIONS AND WARRANTS (CONTINUED)

Employee Stock Options (Continued)
- ----------

The weighted-average fair value of stock options granted to employees during the years ended December 31, 2002 and 2001 and the weighted-average significant assumptions used to determine those fair values, using a Black-Scholes option pricing model are as follows:

	2001	2000
Significant assumptions (weighted-average):		
Risk-free interest rate at grant date	1.67%	4.25%
Expected stock price volatility	26%	21%
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 $(3,989,321) and $(0.23) in 2002 and $(1,798,347) and $(0.08) in 2001, 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.

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>	<C>
$1.00	1,555,000	8.93	$1.00	1,298,829	$1.00

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

	Number of Shares	Weighted Average Price Per Share
<S>	<C>	<C>
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

NOTE F - STOCK OPTIONS AND WARRANTS (CONTINUED)

Non-Employee Stock Options (Continued)

The estimated value of the options granted to consultants was determined using the Black-Scholes option pricing model and the following assumptions: contractual term of 10 years, a risk free interest rate of 1.67%, a dividend yield of 0% and volatility of 26%. The amount of the expense charged to operations in connection with granting the options was $452,459 and $11,592 during 2002 and 2001, respectively.

Warrants

The following table summarized 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.

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>	<C>
$ .50	815,000	8.00	$ .50	815,000	$ .50
$ .53	354,460	3.00	$ .53	354,460	$ .53
$ 1.00	2,362,000	3.00	$ 1.00	2,362,000	$ 1.00
	3,531,460			3,531,460	

Transactions involving warrants are summarized as follows:

<TABLE>
<CAPTION>

	Number of Shares	Weighted Average Price Per Share
<S>	<C>	<C>
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

</TABLE>

NOTE F - 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 was determined using the Black-Scholes pricing model and he following assumptions: contractual term of 3 to 8 years, a risk free interest rate of 1.67%, 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 $170,330 and $321,479 during 2002 and 2001, respectively. The Company also capitalized financing costs of $86,474 and $85,818 for compensatory warrants granted in connection with placement of convertible debentures for the year ended December 31, 2002 and 2001, respectively. The financing cost was amortized over the life (three years) of the convertible debenture.

NOTE H - INCOME TAXES

The Company has adopted Financial Accounting Standard No. 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 $6,450,000 which expire through 2022, subject to limitations of Section 382 of the Internal Revenue Code, as amended. The deferred tax asset related to the carryforward is approximately $2,193,000. The Company has provided a valuation reserve against the full amount of the net operating loss benefit, because in the opinion of management based upon the earning history of the Company, it is more likely than not that the benefits will not be realized.

Components of deferred tax assets as of December 31, 2002 are as follows:

Non Current:	
Net operating loss carryforward	$ 2,193,000
Valuation allowance	(2,193,000)
Net deferred tax asset	$ --

NOTE I - COMMITMENTS AND CONTINGENCIES

Lease Commitments
- ----------

The Company leases office space on a year to year basis in Annapolis, Maryland for its corporate offices. Commitments for minimum rentals under non-cancelable leases at December 31, 2002 are as follows:

2003	44,746
	$ 44,746

Employment and Consulting Agreements
- ------------------------------------

The Company has an employment agreements with the Company's employees. In addition to salary and benefit provisions, the agreements include defined commitments should the employer 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.

Litigation
- ----------

The Company is subject to other legal proceedings and claims which arise in the ordinary course of its business. Although occasional adverse decisions or settlements may occur, the Company believes that the final disposition of such matters should not have a material adverse effect on its financial position, results of operations or liquidity.

NOTE J - LOSSES PER COMMON SHARE

The following table presents the computations of basic and dilutive loss per share:

<TABLE>
<CAPTION>

	2002	2001	For the period from November 3, 1999 (date of inception) through December 31, 2002
<S>	<C>	<C>	<C>
Net loss available to common shareholders	$ (3,778,488)	$ (1,716,495)	$ (6,458,676)
Basic and fully diluted loss per share	$ (0.22)	$ (0.08)	$ (0.40)
Weighted average common shares outstanding	$ 17,119,639	21,974,439	16,050,030

</TABLE>

NOTE K - 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 loses from operations of $6,458,676. 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 it's liquidity problems. Management anticipates the Company will attain profitable status and improve it 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 consolidated financial statements do not include any adjustments that might result should the Company be unable to continue as a going concern.

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.

NOTE L - RESTATEMENT OF FINANCIAL STATEMENTS

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

- 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.

- 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).

- The Company erroneously recorded impairment of property and equipment as research and development expense.

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

- 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).

- Decrease the loss per share by $.01 from $(.09) to $(.08) per share.

- Decrease the deficiency accumulated during the development stage by $289,645 from $(2,969,833) to $(2,680,188).

- Decrease other assets by $501,276 from $688,950 to $187,674.

- Increase debt discount by $813,800 from $0 to $813,800 (Note E).

- Increase additional paid in capital by $22,879 from $2,221,154 to $2,244,033.

Following are reconciliations of the Company's restatement of the Consolidated Balance Sheet as of December 31, 2001 and Consolidated Statement of Losses for the year ended 2001.

<TABLE>

NOTE L - RESTATEMENT OF FINANCIAL STATEMENTS (CONTINUED)

TELKONET, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2001

<CAPTION>

	As Reported	Adjustment	Restated
ASSETS			
<S>	<C>		<C>
CURRENT ASSETS:			
Cash and equivalents	$ 21,885		$ 21,885
Total Current Assets	21,885		21,885
PROPERTY AND EQUIPMENT:			
Furniture and equipment, at cost	54,950		54,950
Less: accumulated depreciation	28,108		28,108
	26,842		26,842
OTHER ASSETS:			
Financing Costs, net amortization	684,325	$ (501,276)	183,049
Prepaid expenses and deposits	4,625		4,625
	688,950		187,674
	$ 737,677	$ (501,276)	$ 236,401
LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable and accrued expenses	$ 116,741		$ 116,741
Notes payable	400,000		400,000
Due to shareholders	7,500		7,500
Total current liabilities	524,241		524,241
Convertible Debentures, net of discounts - including Related parties	940,000	$ (813,800)	126,200

COMMITMENTS AND CONTINGENCIES	--		--
DEFICIENCY IN STOCKHOLDERS' EQUITY			
Common stock, par value $.001 per share; 100,000,000 shares authorized; 21,115,371 shares issued and outstanding at December 31, 2001	22,115		22,115
Additional paid-in-capital	2,221,154	22,879	2,244,033
Accumulated deficit during development stage	(2,969,833)	289,645	(2,680,188)
Deficiency in stockholders' equity	(726,564)	312,524	(414,040)
	$ 737,677	$ (501,276)	$ 236,401

</TABLE>

<TABLE>

NOTE L - RESTATEMENT OF FINANCIAL STATEMENTS (CONTINUED)

TELKONET, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF LOSSES
FOR THE YEAR ENDED DECEMBER 31, 2001

<CAPTION>

	As Reported	Adjustments	Restated
<S>	<C>	<C>	<C>
Costs and expenses:			
Research & Development	$ 160,115	$ (39,287)	$ 120,828
Selling, General and Administrative	1,386,222		1,386,222
Impairment of Property and Equipment	--	39,287	39,287
Depreciation and Amortization	43,557	(12,760)	30,797
Total Operating Expense	1,589,894		1,577,134
Loss from Operations	(1,589,894)		(1,577,134)
Other Income	1,257		1,257
Interest Income (Expense)	(417,503)	276,885	(140,618)
Provision for Income Tax	--		--
	(416,246)		(139,361)
Net Loss	$ (2,006,410)	$ 289,645	$ (1,716,495)
Loss per common share (basic and assuming dilution)	$ (0.09)	$ 0.01	$ (0.08)
Weighted average Common shares outstanding	21,974,439	21,974,439	21,947,439

</TABLE>

STEFANOU & COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS

1360 Beverly Road
Suite 305
McLean, VA 22101-3621
703-448-9200
703-448-3515 (fax)

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Telkonet, Inc.
Annapolis, MD

We have audited the accompanying consolidated balance sheets of Telkonet, Inc. (a development stage company) as of December 31, 2001 and 2000 and the related consolidated statements of losses, deficiency in stockholders' equity, and cash flows for the years ended December 31 ,2001 and 2000 and for

the period November 3, 1999 (date of inception) to December 31, 2001. 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 audits in accordance with auditing standards generally accepted in the United States of America. 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 audits provide 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, Inc. as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the two years then ended, and from November 3, 1999 (date of inception), to December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

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 K. 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
February 14, 2002

<TABLE>

TELKONET, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2001 AND 2000

<CAPTION>

	2001	2000
ASSET		
<S>	<C>	<C>
CURRENT ASSETS:		
Cash and equivalents	$ 21,885	$ 10,450
Total Current Assets	21,885	10,450
PROPERTY AND EQUIPMENT AT COST:		
Furniture, equipment and leasehold improvements	54,950	89,029
Less accumulated depreciation	28,108	22,080
	26,842	66,949
Financing Costs, less amortization costs of $415,742 and $0 in 2001 and 2000, respectively	684,325	--
Deposits	4,625	4,625
	$ 737,677	$ 82,024
LIABILITIES AND DEFICIENCY IN STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 116,741	$ 253,586
Notes payable (Note D)	400,000	--
Due to shareholder (Note C)	7,500	10,000
Total current liabilities	524,241	263,586
Convertible Debentures (Notes D & E)	940,000	

COMMITMENTS AND CONTINGENCIES (Note H)	--	--
DEFICIENCY IN STOCKHOLDER'S EQUITY (Note E)		
Common stock, par value $ 0.001 per share; 100,000,000 shares authorized; 22,115,371 and 21,815,371 issued at December 31, 2001 and 2000	22,115	21,815
Additional Paid in Capital	2,221,154	760,316
Deficit accumulated during development stage	(2,969,833)	(963,693)
Deficiency in stockholder's equity	(726,564)	(181,562)
	$ 737,677	$ 82,024

See accompanying notes to consolidated financial statements
</TABLE>

<TABLE>

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

<CAPTION>

	For the Year Ended December 31, 2001	For the Year Ended December 31, 2000	For the Period November 3, 1999 (Date of Inception) to December 31, 2001
<S>	<C>	<C>	<C>
Cost and expenses:			
Research and development	$ 160,115	$ 119,000	$ 279,115
General and administrative	1,386,222	773,336	2,193,259
Interest	417,503	15,576	433,079
Depreciation and amortization	43,557	21,808	65,637
Loss from Operations	(2,007,397)	(929,720)	(2,971,090)
Other Income	1,257	--	1,257
Net Loss	$ (2,006,140)	$ (929,720)	$ (2,969,833)
Loss per common share (basic and assuming dilution)	$ (0.09)	$ (0.04)	$ (0.14)
Weighted average Common shares outstanding (Note I)	21,974,439	20,891,349	21,435,998

See accompanying notes to consolidated financial statements
</TABLE>

<TABLE>

TELKONET, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDERS' EQUITY
FOR THE PERIOD NOVEMBER 3, 1999 (DATE OF INCEPTION) TO DECEMBER 31, 2001

<CAPTION>

	Common Shares	Stock Amount	Additional Paid in Capital	Deficit Accumulated During Development Stage	Total
<S>	<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	21,775,345	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	10,881	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)
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 $ .13 per warrant, in exchange for services	-	-	237,036	-	237,036
72,668 Stock options issued in June 2001, valued at $ .09 per option, in exchange for services	-	-	6,375	-	6,375
245,287 Warrants issued in July 2001, valued at $ .08 per warrant, in exchange for services	-	-	18,568	-	18,568
36,917 Stock options issued in July 2001, valued at $ .08 per option, 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

See accompanying notes to consolidated financial statements

</TABLE>

<TABLE>

TELKONET, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDERS' EQUITY
FOR THE PERIOD NOVEMBER 3, 1999 (DATE OF INCEPTION) TO DECEMBER 31, 2001

<CAPTION>

	Common Shares	Stock Amount	Additional Paid in Capital	Deficit Accumulated During Development Stage	Total
<S>	<C>	<C>	<C>	<C>	<C>
241,000 Warrants issued in August 2001, valued at $ .39 per warrant, in exchange for financing costs	-	-	94,687	-	94,687
114,000 Warrants issued in August 2001, valued at $ .43 per warrant, in exchange for interest	-	-	49,020	-	49,020
150,000 Warrants issued in August 2001, valued at $ .16 per					

warrant, in exchange for services	-	-	23,340	-	23,340
36,917 Stock options issued in August 2001, valued at $ .06 per option, in exchange for services	-	-	2,422	-	2,422
818,000 Warrants issued in September 2001, valued at $ .14 per warrant, in exchange for financing costs	-	-	112,230	-	112,230
1,636,000 Warrants issued in September 2001, valued at $ .40 per warrant, in exchange for interest	-	-	654,400	-	654,400
25,000 Warrants issued in September 2001, valued at $ .30 per warrant, in exchange for services	-	-	7,380	-	7,380
60,000 Warrants issued in October 2001, valued at $ .16 per warrant, in exchange for financing costs	-	-	9,720	-	9,720
120,000 Warrants issued in October 2001, valued at $ .44 per warrant, in exchange for interest	-	-	52,800	-	52,800
95,000 Warrants issued in October 2001, valued at $ .21 per warrant, in exchange for services	-	-	19,558	-	19,558
5,000 Warrants issued in November 2001, valued at $.16 per warrant, in exchange for financing costs	-	-	810	-	810
10,000 Warrants issued in November 2001, valued at $.44 per warrant, in exchange for interest	-	-	4,400	-	4,400
25,000 Warrants issued in November 2001, valued at $ .33 per warrant, in exchange for services	-	-	8,218	-	8,218
25,000 Warrants issued in December 2001, valued at $.30 per warrant, in exchange for services	-	-	7,380	-	7,380
Net loss	-	-	-	(2,006,140)	(2,006,140)
Balance at December 31, 2001	22,115,371	22,115	2,221,155	(2,969,833)	(726,563)

See accompanying notes to consolidated financial statements

</TABLE>

<TABLE>

TELKONET, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDING DECEMBER 31, 2001 AND 2000 AND
FOR THE PERIOD NOVEMBER 3, 1999 (DATE OF INCEPTION) TO DECEMBER 31, 2001

<CAPTION>

	For the year ended December 31, 2001	For the year ended December 31, 2000	For the Period November 3, 1999 (Date of Inception) to December 31, 2001
<S>	<C>	<C>	<C>
INCREASE (DECREASE) IN CASH AND EQUIVALENTS			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss from development stage operations	$(2,006,140)	$ (929,720)	$(2,969,833)
Adjustments to reconcile net loss from development stage operations to cash used for operating activities			
Warrants issued in exchange for financing and interest	378,213	--	378,213
Warrants issued in exchange for services rendered	333,072	--	333,072
Common stock issued in exchange for services rendered	--	11,580	11,580
Depreciation and amortization	43,557	22,080	65,637

Increase (decrease) in:			
Deposits	--	(4,625)	(4,625)
Accounts payable and accrued expenses, net	(136,845)	241,388	138,516
NET CASH USED BY OPERATING ACTIVITIES	(1,388,143)	(659,297)	(2,047,440)
CASH FLOWS USED IN INVESTING ACTIVITIES :			
Capital expenditures, net of disposals	34,079	(89,029)	(54,950)
NET CASH USED IN INVESTING ACTIVITIES	34,079	(89,029)	(54,950)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from sale of common stock, net of costs	150,000	748,776	898,776
Proceeds from (repayments to) stockholder advances	(2,500)	10,000	7,500
Proceeds from issuance of convertible debentures, net of costs	818,000	--	818,000
Proceeds from bank loans	400,000	--	400,000
Proceeds from shareholder loans	--	235,000	235,000
Repayment of shareholder loans	--	(235,000)	(235,000)
NET CASH PROVIDED (USED) IN FINANCING ACTIVITIES	1,365,500	758,776	2,124,276
NET (DECREASE) INCREASE IN CASH AND EQUIVALENTS	11,435	10,450	21,885
Cash and equivalents at beginning of period	10,450	--	--
CASH AND EQUIVALENTS AT END OF PERIOD	$ 21,885	$ 10,450	$ 21,885
Supplemental Disclosure of Cash Flow Information			
Cash paid during the period for interest	$ 24,965	$ --	$ 24,965
Income taxes paid	--	--	--
Issuance of warrants for financing and interest	1,278,983	--	1,278,983
Issuance of warrants and options for services	333,072	--	333,072
Common stock issued for services	--	11,580	11,580
Acquisition:			
Assets Acquired	--	1	1
Accumulated deficit	--	2,643	2,643
Liabilities Assumed	--	(2,642)	(2,642)
	$ --	$ 1	$ 1

See accompanying notes to consolidated financial statements

</TABLE>

TELKONET, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000

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, Inc. ("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.

Advertising

The Company follows the policy of charging the costs of advertising to expenses incurred. The Company incurred no advertising costs during the year ended

December 31, 2001 and for the period November 3, 1999 (date of inception) through December 31, 2001.

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 and 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.

NOTE A - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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 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.

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 2001 and 2000 were $160,115 and $119,000, respectively.

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. From time to time, the Company grants options or warrants to non employees in return for services rendered. The Company recognizes a charge or the fair value ascribed to such options and warrants over the service or vesting period.

Liquidity
- ---------

As shown in the accompanying financial statements, the Company has incurred losses of $2,969,833 from its inception through December 31, 2001. The Company's current liabilities exceed its current assets by $502,356 at December 31, 2001.

NOTE A - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Reclassifications
- -----------------

Certain reclassifications have been made in prior year's financial statements to conform to classifications used in the current year.

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

In March 2000, the FASB issued interpretation No. 44 ("FIN 44"), "Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No. 25." FIN 44 clarifies the application of APB No. 25 for (a) the definition of employee for purposes of applying APB No. 25, (b) the criteria for determining whether a plan qualifies as a noncompensatory plan, (c) the accounting consequences of various modifications to previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. FIN 44 is effective July 2, 2000 but certain conclusions cover specific events that occur after either December 15, 1998 or January 12, 2000. The adoption of FIN 44 did not have an affect on the Company's financial statements but may impact the accounting for grants or awards in future periods.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, Business Combinations (FAS 141), and FAS 142, Goodwill and Other Intangible Assets (FAS 142). FAS 141 addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. FAS 142 addresses the initial recognition and measurement of intangible assets acquired outside of a business combination, whether acquired individually or with a group of other assets, and the accounting and reporting for goodwill and other intangibles subsequent to their acquisition. These standards require all future business combinations to be accounted for using the purchase method of accounting. Goodwill will no longer be amortized but instead will be subject to impairment tests at least annually. The Company is required to adopt FAS 141 and FAS 142 on a prospective basis as of January 1, 2002; however, certain provisions of these new standards may also apply to any acquisitions concluded subsequent to June 30, 2001. As a result of implementing these new standards, the Company will discontinue the amortization of goodwill as of December 31, 2001. The

NOTE A - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Company does not believe that the adoption of FAS 141 or 142 will have a material impact on its consolidated financial statements.

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

NOTE B - MERGER

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

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

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

Net Assets	$ 1
Accumulated Deficit	2,643
Net Liabilities	(2,642)
	$ 1

NOTE C - DUE TO SHAREHOLDER

Significant shareholders of the Company have advanced funds to the Company for working capital purposes. The amount of the advances at December 31, 2001 and 2000 are $7,500 and $10,000, respectively. No formal repayment terms exist.

NOTE D - NOTES PAYABLE

Notes payable at December 31, 2001 and 2000 consists of the following:

<TABLE>
<CAPTION>

	2001	2000
<S>	<C>	<C>
Note payable in monthly installments of interest only at 7.5% per annum, unsecured and guaranteed by a Company shareholder.	$ 150,000	$ --
Note payable in monthly installments of interest only at the prime lending rate plus 1% unsecured and guaranteed by a Company shareholder.	250,000	--
Convertible notes payable, 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 November, 2004; 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.	940,000	--
	1,340,000	--
Less: current portion	(400,000)	--

	$ 940,000	$ --

</TABLE>

Aggregate maturities of long-term debt as of December 31, 2001 are as follows:

Year	Amount
2002	$ 400,000
2003	--
2004	940,000
2005	--
2006 and after	--
	$ 1,340,000

The Company incurred an aggregate of $339,447 of financing costs associated with the placement of the convertible debentures. The costs have been capitalized and are being amortized over a term of the convertible debentures. Financing costs amortized in 2001 were $37,529 and have been charged to operations.

In addition, the Company recognized the imbedded beneficial conversion feature in the convertible debenture by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid in capital. The Company recognized an aggregate of $760,620 of imbedded beneficial conversion feature and has amortized that cost over six months after the issuance of the debentures. Costs associated with this beneficial conversion features amortized in 2001 were $278,213 and have been charged to interest expense in the current year.

NOTE E - CAPITAL STOCK

The Company was incorporated under the laws of the State of Utah 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.

NOTE E - CAPITAL STOCK (CONTINUED)

The Company has authorized 100,000,000 shares of common stock , with a par value of $.001 per share.

In January 2000, the Company issued 19,300 shares to its founders, in exchange for costs and services, valued at $11,387.

In June 2000, the Company issued a total of 1,735 shares of common stock in a private placement to sophisticated investors, primarily in the United States in exchange for $644,219 net of costs and fees. In July, 2000 addition, the Predecessor issued 190 shares of common stock in exchange for exercised warrants at $375 per share, totaling $71,250.

In August 2000, the Company issued 21,775,345 shares of common stock in conjunction with the merger of Comstock Coal Company, Inc (Note B). In connection with the transaction, the Company retired 21,225 shares of previously issued Telkonet Communications, Inc common stock.

In October 2000, the Company issued 29,145 and 10,891 shares of common stock in exchange for exercised warrants, with an exercise price of $1.00 and $0.40 per share, respectively.

In June 2001 and August 2001, the Company issued 260,000 and 40,000 shares of its common stock, respectively, in a private placement to sophisticated investors in exchange for $150,000, net of costs and fees.

In 2001, the Company issued $940,000 of 8% Convertible Debentures (see Note D). The debentures are due three years from date of issuance, and can be converted to the Company's common stock at the rate of $.50 per share six months after issuance.

Share amounts presented in the consolidated balance sheets and consolidated statements of stockholders' equity reflect the actual share amounts outstanding for each period presented.

NOTE F - STOCK OPTIONS AND WARRANTS

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	
	Number Outstanding	Weighted Average Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
Exercise Prices:					
<S>	<C>	<C>	<C>	<C>	<C>
1.00	1,055,000	10	1.00	23,334	1.00

</TABLE>

NOTE F - STOCK OPTIONS AND WARRANTS (CONTINUED)

Transactions involving options issued to employees are summarized as follows:

<TABLE>
<CAPTION>

	Number of Shares	Weighted Average Price Per Share
<S>	<C>	<C>
Outstanding at January 1, 2000	--	--
Granted	840,000	$ 1.00
Exercised	--	1.00
Canceled or expired	--	1.00
Outstanding at December 31, 2000	840,000	1.00
Granted	215,000	1.00
Exercised	--	1.00
Canceled or expired	--	1.00
Outstanding at December 31, 2001	1,055,000	$ 1.00

</TABLE>

The weighted-average fair value of stock options granted to employees during the years ended December 31, 2001 and 2000 and the weighted-average significant assumptions used to determine those fair values, using a Black-Scholes option pricing model are as follows:

<TABLE>
<CAPTION>

	2001	2000
<S>	<C>	<C>
Weighted average grant date fair value per share:	$ 1.15	$ 1.00
Significant assumptions (weighted-average):		
Risk-free interest rate at grant date	1.67%	4.25%
Expected stock price volatility	26%	21%
Expected dividend payout	--	--
Expected option life-years (a)	10	10

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

</TABLE>

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 $(2,015,040) and $(0.09) in 2001 and $(929,720) and $(0.04) in 2000, respectively.

The Company incurred costs and expenses in connection with granting certain stock warrants and options to non-employees. These warrants and options were granted in lieu of cash compensation for services performed and in connection with placement of convertible debentures (see Note D).

NOTE F - STOCK OPTIONS AND WARRANTS (CONTINUED)

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.

<TABLE>
<CAPTION>

	Warrants Outstanding			Warrants Exercisable	
	Number Outstanding	Weighted Average Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
Exercise Prices:					
<S>	<C>	<C>	<C>	<C>	<C>
$ .50	1,100,000	8	$ .50	1,100,000	$ .50
.53	184,000	3	.53	184,000	.53
1.00	4,124,665	2	1.00	4,124,665	1.00
	5,408,665			5,408,665	

</TABLE>

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

<TABLE>
<CAPTION>

	Number of Shares	Weighted Average Price Per Share
<S>	<C>	<C>
Outstanding at January 1, 2000		
Granted	1,210,572	$ 1.00
Exercised	--	1.00
Canceled or expired	--	1.00
Outstanding at December 31, 2000	1,210,572	1.00
Granted	5,408,665	.67
Exercised	--	.67
Canceled or expired	(1,210,572)	1.00
Outstanding at December 31, 2001	5,408,665	$ 0.78

</TABLE>

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

<TABLE>
<CAPTION>

	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
Exercise Prices:					
$ 1.00	210,751	3	$ 1.00	210,751	$ 1.00
.40	35,751	1	.40	35,751	.40
	246,502			246,502	

</TABLE>

NOTE F - STOCK OPTIONS AND WARRANTS (CONTINUED)

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

<TABLE>
<CAPTION>

	Number of Shares	Weighted Average Price Per Share
<S>	<C>	<C>
Outstanding at January 1, 2000	--	--
Granted	286,528	$ 0.70
Exercised	(40,026)	.70

Canceled or expired	--	.70
Outstanding at December 31, 2000	246,502	.70
Granted	--	--
Exercised	--	--
Canceled or expired	--	--
Outstanding at December 31, 2001	246,502	$ 0.70

</TABLE>

The amount of the expense charged to operations in connection with granting the warrants and options to non-employees was $550,518 and $0 during 2001 and 2000, respectively. The amount incurred in connection with placement of the convertible debentures was $217,447 in 2001 and is included in the costs of financing and amortized over the term of the debentures.

NOTE G - 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 $2,900,000 which expire through 2021, subject to limitations of Section 382 of the Internal Revenue Code, as amended. The deferred tax asset related to the carryforward is approximately $986,000. 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 more likely than not that the benefits will be realized.

Components of deferred tax assets as of December 31, 2001 are as follows:

Non Current:	
Net operating loss carryforward	$ 986,000
Valuation allowance	(986,000)
Net deferred tax asset	$ --

NOTE H - COMMITMENTS AND CONTINGENCIES

Lease Commitments
- ----------

The Company leases office space on a year to year basis in Annapolis, Maryland for its corporate offices. Rental expense charged to operations in 2001 and 2000 was $56,911 and $37,000, respectively.

Commitments for minimum rentals under non cancelable leases at the end of 2001 are as follows:

2002	$ 58,000
2003	44,746
	$ 102,746

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 I - LOSSES PER COMMON SHARE

The following table presents the computations of basic and dilutive loss per share:

<TABLE>
<CAPTION>

	2001	2000
<S>	<C>	<C>
Net loss available to common shareholders	$ (2,006,140)	$ (929,720)
Basic and fully diluted loss per share	$ (0.09)	$ (0.04)
Weighted average common shares outstanding	$ 21,974,439	$ 20,891,349

</TABLE>

NOTE J - SUBSEQUENT EVENTS

Subsequent to the date of the financial statements, the Company re-organized its capital structure, whereby the Company agreed to purchase 8,936,244 shares of the Company's common stock held by the Founders and cancel certain vested options held by the Founders to purchase the Company's common stock, in exchange for the issuance of newly issued options to purchase 3,500,000 of the Company's common stock. The new stock options expire in January 2012, and have an exercise price of $1.00 per share.

Subsequent to the date of the financial statements, the Company has received an additional $92,000 in convertible debentures (see Note D).

NOTE K - 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 loses from operations of $2,969,833. 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 it's liquidity problems. Management anticipates the Company will attain profitable status and improve it 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.

In order to improve the Company's liquidity, the Company is actively pursing 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.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth the estimated expenses in connection with the issuance and distribution of the securities being registered, all of which are being borne by the registrant.

Securities and Exchange Commission Registration Fee..... $ _____
Accounting Fees and Expenses..... $ _____
Legal Fees and Expenses..... $ _____
Printing Fees and Expenses..... $ _____
Miscellaneous..... $ _____
TOTAL..... $ _____

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Reference is made to Section 16-10a-902 of the Utah Business

Corporation Act, which enables Telkonet to indemnify an individual made a party to a proceeding because he is or was a director of Telkonet if (i) his conduct was in good faith, (ii) he reasonably believed his conduct was in, or not opposed to, Telkonet's best interests, and (iii) in the case of a criminal proceeding, he had no reasonable cause to believe his conduct was unlawful. Notwithstanding the foregoing, Telkonet may not indemnify a director (i) in connection with a proceeding by or in the right of the corporation in which the director was adjudged liable to the corporation, or (ii) in connection with any other proceeding charging that the director derived an improper personal benefit, whether or not involving action in his official capacity, in which proceeding he was adjudged liable on the basis that he derived an improper personal benefit. The Utah Business Corporation Act also permits Telkonet to purchase insurance on behalf of any person that is or was a director, officer, employee, fiduciary or agent of Telkonet. Telkonet's amended and restated articles of incorporation provide in effect for the elimination of the personal liability of Telkonet's directors and for the indemnification by Telkonet of each director and officer of Telkonet, in each case, to the fullest extent permitted by applicable law. Telkonet purchases and maintains insurance on behalf of any person who is or was a director, officer, employee, fiduciary or agent of Telkonet against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not Telkonet would have the power or the obligation to indemnify him or her against such liability under the provisions of Telkonet's amended and restated articles of incorporation.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling the registrant pursuant to the foregoing provisions, the registrant has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is therefore unenforceable.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

On June 6, 2000, we issued warrants to purchase 93,264 shares of our common stock to Jorel, Inc. as consideration for certain general business services provided by Jorel, Inc. These warrants expired on June 5, 2003.

On July 1, 2000, we issued warrants to purchase 46,632 shares of our common stock to Hayden Communications, Inc. as consideration for certain general business services provided by Hayden Communications, Inc. These warrants expired on June 30, 2001.

On July 1, 2000, we issued warrants to purchase 186,528 shares of our common stock to Attkisson, Carter & Akers, Inc. as consideration for the preparation of a research report by Attkisson, Carter & Akers, Inc.

On August 1, 2000, we issued warrants to purchase 46,632 shares of our common stock to Howard Bronson as consideration for certain general business services provided by Mr. Bronson. These warrants expired on July 31, 2001.

On October 15, 2000, we granted options to purchase 100,000 shares of our common stock to Susquehanna Development, LLC as consideration for certain management services provided by Susquehanna Development, LLC. Susquehanna Development, LLC is an affiliate of Telkonet.

On March 9, 2001, we issued A. Hugo DeCesaris a warrant to purchase 1,000,000 shares of our common stock as consideration for his personal guaranty of Telkonet's line of credit with a third party financial institution in the aggregate amount of $250,000. Mr. DeCesaris is an affiliate of Telkonet.

In June 2001, we commenced an offering of up to $1,500,000 of investment units consisting of 1 share of our common stock valued at $0.50 and 1 warrant to purchase 0.5 shares of our common stock at any time during the three years following the date of puchase for an exercise price of $1.00 per share. This offering was concluded on June 30, 2001.

During the third quarter of 2001, we commenced an offering of up to $1,689,100 principal amount of Series A Debentures. The Series A Debentures each accrue interest at 8.0% per annum and mature three years from the date of purchase. Each Series A Debenture is convertible at any time following the six month anniversary of the date of issuance of such Series A Debenture into shares of Telkonet common stock at a conversion price equal to $0.50 per share for each $10,000 principal amount plus interest of the Series A Debenture converted. In connection with the placement of the Series A Debentures, Telkonet issued non-detachable warrants granting holders the right to acquire 1,689,100 share of our common stock at $1.00 per share. On August 24, 2001, in connection with the Series A Debenture offering, we entered into a placement agent agreement with Attkisson, Carter & Akers, Incorporated pursuant to which we agreed to pay Attkisson, Carter & Akers, Incorporated a commission equal to 10.0% of the aggregate value of Series A Debentures placed by Attkisson, Carter & Akers,

Incorporated in the offering and issue to Attkisson, Carter & Akers, Incorporated warrants to purchase shares of our common stock. Pursuant to the placement agent agreement, Attkisson, Carter & Akers, Incorporated received $130,780 and warrants to purchase an aggregate of 261,560 shares of our common stock at a price of $0.525 per share. As of May 23, 2002, the Series A Debenture offering was fully subscribed.

On January 29, 2002, we granted options to purchase 300,000 shares of our common stock to Susquehanna Development, LLC as consideration for certain management services provided by Susquehanna Development, LLC. Susquehanna Development, LLC is an affiliate of Telkonet.

On April 1, 2002, we granted options to purchase 25,000 shares of our common stock to John Quade as consideration for certain management services provided by Mr. Quade.

On August 5, 2002, we granted options to purchase 18,000 shares of our common stock and issued warrants to purchase 50,000 shares of our common stock to Success International, Inc. as consideration for certain product positioning advice provided by Success International, Inc.

During the fourth quarter of 2002, we commenced an offering of up to $2,500,000 principal amount of Series B Debentures. The Series B Debentures each accrue interest at 8.0% per annum and mature three years from the date of purchase. Each Series B Debenture is convertible at any time following the six month anniversary of

the date of issuance of such Series B Debenture into shares of our common stock at a conversion price equal to $0.55 per share for each $10,000 principal amount plus interest of the Series B Debenture converted. In connection with the placement of the Series B Debentures, we also issued non-detachable warrants granting holders the right to acquire 2,500,000 shares of our common stock at $1.00 per share. On October 14, 2002, in connection with the Series B Debenture offering, we entered into a placement agent agreement with Attkisson, Carter & Akers, Incorporated pursuant to which we agreed to pay Attkisson, Carter & Akers, Incorporated a commission equal to 10.0% of the aggregate value of Series B Debentures placed by Attkisson, Carter & Akers, Incorporated in the offering and issue to Attkisson, Carter & Akers, Incorporated warrants to purchase shares of our common stock. Pursuant to the placement agent agreement, Attkisson, Carter & Akers, Incorporated received $114,850 in cash and warrants to purchase an aggregate of 229,700 shares of our common stock at a price of $0.66 per share. In January 2003, we entered into an oral agreement with Warren V. Musser, Chairman of Telkonet's Board of Directors, pursuant to which we agreed to pay Mr. Musser a commission equal to 8.0% of the aggregate value of Series B Debentures purchased by persons referred to Telkonet by Mr. Musser. Pursuant to this agreement, Mr. Musser received $8,000. Mr. Musser is an affiliate of Telkonet. In January 2003, we entered into an oral agreement with Howard Lubert, Telkonet's former Chief Executive Officer, pursuant to which we agreed to pay Mr. Lubert a commission equal to 8.0% of the aggregate value of Series B Debentures purchased by persons referred to Telkonet by Mr. Lubert. Pursuant to this agreement, Mr. Lubert received $12,000. At the time of this payment, Mr. Lubert was an affiliate of Telkonet. As of February 14, 2003, the Series B Debenture offering was fully subscribed.

On January 1, 2003, we granted options to purchase 200,000 shares of our common stock to John Vasilj as consideration for certain general business services provided by Mr. Vasilj.

On January 1, 2003, we granted options to purchase 200,000 shares of our common stock to John Cosper as consideration for certain general business services provided by Mr. Cosper.

On January 30, 2003, we entered into an employment agreement with Ronald W. Pickett, our President, pursuant to which we agreed to issue 3,000 shares of our common stock per month for each month during the term of the employment agreement. As of the date of this registration statement, Mr. Pickett is entitled to receive 21,000 shares of our common stock. These shares will be issued to Mr. Pickett upon his request. Mr. Pickett is an affiliate of Telkonet.

On February 1, 2003, we granted options to purchase 375,000 shares of our common stock to David L. Jordan as consideration for certain general business services provided by Mr. Jordan.

On February 1, 2003, we granted options to purchase 375,000 shares of our common stock to Barry W. Zelin as consideration for certain general business services provided by Mr. Zelin.

On February 1, 2003, we granted options to purchase 250,000 shares of our common stock to Axiom Capital Management, Inc. as consideration for certain general business services provided by Axiom Capital Management, Inc.

On February 3, 2003, we issued 49,998 shares of our common stock to Investor Stock Daily, Inc. as consideration for certain public relations services provided by Investor Stock Daily, Inc.

During the second quarter of 2003, we commenced an offering of up to $5,000,000 principal amount of Senior Notes. The Senior Notes each accrue interest at 8.0% per annum, mature three years from the date of purchase and are secured by a first priority security interest in all of the intellectual property assets of Telkonet. In connection with the placement of the Senior Notes, we also issued non-detachable warrants granting holders the right to acquire 6,250,000 shares of our common stock at $1.00 per share. On May 21, 2003, in connection with the

Senior Note offering, we entered into an agreement with First Montauk Securities Corp. pursuant to which we agreed to pay First Montauk Securities Corp. a commission equal to 4.0% of the aggregate value of Senior Notes purchased by persons referred to Telkonet by First Montauk Securities Corp. Pursuant to this agreement, First Montauk Securities Corp. received $16,000. On June 12, 2003, we entered into a placement agent agreement with vFinance Investments, Inc. pursuant to which we agreed to pay vFinance Investments, Inc. a commission equal to 4.0% of the aggregate value of Senior Notes placed by vFinance Investments, Inc. in the offering. Pursuant to the placement agent agreement, vFinance Investments, Inc. received $13,000. On June 16, 2003, we entered into an agreement with Richard Hansen pursuant to which we agreed to pay Mr. Hansen a commission equal to 4.0% of the aggregate value of Senior Notes purchased by persons referred to Telkonet by Mr. Hansen. Pursuant to this agreement, Mr. Hansen received $52,600. As of June 26, the Senior Note offering was fully subscribed.

On May 21, 2003, we issued 35,000 shares of our common stock to vFinance Investments, Inc. as consideration for certain investment banking and investment advisory services provided by vFinance Investments, Inc.

On May 21, 2003, we issued warrants to purchase 50,000 shares of our common stock to First Montauk Securities Corp. as consideration for certain financial services provided by First Montauk Securities Corp.

On July 3, 2003, we agreed to issue 5,000 shares of our common stock to The Research Works, Inc. as consideration for the preparation of a research report by The Research Works, Inc.

On July 7, 2003, we agreed to issue 5,000 shares of our common stock to Market-Pulse Inc. as consideration for certain public relations services provided by Market Pulse.

On July 21, 2003, we agreed to issue 17,000 shares of our common stock to CEOcast, Inc. as consideration for certain investor relations and consulting services provided by CEOcast, Inc.

On August 26, 2003, we sold 333 shares of our common stock to H.E. and Paula J. Fowler at a price of $2.00 per share.

Each of the transactions described in this Item 15 were effected in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933 and/or Rule 506 of Regulation D promulgated thereunder.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

Exhibit Number	Description of Exhibits
1.1	Placement Agent Agreement by and between Telkonet, Inc. and Attkisson, Carter & Akers, Incorporated, dated as of August 24, 2001
1.2	Placement Agent Agreement by and between Telkonet, Inc. and Attkisson, Carter & Akers, Incorporated, dated as of October 14, 2002
1.3	Placement Agent Agreement by and between Telkonet, Inc. and vFinance Investments, Inc., dated as of June 12, 2003

3.1	Amended and Restated Articles of Incorporation (incorporated by reference to our Form 8-K (No. 000-27305), filed on August 30, 2000 and our Form S-8 (No. 333-47986), filed on October 16, 2000)
3.2	Bylaws

4.1 Telkonet, Inc. Series A Convertible Debenture and Common Stock Purchase Warrant (incorporated by reference to our Form 10-KSB (No. 000-27305), filed on March 31, 2003)

4.2 Telkonet, Inc. Series B Convertible Debenture and Common Stock Purchase Warrant (incorporated by reference to our Form 10-KSB (No. 000-27305), filed on March 31, 2003)

4.3 Telkonet, Inc. Senior Note and Common Stock Purchase Warrant

5 Opinion of Baker & Hostetler LLP as to the validity of the issuance of the common stock of Telkonet, Inc. being registered

10.1 Amended and Restated Telkonet, Inc. Incentive Stock Option Plan (incorporated by reference to our Form S-8 (No. 333-412), filed on April 17, 2002)

10.2 Employment Agreement by and between Telkonet, Inc. and Peter Larson, dated as of June 19, 2000 (incorporated by reference to our Form 8-K (No. 000-27305), filed on August 30, 2000)

10.3 Employment Agreement by and between Telkonet, Inc. and Stephen L. Sadle, dated as of June 19, 2000 (incorporated by reference to our Form 8-K (No. 000-27305), filed on August 30, 2000)

10.4 Amendment to Employment Agreement by and between Telkonet, Inc. and Stephen L. Sadle, dated as of April 24, 2002

10.5 Employment Agreement by and between Telkonet, Inc. and Stephen L. Sadle, dated as of January 18, 2003

10.6 Employment Agreement by and between Telkonet, Inc. and J. Gregory Fowler, dated as of January 30, 2002

10.7 Employment Agreement by and between Telkonet, Inc. and David S. Yaney, dated as of February 15, 2002

10.8 Employment Agreement by and between Telkonet, Inc. and Howard Lubert, dated as of January 1, 2003

10.9 Separation Agreement by and between Telkonet, Inc. and Howard Lubert, dated as of June 16, 2003

10.10 Employment Agreement by and between Telkonet, Inc. and Robert P. Crabb, dated as of January 18, 2003

10.11 Employment Agreement by and between Telkonet, Inc. and Ronald W. Pickett, dated as of January 30, 2003

10.12 Employment Agreement by and between Telkonet, Inc. and E. Barry Smith, dated as of February 17, 2003

21 Telkonet, Inc. Subsidiaries

23.1 Consent of Russell Bedford Stefanou Mirchandani LLP relating to the financial statements of Telkonet, Inc.

23.2 Consent of Baker & Hostetler LLP (included in Exhibit 5)

24 Power of Attorney (included on signature page)

ITEM 17. UNDERTAKINGS

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(a) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(b) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the

total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Securities and Exchange Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and

(c) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided, however, that paragraphs (1)(a) and (1)(b) shall not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Securities and Exchange Commission by the registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial BONA FIDE offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial BONA FIDE offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, Telkonet, Inc. has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Annapolis, State of Maryland, on the 28th day of August, 2003.

TELKONET, INC.

By: /s/ Stephen L. Sadle

Stephen L. Sadle
Chief Operating Officer

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Stephen L. Sadle, E. Barry Smith and Robert P. Crabb, or any of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and

stead, in any and all capacities, to sign any and all post-effective amendments to this registration statement, and to file the same with all exhibits hereto, and other documents in connection herewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed on August 28, 2003 by the following persons in the capacities indicated below.

Signature	Title
/s/ Stephen L. Sadle Stephen L. Sadle	Chief Operating Officer and Director
/s/ Ronald W. Pickett Ronald W. Pickett	President and Director
/s/ E. Barry Smith E. Barry Smith	Chief Financial Officer
/s/ Warren V. Musser Warren V. Musser	Chairman of the Board of Directors
/s/ A. Hugo DeCesaris A. Hugo DeCesaris	Director
/s/ David W. Grimes David W. Grimes	Director
/s/ Robert P. Crabb Robert P. Crabb	Secretary

EXHIBIT INDEX

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24	Power of Attorney (included on signature page)

Exhibit 1.1

TELKONET, INC.
902 A COMMERCE ROAD
ANNAPOLIS, MD 21401

BEST EFFORTS

SELLING AGREEMENT

August 24, 2001

Attkisson, Carter & Company
3060 Peachtree Road, NW
Suite 1400
Atlanta, Georgia 30305

Ladies and Gentlemen:

Telkonet, Inc., a Utah corporation (the "Company"), proposes to issue and sell (the "Offering"), through Attkisson, Carter & Company, a Georgia corporation (the "Placement Agent"), on an exclusive basis, together with certain other sellers selected by the Placement Agent to assist in selling the Offering (the "Associate Agents"), up to 125 investment units (the "Units") each consisting of a debenture of the Company in the principal amount of $20,000.00 (the "Debenture"), which Debenture is convertible into shares of common stock, par value $0.001, of the Company (the "Common Stock") as hereafter described, together with 20,000 warrants (the "Warrants") to purchase a share of Common Stock (with the Debenture and the Warrants being collectively referred to as the "Securities"). The Securities are more particularly described in the Company's Confidential Offering Memorandum (as herein defined). This Selling Agreement (the "Agreement") confirms the agreement between the Company and the Placement Agent concerning the sale of Securities by the Placement Agent.

ARTICLE 1. CONFIDENTIAL OFFERING MEMORANDUM. The Securities will be sold pursuant to an exemption from registration under Securities and Exchange Commission ("SEC") Regulation D and Rule 506 thereof promulgated under the Securities Act of 1933, as amended (the "Securities Act"), and in reliance upon applicable exemptions under state law. The Company has prepared a Confidential Offering Memorandum, which describes the Securities and includes the form of subscription agreement containing representations, warranties, terms and conditions subject to which the Securities will be sold (the "Purchase Agreement"). Copies of the Confidential Offering Memorandum have been sent to the Placement Agent by the Company for the uses and purposes permitted by the Securities Act. The term "Confidential Offering Memorandum," as used in this Agreement, shall mean the Confidential Offering Memorandum, including all exhibits thereto (including the Company's Form 10-KSB for the year ended December 31, 2000 and the Company's Form 8-K dated August 31, 2000) and financial statements contained or incorporated therein, as the same may be supplemented or amended by the Company from time to time in conformity with the provisions hereof.

ARTICLE 2. REPRESENTATIONS AND WARRANTIES OF THE COMPANY. The Company hereby represents and warrants to, and covenants and agrees with, the Placement Agent that as of the closing of the sale of the securities under this Agreement (the "Closing"):

2.1 The Confidential Offering Memorandum, together with all exhibits thereto, has been prepared by the Company in conformity with the applicable requirements of the Securities Act and, to the extent applicable to the Company, the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations promulgated by the Commission thereunder.

2.2 On the date hereof and as of the Termination Date hereunder, the Confidential Offering Memorandum shall conform in all material respects to the applicable requirements of the Securities Act, the Exchange Act, and the rules

and regulations promulgated by the Commission thereunder. The Confidential Offering Memorandum does not and 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 therein, in light of the circumstances under which they were made, not misleading. The representations, warranties, covenants, and agreements contained in this Section 2.2 shall not apply to statements in, or omissions from, any such documents drafted in reliance upon, and in conformity with, written information furnished to the Company by the Placement Agent, that was furnished specifically for use in the preparation thereof.

2.3 No order preventing or suspending the sale of the Securities has been issued by the Commission.

2.4 The Confidential Offering Memorandum describes or attaches as an exhibit thereto every contract or document necessary to make the statements in the Confidential Offering Memorandum, in light of the circumstances under which they were made, not misleading.

2.5 The financial statements and schedules included in the Confidential Offering Memorandum, including the related notes and footnotes thereto, present fairly the financial condition, results of the operations and changes in financial condition of the entities purported to be shown thereby as of the dates and for the periods indicated and have been prepared in accordance with generally accepted accounting principles applied on a consistent basis throughout the periods indicated. All adjustments necessary for a fair presentation of the results for such periods have been made.

2.6 The Company, and any Subsidiary (as herein defined) has been duly organized and is validly existing under the laws of the jurisdiction of its organization or incorporation, with full power and authority to own, lease and operate its properties, conduct its business as described in the Confidential Offering Memorandum and is duly qualified to do business and, if applicable, is in good standing as a foreign corporation in each jurisdiction in which the character of the business conducted by it or the location of the properties owned, leased or operated by it make such qualification necessary. The Company and each Subsidiary is in possession of and operating in compliance with all

franchises, grants, authorizations, licenses, permits, easements, consents, certificates and orders required for the conduct of its business, all of which are valid and in full force and effect (except where any failure to do so would not result in a material adverse change in the condition (financial or otherwise), business, prospects, properties, or results of operations of the Company and any Subsidiaries considered as a whole). Neither the Company nor any Subsidiary has received any notice of proceedings relating to the revocation or modification of any such franchise, grant, authorization, license, permit, easement, consent, certificate or order which, individually or in the aggregate, if the subject of an unfavorable decision, would result in a material adverse change in the condition (financial or otherwise), business, prospects, properties, or results of operations of the Company and any Subsidiaries considered as a whole.

2.7 The Company's authorized shares consist of 100,000,000 shares of common stock, $0.001 par value, of which 22,115,371 shares are outstanding, and 15,000,000 shares of preferred stock, of which no shares are outstanding on the date hereof. The outstanding shares of the Company's stock have been duly authorized and validly issued, were not issued in violation of any statutory preemptive rights of shareholders, and are fully paid and nonassessable. As set forth in the Confidential Offering Memorandum, the Company has also issued warrants and options to purchase an aggregate of 3,530,466 shares of Common Stock. Except as described in the Confidential Offering Memorandum, there are no options, subscriptions, warrants, calls, rights or commitments obligating the Company to issue equity securities or acquire its equity securities.

2.8 The description of the Securities conforms to the description thereof contained under the caption "Description of Capital Stock" in the Confidential Offering Memorandum. The Securities, upon issuance, delivery and payment therefor in the manner herein described, will be duly authorized, validly issued, fully paid and non-assessable. There are no pre-emptive rights or other rights to subscribe for or purchase the Securities or any restriction

upon any transfer rights of the Securities pursuant to the Articles of Incorporation, as amended, Bylaws or other governing documents of the Company or any agreement or other instrument to which the Company or any Subsidiary is a party or by which any of them may be bound. Except as contemplated by the terms and conditions of the Registration Rights Agreement as set forth in Appendix D in the Confidential Offering Memorandum, neither the Offering or the sale of the Securities as contemplated by this Agreement gives rise to any rights for or relating to the registration of any Securities, other than those which have already been waived or satisfied.

2.9 Subsequent to the respective dates as of which information is given in the Confidential Offering Memorandum, and except as described in the Confidential Offering Memorandum: (i) neither the Company nor any Subsidiary has incurred any liabilities or obligations, direct or contingent, or entered into any transactions not in the ordinary course of business, which are material to the Company; and (ii) there has been no material adverse change in, or any adverse development which materially affects the business, prospects, properties, condition (financial or otherwise) or results of operations of the Company. Except as described in the Confidential Offering Memorandum, neither

the Company nor any Subsidiary is, nor with the giving of notice or lapse of time, or both, would be, in violation of or in default under, nor will the execution or delivery hereof, nor the consummation of the transactions contemplated hereby, result in a violation of or a default under the Articles of Incorporation, as amended, Bylaws, or other governing documents of the Company, or any agreement, contract, mortgage, deed of trust, loan agreement, note, lease, indenture or other instrument to which the Company is a party or by which it is bound, or to which any of its property is subject. The performance by the Company of its obligations hereunder will not violate any law, rule, administrative regulation or decree of any court or governmental agency or body having jurisdiction over the Company or any Subsidiary or any of their respective properties, nor result in the creation or imposition of any lien, charge, claim or encumbrance upon any property or asset of the Company. Except for applicable authorizations required under the Securities Act, the Exchange Act and the securities or "Blue Sky" laws of certain jurisdictions, and except for such permits and authorizations which have already been obtained, no consent is required in connection with the consummation of the transactions contemplated by this Agreement.

2.10 This Agreement has been duly authorized, executed and delivered by the Company and constitutes the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except to the extent that enforceability may be affected by any bankruptcy, insolvency, moratorium or other similar laws affecting the rights or remedies of creditors generally.

2.11 Each of the Company and any Subsidiary has good and marketable title to all items of real property and good and marketable title to all personal property owned by each of them, in each case free and clear of all claims, liabilities, liens, encumbrances and defects, except as described in the Confidential Offering Memorandum or such as do not materially effect the value of such property and do not interfere with the use or proposed use of such property by the Company and such Subsidiary. Any real property and buildings held under lease by the Company or any Subsidiary are held under valid, existing and enforceable leases with such exceptions as are not material and do not interfere with the use or proposed use of such property and buildings by the Company or such Subsidiary.

2.12 Except as described in the Confidential Offering Memorandum, there is no litigation or governmental proceeding to which the Company or any Subsidiary is a party or to which any property of the Company or any Subsidiary is subject or which is pending or, to the knowledge of the Company or any Subsidiary, threatened against it which individually or in the aggregate might result in any material adverse change in the condition (financial or otherwise), business, prospects, properties, or results of operations of the Company or any Subsidiary, or which would materially and adversely effect the consummation of this Agreement or the transactions contemplated hereby or which is required to be disclosed in the Confidential Offering Memorandum.

2.13 Neither the Company nor any Subsidiary is in violation of any law,

ordinance, governmental rule or regulation or court decree to which it may be subject which could be reasonably expected to have a material adverse effect on the condition (financial or otherwise), business, prospects, properties, results of operations, or net worth of the Company, taken as a whole.

2.14 The Company has not taken and will not take, directly or indirectly, any action designed to cause or result in, or which has constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price of the Securities to facilitate a sale or re-sale of the Securities.

2.15 For purposes of this Agreement, the term "Subsidiary" or "Subsidiaries" shall mean any corporation, partnership, business trust or other similar entity to which the Company has a controlling or majority interest.

ARTICLE 3. REPRESENTATIONS AND WARRANTIES OF THE PLACEMENT AGENT. The Placement Agent hereby represents and warrants to, and covenants and agrees with, the Company that:

3.1 The Placement Agent, each Associate Agent and all of its agents and representatives have or will have all required licenses and registrations to perform their obligations under this Agreement, and such licenses and registrations will remain in effect during the term of this Agreement. The Placement Agent and each Associate Agent is a member in good standing of the National Association of Securities Dealers, Inc.

3.2 Any and all information furnished to the Company by the Placement Agent in writing expressly for use in the Confidential Offering Memorandum did not and will not contain any untrue statement of material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

3.3 The Placement Agent and each Associate Agent will take all actions to fulfill its duties under the Exchange Act and the rules and regulations thereunder, which duties relate to transmission and maintenance of subscription funds from prospective purchasers in the Offering.

3.4 The Placement Agent and each Associate Agent will deliver to the Company the original copies of all subscription documents of prospective purchasers received by the Placement Agent and each Associate Agent in the Offering, and the Placement Agent and each Associate Agent will promptly inform the Company of any facts which come to its attention which would cause a reasonable person to believe that such subscription documents contain any material misstatement or omission.

3.5 The Placement Agent and each Associate Agent will comply with all applicable laws in connection with the performance of its duties hereunder.

3.6 There is no presently pending or threatened action against the Placement Agent before any court or governmental agency or body which, in the reasonable judgment of the Placement Agent, might materially adversely affect the ability of the Placement Agent to perform its duties hereunder.

ARTICLE 4. PLACEMENT OF SECURITIES BY THE PLACEMENT AGENT; PAYMENT; TERMINATION.

4.1 Subject to the terms and conditions hereof and upon the basis of the representations, warranties and agreements herein set forth, the Company hereby appoints the Placement Agent as its agent, on an exclusive basis, subject to the right of the Placement Agent to designate and appoint Associate Agents, from the date hereof to sell the Securities on a best efforts basis, and, subject further to the right of the Company to itself sell the Securities without the payment of fees to the Placement Agent hereunder on Units sold by the Company. On the basis of and subject to the representations, warranties, covenants and agreements set forth herein, the Placement Agent hereby accepts such appointment and agrees to use its best efforts to find purchasers for the Securities. The price at which the Placement Agent, as agent for the Company, shall sell the Units to the subscribers shall be $20,000.00 per Unit. A Unit will consist of the Debenture in the principal amount of $20,000, which

Debenture is convertible into 40,000 shares of Common Stock at a price of $0.50 per share (the "Per Share Selling Price"), and 20,000 Warrants. However, the Company reserves the right to sell partial Units in the Offering. The Company shall pay the Placement Agent (i) a retainer in the amount of $25,000.00, payable from the first funds received from the Offering, (ii) a commission equal to eight percent (8%) of the selling price for each Unit or portion thereof sold by the Placement Agent and accepted by the Company, (iii) an investment banking fee equal to two percent (2%) of the selling price for each Unit or portion thereof sold by the Placement Agent and accepted by the Company, and (iv) warrants for the purchase of Common Stock in a number equal to twenty percent (20%) multiplied by the aggregate selling price for each Unit or portion thereof sold by the Placement Agent and accepted by the Company with an exercise price equal to one hundred five percent (105%) of the Per Share Selling Price, or $0.525 per share, provided, however, the Warrants issued to the Placement Agent shall permit a cashless exercise of the Warrant by the Placement Agent. Each of the Placement Agent and the Company shall have the right to reject any subscription and to allocate Securities among subscribers.

4.2 As described in the Confidential Offering Memorandum, during the period of the Offering, the Purchase Agreement duly executed by a subscriber and the proceeds from the subscriptions for the Securities shall, upon receipt by the Placement Agent, be promptly forwarded to the Company. Within ten (10) days of receipt by the Company of such documents and funds, the Company shall forward to such subscriber the Debenture and Warrant for the Securities so purchased.

4.3 Each of the parties hereto agree that this Agreement shall thereafter be automatically terminate (the "Termination Date") upon earlier of (i) the date that all Units (or such lesser number as the parties may agree in writing) of Securities shall have been subscribed for and the funds therefor shall have been delivered to the Company or (ii) October 31, 2001, unless extended by the Company for a reasonable period of time not to exceed sixty (60) days.

4.4 The Placement Agent shall use its best efforts to ensure that all purchasers of the Securities are accredited investors, however, the Company, in its reasonable discretion, prudently exercised, may accept up to thirty-five (35) non-accredited, yet sophisticated, investors. In so doing, the Company may review such investors financial information as may be reasonably necessary.

ARTICLE 5. THE OFFERING OF THE SECURITIES.

5.1 When offering the Securities for sale hereunder, the Placement Agent shall offer the Securities solely as an agent for the Company, and such offer of sale shall be made upon the terms and subject to the conditions set forth in the Confidential Offering Memorandum and the Purchase Agreement. The Placement Agent shall commence making such offer of sale as an agent for the Company on or about the date hereof. In connection with the Offering, the Placement Agent will not make a general solicitation or do anything else which will cause the Offering not to be exempt from the registration requirements of the Securities Act.

5.2 The information set forth in the section of the Confidential Offering Memorandum entitled "Plan of Distribution" relating to the Securities proposed to be sold by the Company (insofar as such information relates to the Placement Agent) constitutes the only information furnished by the Placement Agent to the Company for inclusion in the Confidential Offering Memorandum and the Placement Agent hereby represents and warrants to the Company that the statements therein are true and correct as of the date such statements were made by the Placement Agent.

ARTICLE 6. COVENANTS. The Company covenants and agrees with the Placement Agent that:

6.1 The Company shall (a) comply with the provisions of and make all requisite filings with the Commission pursuant to the Securities Act and the rules and regulations promulgated by the Commission thereunder and (b) continue to make filings under the Exchange Act consistent with, and in accordance with, the Company's past practices. The Company shall immediately notify the Placement Agent in writing of all filings under the Exchange Act. The Company shall prepare, promptly upon the written request of the Placement Agent, any amendments of or supplements to the Confidential Offering Memorandum which, in

the sole opinion of the Placement Agent, may be necessary or advisable in connection with the offer and sale of the Securities. The Company may not make any amendment or supplement to the Confidential Offering Memorandum unless such amendment or supplement is approved by the Placement Agent after reasonable notice thereof, provided that such approval may not be unreasonably denied, withheld or delayed. The Company shall advise the Placement Agent promptly of the issue by the Commission or any state or other regulatory body of any stop order or order suspending the sale of Securities, suspending or preventing the use of the Confidential Offering Memorandum or suspending the qualification of the Securities for offering or sale in any jurisdiction, or of the institution of any proceedings for any such purpose. The Company shall use its best efforts to prevent the issuance of any such stop order or other such order, and should a stop order or other such order be issued, the Company shall use its best efforts to obtain as soon as practicable after the imposition of such stop order or other such order the lifting thereof.

6.2 The Company shall furnish to the Placement Agent from time to time and without charge, copies of the Confidential Offering Memorandum including all exhibits and all amendments and supplements thereto in such quantities as the Placement Agent may reasonably request.

6.3 At all times during the Offering, the Company shall comply with all requirements imposed upon it by the Securities Act, the Exchange Act (to the extent applicable to the Company) and the rules and regulations promulgated by the Commission thereunder, so far as is necessary to permit the continuance of offers and sales of or dealings in the Securities as contemplated by the provisions of the Confidential Offering Memorandum and this Agreement. If, during such period, any event occurs that would result in the Confidential Offering Memorandum including an untrue statement of a material fact or omitting to state a material fact necessary to make the statements therein, in light of the circumstances then existing, not misleading, or during the Offering it is necessary to amend or supplement the Confidential Offering Memorandum to comply with the Securities Act, the Company shall promptly notify the Placement Agent and shall promptly supplement or amend the Confidential Offering Memorandum so as to correct such statement or omission or to effect such compliance.

6.4 The Company shall take or cause to be taken all necessary action and shall furnish to whomever the Placement Agent may direct such information as may be required to qualify the Securities for sale under the laws of such jurisdictions which the Placement Agent shall designate and shall continue such qualifications in effect for as long as may be necessary for the distribution of the Securities.

6.5 The Company shall apply the net proceeds of the sale of the Securities in the manner specified in the Confidential Offering Memorandum under the caption "Use of Proceeds" and shall file such reports, if any, with the Commission with respect to the sale of Securities and the application of the proceeds therefrom as may be required in accordance with applicable law and regulations, including without limitation applicable state securities or Blue Sky laws.

6.6 The Company will furnish to its security holders annual reports containing financial statements audited by independent public accounts and quarterly reports containing financial statements and financial information which may be unaudited. During the period of time until the earlier of five (5) years from the date of this Agreement or the dissolution of the Company, the Company shall deliver to the Placement Agent copies of each annual report of the Company and each other report furnished by the Company to its securities holders and will deliver to the Placement Agent as soon as available copies of any other reports (financial or otherwise) that the Company shall publish or otherwise make available to its security holders generally and as soon as available, copies of any reports and financial statements furnished to or filed with the Commission or the NASD.

6.7 The Company shall pay or cause to be paid, upon request of the Placement Agent accompanied by invoices or other appropriate documentation, (i) all reasonable expenses incurred by the Placement Agent, in connection with (a) the preparation, printing, filing, delivery and shipping of the Confidential Offering Memorandum and any other documents, including, without limitation, questionnaires, powers of attorney, and Blue Sky memoranda, (b) all filing fees and fees and disbursements of counsel to the Placement Agent incurred in

connection with the qualification of the Securities for sale under state

securities or Blue Sky laws as provided herein, (c) any applicable listing fees, (d) the cost of printing documents and certificates representing the Securities, (e) the costs and charges of any transfer agent or registrar; and (ii) all other expenses of the Placement Agent, in an amount not to exceed $25,000.00, including (a) all reasonable out-of-pocket disbursements (including fees and disbursements of counsel) incurred by the Placement Agent in connection with its investigation, preparation to market and marketing of the Securities or the contemplation of performing its obligations hereunder, and (b) all other reasonable costs and expenses incident to the performance of the Placement Agent's obligations hereunder which are not otherwise provided for in this Section 6.7.

ARTICLE 7. CONDITIONS PRECEDENT.

7.1 The obligations of the Placement Agent hereunder are subject to the following further conditions:

(a) Subsequent to the execution and delivery of this Agreement and prior to the Termination Date, there shall not have occurred any change, or any development involving a prospective change, in the conditions (financial or otherwise), earnings, business, prospects, properties or operations of the Company or any Subsidiaries, taken as a whole, from that set forth in the Confidential Offering Memorandum that, in the judgment of the Placement Agent, is materially adverse and that makes it, in the judgment of the Placement Agent, impracticable to market the Securities on the terms and in the manner contemplated in the Confidential Offering Memorandum.

(b) The Placement Agent shall have received on the date hereof and on the Termination Date certificates, dated as of such dates and signed by the chief executive officer of the Company, to the effect that the representations and warranties of the Company contained in this Agreement are true and correct as of the dates of such certificates and that the Company has complied with all of the agreements and satisfied all of the conditions on its part to be performed or satisfied hereunder on or as of the date of such certificates.

(c) The Placement Agent shall have received an opinion of counsel to the Company, dated as of the date hereof, and shall be substantially to the effect that:

(i) the Company is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and has all requisite power and authority to own, lease and operate its property and conduct its business as described in the Confidential Offering Memorandum;

(ii) the Securities to be sold by the Company, when delivered in accordance with Section 4.1 hereof, have been duly authorized and will be, upon issuance and delivery against payment therefor in accordance with the terms of this Agreement, validly issued, fully paid and non-assessable and will not be subject to any preemptive or other rights to subscribe for or purchase Securities pursuant to the organizational documents of the Company or, to the best of such counsel's knowledge, otherwise;

(iii) The Company's authorized shares consist of 100,000,000 shares of common stock, $0.001 par value, of which 22,115,371 shares are outstanding, and 15,000,000 shares of preferred stock, par value $0.001 per share, of which no shares are outstanding. The outstanding shares of the Company's stock have been duly authorized and validly issued, were not issued in violation of any statutory preemptive rights of shareholders, and are fully paid and nonassessable. The Company has issued warrants and options to purchase an aggregate of 3,530,466 shares of its Common Stock, as set forth in the Confidential Offering Memorandum. Except as described in the Confidential Offering Memorandum, there are no options, subscriptions,

warrants, calls, rights or commitments obligating the Company to issue equity securities or acquire its equity securities;

(iv) the amounts, terms and designations of the capital stock of the Company conform as to legal matters in all material respects to the description thereof contained in the Confidential Offering Memorandum under the caption "Description of Capital Stock";

(v) this Agreement has been duly authorized, executed and delivered by the Company and, when so executed and delivered, constitutes the legal, valid and binding obligation of the Company, enforceable against the Company;

(vi) the execution, delivery and performance by the Company of this Agreement, before or as of the date hereof, (A) do not conflict with or violate the Articles of Incorporation, as the same may have been amended, the Bylaws, as the same may have been amended, of the Company and (B) are neither prohibited by, nor subject the Company to, any fine, penalty or similar sanction that would be materially adverse to the Company under any statute or regulation of the State of Utah or under federal law (including federal securities laws);

(vii) to the knowledge of such counsel, the Company has all necessary consents, authorizations, approvals, orders, certificates and permits of and from, and has made all declarations and filings with, all federal, state, local and other governmental authorities, all self-regulatory organizations, all courts and other tribunals, to own, lease, license and use its properties and assets and to conduct its business in the manner described in the Confidential Offering Memorandum, except to the extent that the failure to obtain or file would not have a material adverse effect on the Company;

(viii) to the knowledge of such counsel, no authorization, consent, approval of or qualification with any federal or state governmental authority is required for the execution, delivery or performance by the Company of this Agreement, except such as have been previously made or obtained, in connection with the distribution of the Securities by the Placement Agent, and except those which, if not made or obtained, will not, individually or in the aggregate, have a material adverse effect on the Company;

(ix) nothing has come to the attention of such counsel to cause such counsel to believe that (except for financial statements, projections, schedules and other financial and statistical information included or incorporated by reference in the Confidential Offering Memorandum as to which such counsel need not express any

opinion) the Confidential Offering Memorandum contained any untrue statement of a material fact or omitted 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, or that the Confidential Offering Memorandum as of the Termination Date, contained any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading;

(x) to such counsel's knowledge, there are no legal or governmental proceedings pending or threatened to which the Company or any Subsidiary is a party or to which any of the properties of the Company or any Subsidiary is subject that are not fairly summarized in all material respects in the Confidential Offering Memorandum or are attached as exhibits thereto;

(xi) to such counsel's knowledge, after due inquiry, all contracts, indentures, mortgages, loan agreements, leases or other documents to which the Company is a party or to which its business or properties are subject are fairly summarized in all material respects in the Confidential Offering Memorandum or are attached as exhibits

thereto; and

(xii) after due inquiry, such counsel does not know of any pending or threatened proceeding relating to the revocation or modification of any consent, authorization, approval, order, certificate or permit necessary to the conduct of the business of the Company or any Subsidiary.

(d) The Placement Agent shall have received on the Termination Date an opinion of counsel to the Company, dated as of such Termination Date, substantially to the effect that:

(i) the Company is in good standing under the laws of the jurisdiction of its organization;

(ii) nothing has come to the attention of such counsel to cause such counsel to believe that (except for financial statements, schedules and other financial and statistical information included or incorporated by reference in the Confidential Offering Memorandum as to which such counsel need not express any opinion) the Confidential Offering Memorandum contained any untrue statement of a material fact or omitted 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, or that the Confidential Offering Memorandum as of the Termination Date, contained any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading;

(iii) to such counsel's knowledge, there are no pending or threatened proceedings relating to the revocation or modification of any consent, authorization, approval, order, certificate or permit necessary to the conduct of the business of the Company.

ARTICLE 8. INDEMNIFICATION.

8.1 The Company agrees to indemnify and hold harmless the Placement Agent and each person who "controls" the Placement Agent, as the term "control" is defined under either Section 15 of the Securities Act or Section 20 of the Exchange Act, from and against any and all losses, claims, damages and liabilities (including, without limitation, any legal or other expenses reasonably incurred by the Placement Agent or any such controlling person in connection with defending or investigating any such action or claim) caused by any untrue statement or alleged untrue statement of a material fact contained in the Confidential Offering Memorandum, or any application under federal or state securities laws, or caused by any omission or alleged omission to state therein 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, except insofar as such losses, claims, damages or liabilities are caused by any such untrue statement or omission or alleged untrue statement or omission based upon information relating to the Placement Agent or the manner in which the Securities will be offered that was furnished to the Company by the Placement Agent for use in the Confidential Offering Memorandum.

8.2 The Placement Agent agrees to indemnify and hold harmless the Company, any executive officer of the Company and each person who "controls" the Company to the same extent as the foregoing indemnity from the Company to the Placement Agent, but only with reference to information relating to the Placement Agent, or the manner in which the Securities will be offered, that was furnished to the Company in writing by such Placement Agent expressly for use in the Confidential Offering Memorandum.

8.3 If any proceeding (including any governmental investigation) shall be instituted involving any person having the right to seek indemnity pursuant to this Article 8, such person (the "Indemnified Party") shall promptly notify the party against whom such indemnity may be sought (the "Indemnifying Party") in writing, and the Indemnifying Party, upon request of the Indemnified Party, shall retain counsel reasonably satisfactory to the Indemnified Party to represent the Indemnified Party and any other persons or entities Indemnifying Party may designate in such proceeding and shall pay the fees and disbursements

of such counsel related to such proceeding. In any such proceeding, the Indemnified Party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party unless (x) the Indemnifying Party and the Indemnified Party shall have mutually agreed to the retention of such counsel or (y) the named parties to any such proceeding (including any impleaded parties) include both the Indemnifying Party and the Indemnified Party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between the Indemnifying Party and the Indemnified Party. Each of the parties hereto agree that any Indemnified Party will notify the Indemnifying Party in writing

if such Indemnified Party desires more than one separate firm (in addition to any local counsel) representing the Indemnified Party in connection with any proceeding or related proceedings in the same jurisdiction (such notice designating the name and address of such additional firm), and the Indemnifying Party shall not, with respect to the legal expenses of such Indemnified Party with respect to such additional firm in connection with such proceeding or related proceedings in the same jurisdiction, be liable for the fees and expenses of more than one separate firm (in addition to any local counsel) for such Indemnified Party. The Indemnifying Party shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent or if there be a final judgment for the plaintiff, the Indemnifying Party agrees to indemnify the Indemnified Party from and against any loss or liability by reason of such settlement or judgment. Notwithstanding the foregoing, if at any time an Indemnified Party shall have requested the Indemnifying Party to reimburse the Indemnified Party for fees and expenses of counsel as provided in this Article 8, the Indemnifying Party agrees that it shall be liable for any settlement of any proceeding effected without its written consent if (i) such settlement is entered into more than sixty (60) days after receipt by such Indemnifying Party of the aforesaid request; (ii) such Indemnifying Party shall not have reimbursed the Indemnified Party in accordance with such request prior to the date of such settlement; and (iii) such Indemnified Party shall have given the Indemnifying Party at least sixty (60) days' prior notice of its intention to settle. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, effect any settlement of any pending or threatened proceeding in respect of which any Indemnified Party is or could have been a party and indemnity could have been sought hereunder by such Indemnified Party, unless such settlement includes an unconditional release of such Indemnified Party from all liability with respect to claims that are the subject matter of such proceeding.

8.4 If the indemnification provided for in the Section 8.1 or 8.2 hereof is unavailable to the Indemnified Party or insufficient in respect of any losses, claims, damages or liabilities referred to therein, then each Indemnifying Party under such Section, 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 the relative benefits received by the Indemnifying Party (or parties, as the case may be), on the one hand, and the Indemnified Party (or parties, as the case may be), on the other hand, from the Offering; or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above, but also the relative fault of the Indemnifying Party (or parties), on the one hand, and of the Indemnified Party (or parties), on the other hand, in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative benefits received by the Company, on the one hand, and the Placement Agent, on the other hand, in connection with the Offering 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 the total of all commissions received by the Placement Agent, in each case as set forth in the Confidential Offering Memorandum, bear to the aggregate price paid for the Securities by all subscribers therefor. The relative fault of the Company, on the one hand, and the Placement Agent, on the other hand, 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 or by the Placement Agent and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

8.5 The Company and the Placement Agent each agree that it would not be just or equitable if contribution pursuant to this Article 8 were determined by pro rata allocation or by any other method of allocation that does not take account of the equitable considerations referred to in Section 8.4 hereof. The amount paid or payable by an Indemnified Party as a result of the losses, claims, damages and liabilities referred to in Section 8.4 hereof shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such Indemnified Party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Article 8, the Placement Agent shall not be required to contribute any amount in excess of the amount by which the total price at which the Securities underwritten and offered by it and distributed to subscribers exceeds the amount of any damages that such Placement Agent has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of a fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The remedies provided for in this Article 8 are not exclusive and shall not limit any rights or remedies which may otherwise be available to any Indemnified Party at law or in equity.

8.6 The indemnity and contribution provisions contained in this Article 8 and the representations and warranties of the Company and the Placement Agent contained in this Agreement shall remain operative and in full force and effect regardless of (i) any termination of this Agreement; (ii) any investigation made by or on behalf of the Placement Agent or any person "controlling" the Placement Agent or by or on behalf of the Company, its officers, directors, employees or any person controlling the Company; and (iii) acceptance of and payment for any of the Securities.

ARTICLE 9. NOTICE OF TERMINATION; EFFECTIVE AGREEMENT. This Agreement shall be subject to termination by notice given by the Placement Agent to the Company, if (a) after the execution and delivery of this Agreement and prior to the Termination Date hereunder, (i) trading generally shall have been suspended or materially limited on or by, as the case may be, the New York Stock Exchange, the American Stock Exchange or the National Association of Securities Dealers, Inc.; (ii) trading of any securities of the Company shall have been suspended on any exchange or in any over-the-counter market; (iii) a general moratorium on commercial banking activities in the State of New York shall have been declared by either federal authorities or authorities for the State of New York; or (iv) there shall have occurred any outbreak or escalation of hostilities or any change in financial markets or any calamity or crisis that, in the judgment of the Placement Agent, in its sole discretion, is material and adverse, and (b) in the case of any of the events specified in clauses (a)(i) through (iv), such event singly or together with any other such event makes it, in the judgment of the Placement Agent, in its sole discretion, impracticable or commercially unreasonable to market the Securities on the terms and in the manner contemplated in the Confidential Offering Memorandum.

ARTICLE 10. MISCELLANEOUS.

10.1 This Agreement shall become effective upon the execution and delivery hereof by the parties hereto.

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

10.3 This Agreement shall be governed by and construed in accordance with the internal laws of the State of Maryland, without giving effect to any principles of conflicts of laws.

10.4 All of the representations, warranties and covenants of the parties contained in this Agreement shall survive any Closing Date hereunder (even if the damaged party knew or had reason to know of any misrepresentation or breach of warranty at the time of such Closing).

10.5 Each of the parties to this Agreement hereby covenants and agrees

that, from time to time, it will make, execute and deliver any and all such other instruments and documents and will do and perform any and all such further acts as shall be or become necessary, proper or convenient to carry out or effectuate the respective covenants, promises and undertakings contained in this Agreement.

10.6 This Agreement shall not be assigned by any party hereto without the prior written consent of the other parties hereto. This Agreement shall be binding upon and inure to the benefit of the respective parties hereto and their respective successors and permitted assigns.

10.7 If any provision, clause, or part of this Agreement, or the application thereof under certain circumstances, is held to be invalid or unenforceable under applicable law, such provision shall be excluded from this Agreement and the remainder of this Agreement, or the application of the remainder of such provision, clause or part under other circumstances, shall not be affected thereby, shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

10.8 This Agreement and other writings referred to herein or delivered pursuant hereto which form a part hereof contain the entire understanding of the parties with respect to the transactions contemplated hereby and supersede all prior agreements and understandings between the parties on such matters.

10.9 The Section headings contained in this Agreement are for reference purposes only and will not affect in any way the meaning or interpretation of this Agreement.

10.10 All notices, claims, certificates, requests, demands and other communications hereunder will be in writing and will be deemed to have been duly given if (i) personally delivered; (ii) sent by telecopy, facsimile transmission or other electronic means of transmitting written documents (if confirmation of such transmission is received with written confirmation to be immediately sent by regular U.S. mail, postage prepaid); or (iii) sent to the parties at their

respective addresses indicated herein by registered or certified mail, postage prepaid, return receipt requested, or by private overnight mail courier service. The respective addresses to be used for all such notices, demands or requests are as follows:

If to the Placement Agent, to:

Attkisson, Carter & Company
3060 Peachtree Road, NW
Suite 1400
Atlanta, Georgia 30305
Attention: Ronald Attkisson
Facsimile: (404) 364-2156

If to the Company, to:

Telkonet, Inc.
902 A Commerce Road
Annapolis, MD 21401
Attention: L. Peter Larson, President and Chief Executive Officer
Facsimile: (410) 897-5900

with a copy to:

Green Deveney, LLC
1104 Kenilworth Drive, Suite 303
Baltimore, Maryland 21204
Attention: James R. Deveney, II, Esq.
Facsimile: (410) 823-1173

or to such other address or addresses as the person to whom notice is to be given may have previously furnished to the other in writing in the manner set forth above.

10.11 Facsimile and telecopy versions of signed documents (other than this Agreement) shall be deemed to be original documents for purposes of any Closing.

10.12 This Agreement shall not confer any rights or remedies upon any person other than the parties hereto and their respective successors and permitted assigns.

10.13 Each of the parties hereto have participated in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by all of the parties, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this Agreement. Any reference to any federal, state, local, or foreign statute or law shall be deemed also to refer to all rules and

regulations promulgated thereunder, unless the context requires otherwise. The word "including" shall mean including, without limitation. Each of the Parties intends that each representation, warranty, and covenant contained herein shall have independent significance.

10.14 Whenever the singular number is used in this Agreement and when required by the context, the same shall include the plural and vice versa, and the masculine gender shall include the feminine and neuter genders and vice versa.

Please confirm, by signing and returning to the Company, two (2) counterparts of this Agreement. By signing below, each of the Company and the Placement Agent certifies that the foregoing correctly sets forth the agreement among the Company and the Placement Agent.

Very truly yours,

TELKONET, INC.

By:_____
L. Peter Larson, President and
Chief Executive Officer

AGREED TO, CONFIRMED AND ACCEPTED AS OF
THE DATE AND YEAR FIRST WRITTEN ABOVE:

ATTKISSON, CARTER & COMPANY

By:_____
Ronald Attkisson, President

Exhibit 1.2

TELKONET, INC.
902 A COMMERCE ROAD
ANNAPOLIS, MD 21401

BEST EFFORTS

SELLING AGREEMENT

October 14, 2002

Attkisson, Carter & Company
3060 Peachtree Road, NW
Suite 1400
Atlanta, Georgia 30305

Ladies and Gentlemen:

Telkonet, Inc., a Utah corporation (the "Company"), proposes to issue and sell (the "Offering"), through Attkisson, Carter & Company, a Georgia corporation (the "Placement Agent"), on a non-exclusive basis, together with certain other sellers selected by the Company or the Placement Agent to assist in selling the Offering (the "Associate Agents"), up to 125 investment units (the "Units") each consisting of a debenture of the Company in the principal amount of $20,000.00 (the "Series B Debenture"), which Series B Debenture is convertible into shares of common stock, par value $0.001, of the Company (the "Common Stock") as hereafter described, together with 20,000 warrants (the "Series B Warrants") to purchase a share of Common Stock (with the Series B Debenture and the Series B Warrants being collectively referred to as the "Securities"). The Securities are more particularly described in the Company's Confidential Offering Memorandum (as herein defined). This Selling Agreement (the "Agreement") confirms the agreement between the Company and the Placement Agent concerning the sale of Securities by the Placement Agent.

ARTICLE 1. CONFIDENTIAL OFFERING MEMORANDUM. The Securities will be sold pursuant to an exemption from registration under Securities and Exchange Commission ("SEC") Regulation D and Rule 506 thereof promulgated under the Securities Act of 1933, as amended (the "Securities Act"), and in reliance upon applicable exemptions under state law. The Company has prepared a Confidential Offering Memorandum, which describes the Securities and includes the form of subscription agreement containing representations, warranties, terms and conditions subject to which the Securities will be sold (the "Purchase Agreement"). Copies of the Confidential Offering Memorandum have been sent to the Placement Agent by the Company for the uses and purposes permitted by the Securities Act. The term "Confidential Offering Memorandum," as used in this Agreement, shall mean the Confidential Offering Memorandum, including all

exhibits thereto (including the Company's Form 10-KSB for the year ended December 31, 2001, the Company's Form 10-QSB for the calendar quarters ended March 31, 2002 and June 30, 2002 and the Company's Form 8-K dated August 31, 2000) and financial statements contained or incorporated therein, as the same may be supplemented or amended by the Company from time to time in conformity with the provisions hereof.

ARTICLE 2. REPRESENTATIONS AND WARRANTIES OF THE COMPANY. The Company hereby represents and warrants to, and covenants and agrees with, the Placement Agent that as of the closing of the sale of the securities under this Agreement (the "Closing"):

2.1 The Confidential Offering Memorandum, together with all exhibits thereto, has been prepared by the Company in conformity with the applicable requirements of the Securities Act and, to the extent applicable to the Company, the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations promulgated by the Commission thereunder.

2.2 On the date hereof and as of the Termination Date hereunder, the

Confidential Offering Memorandum shall conform in all material respects to the applicable requirements of the Securities Act, the Exchange Act, and the rules and regulations promulgated by the Commission thereunder. The Confidential Offering Memorandum does not and 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 therein, in light of the circumstances under which they were made, not misleading. The representations, warranties, covenants, and agreements contained in this Section 2.2 shall not apply to statements in, or omissions from, any such documents drafted in reliance upon, and in conformity with, written information furnished to the Company by the Placement Agent, that was furnished specifically for use in the preparation thereof.

2.3 No order preventing or suspending the sale of the Securities has been issued by the Commission.

2.4 The Confidential Offering Memorandum describes or attaches as an exhibit thereto every contract or document necessary to make the statements in the Confidential Offering Memorandum, in light of the circumstances under which they were made, not misleading.

2.5 The financial statements and schedules included in the Confidential Offering Memorandum, including the related notes and footnotes thereto, present fairly the financial condition, results of the operations and changes in financial condition of the entities purported to be shown thereby as of the dates and for the periods indicated and have been prepared in accordance with generally accepted accounting principles applied on a consistent basis throughout the periods indicated. All adjustments necessary for a fair presentation of the results for such periods have been made.

2.6 The Company, and any Subsidiary (as herein defined) has been duly organized and is validly existing under the laws of the jurisdiction of its organization or incorporation, with full power and authority to own, lease and operate its properties, conduct its business as described in the Confidential Offering Memorandum and is duly qualified to do business and, if applicable, is

in good standing as a foreign corporation in each jurisdiction in which the character of the business conducted by it or the location of the properties owned, leased or operated by it make such qualification necessary. The Company and each Subsidiary is in possession of and operating in compliance with all franchises, grants, authorizations, licenses, permits, easements, consents, certificates and orders required for the conduct of its business, all of which are valid and in full force and effect (except where any failure to do so would not result in a material adverse change in the condition (financial or otherwise), business, prospects, properties, or results of operations of the Company and any Subsidiaries considered as a whole). Neither the Company nor any Subsidiary has received any notice of proceedings relating to the revocation or modification of any such franchise, grant, authorization, license, permit, easement, consent, certificate or order which, individually or in the aggregate, if the subject of an unfavorable decision, would result in a material adverse change in the condition (financial or otherwise), business, prospects, properties, or results of operations of the Company and any Subsidiaries considered as a whole.

2.7 The Company's authorized shares consist of 100,000,000 shares of common stock, $0.001 par value, of which 17,126,531 shares are outstanding as of October 3, 2002, and 15,000,000 shares of preferred stock, of which no shares are outstanding on the date hereof. The outstanding shares of the Company's stock have been duly authorized and validly issued, were not issued in violation of any statutory preemptive rights of shareholders, and are fully paid and nonassessable. As set forth in the Confidential Offering Memorandum, the Company has also issued warrants and options to purchase an aggregate of 3,116,160 shares of Common Stock as of October 3, 2002. The Company has also previously concluded the sale of debentures of the Company, designated herein as the "Series A Debentures" in the principal amount of $2,500,000, with 2,500,000 attached warrants of the Company thereto, designated as the "Series A Warrants"; the Series A Debentures are convertible into the Common Stock of the Company at a conversion rate of 20,000 shares of Common Stock for each $10,000 principal amount of the Series A Debenture which is converted by the holder thereof. The Series A Warrants may be exercised by the holder thereof at any time following

the conversion of the Series A Debenture by the holder for a period of three (3) years from the date of issuance of the Series A Warrant at an exercise price of $1.00 per share of Common Stock purchased, with a minimum purchase of 1,000 shares of Common Stock. Except as described in the Confidential Offering Memorandum, there are no options, subscriptions, warrants, calls, rights or commitments obligating the Company to issue equity securities or acquire its equity securities.

2.8 The description of the Securities conforms to the description thereof contained under the caption "Description of Capital Stock" in the Confidential Offering Memorandum. The Securities, upon issuance, delivery and payment therefor in the manner herein described, will be duly authorized, validly issued, fully paid and non-assessable. There are no pre-emptive rights or other rights to subscribe for or purchase the Securities or any restriction upon any transfer rights of the Securities pursuant to the Articles of Incorporation, as amended, Bylaws or other governing documents of the Company or any agreement or other instrument to which the Company or any Subsidiary is a party or by which any of them may be bound. Except as contemplated by the terms

and conditions of the Registration Rights Agreement as set forth in Appendix D in the Confidential Offering Memorandum, neither the Offering or the sale of the Securities as contemplated by this Agreement gives rise to any rights for or relating to the registration of any Securities, other than those which have already been waived or satisfied.

2.9 Subsequent to the respective dates as of which information is given in the Confidential Offering Memorandum, and except as described in the Confidential Offering Memorandum: (i) neither the Company nor any Subsidiary has incurred any liabilities or obligations, direct or contingent, or entered into any transactions not in the ordinary course of business, which are material to the Company; and (ii) there has been no material adverse change in, or any adverse development which materially affects the business, prospects, properties, condition (financial or otherwise) or results of operations of the Company. Except as described in the Confidential Offering Memorandum, neither the Company nor any Subsidiary is, nor with the giving of notice or lapse of time, or both, would be, in violation of or in default under, nor will the execution or delivery hereof, nor the consummation of the transactions contemplated hereby, result in a violation of or a default under the Articles of Incorporation, as amended, Bylaws, or other governing documents of the Company, or any agreement, contract, mortgage, deed of trust, loan agreement, note, lease, indenture or other instrument to which the Company is a party or by which it is bound, or to which any of its property is subject. The performance by the Company of its obligations hereunder will not violate any law, rule, administrative regulation or decree of any court or governmental agency or body having jurisdiction over the Company or any Subsidiary or any of their respective properties, nor result in the creation or imposition of any lien, charge, claim or encumbrance upon any property or asset of the Company. Except for applicable authorizations required under the Securities Act, the Exchange Act and the securities or "Blue Sky" laws of certain jurisdictions, and except for such permits and authorizations which have already been obtained, no consent is required in connection with the consummation of the transactions contemplated by this Agreement.

2.10 This Agreement has been duly authorized, executed and delivered by the Company and constitutes the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except to the extent that enforceability may be affected by any bankruptcy, insolvency, moratorium or other similar laws affecting the rights or remedies of creditors generally.

2.11 Each of the Company and any Subsidiary has good and marketable title to all items of real property and good and marketable title to all personal property owned by each of them, in each case free and clear of all claims, liabilities, liens, encumbrances and defects, except as described in the Confidential Offering Memorandum, or such as do not materially effect the value of such property and do not interfere with the use or proposed use of such property by the Company and such Subsidiary. Any real property and buildings held under lease by the Company or any Subsidiary are held under valid, existing and enforceable leases with such exceptions as are not material and do not interfere with the use or proposed use of such property and buildings by the

Company or such Subsidiary.

2.12 Except as described in the Confidential Offering Memorandum, there is no litigation or governmental proceeding to which the Company or any Subsidiary is a party or to which any property of the Company or any Subsidiary is subject or which is pending or, to the knowledge of the Company or any Subsidiary, threatened against it which individually or in the aggregate might result in any material adverse change in the condition (financial or otherwise), business, prospects, properties, or results of operations of the Company or any

Subsidiary, or which would materially and adversely effect the consummation of this Agreement or the transactions contemplated hereby or which is required to be disclosed in the Confidential Offering Memorandum.

2.13 Neither the Company nor any Subsidiary is in violation of any law, ordinance, governmental rule or regulation or court decree to which it may be subject which could be reasonably expected to have a material adverse effect on the condition (financial or otherwise), business, prospects, properties, results of operations, or net worth of the Company, taken as a whole.

2.14 The Company has not taken and will not take, directly or indirectly, any action designed to cause or result in, or which has constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price of the Securities to facilitate a sale or re-sale of the Securities.

2.15 For purposes of this Agreement, the term "Subsidiary" or "Subsidiaries" shall mean any corporation, partnership, business trust or other similar entity to which the Company has a controlling or majority interest.

ARTICLE 3. REPRESENTATIONS AND WARRANTIES OF THE PLACEMENT AGENT. The Placement Agent hereby represents and warrants to, and covenants and agrees with, the Company that:

3.1 The Placement Agent, each Associate Agent and all of its agents and representatives have or will have all required licenses and registrations to perform their obligations under this Agreement, and such licenses and registrations will remain in effect during the term of this Agreement. The Placement Agent and each Associate Agent is a member in good standing of the National Association of Securities Dealers, Inc.

3.2 Any and all information furnished to the Company by the Placement Agent in writing expressly for use in the Confidential Offering Memorandum did not and will not contain any untrue statement of material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

3.3 The Placement Agent and each Associate Agent will take all actions to fulfill its duties under the Exchange Act and the rules and regulations thereunder, which duties relate to transmission and maintenance of subscription funds from prospective purchasers in the Offering.

3.4 The Placement Agent and each Associate Agent will deliver to the Company the original copies of all subscription documents of prospective purchasers received by the Placement Agent and each Associate Agent in the Offering, and the Placement Agent and each Associate Agent will promptly inform the Company of any facts which come to its attention which would cause a reasonable person to believe that such subscription documents contain any material misstatement or omission.

3.5 The Placement Agent and each Associate Agent will comply with all applicable laws in connection with the performance of its duties hereunder.

3.6 There is no presently pending or threatened action against the Placement Agent before any court or governmental agency or body which, in the reasonable judgment of the Placement Agent, might materially adversely affect the ability of the Placement Agent to perform its duties hereunder.

ARTICLE 4. PLACEMENT OF SECURITIES BY THE PLACEMENT AGENT; PAYMENT; TERMINATION.

4.1 Subject to the terms and conditions hereof and upon the basis of the representations, warranties and agreements herein set forth, the Company hereby appoints the Placement Agent as its agent, on a non-exclusive basis, subject to the right of the Company or the Placement Agent to designate and appoint Associate Agents, from the date hereof to sell the Securities on a best efforts basis, and, subject further to the right of the Company to itself sell the Securities without the payment of fees to the Placement Agent hereunder on Units sold by the Company. On the basis of and subject to the representations, warranties, covenants and agreements set forth herein, the Placement Agent hereby accepts such appointment and agrees to use its best efforts to find purchasers for the Securities. The price at which the Placement Agent, as agent for the Company, shall sell the Units to the subscribers shall be $20,000.00 per Unit. A Unit will consist of the Series B Debenture in the principal amount of $20,000, which Series B Debenture is convertible into 36,363.63 shares of Common Stock at a price of $0.55 per share (the "Per Share Selling Price"), and 20,000 Series B Warrants. However, the Company reserves the right to sell partial Units in the Offering. The Company shall pay the Placement Agent (i) a commission equal to eight percent (8%) of the selling price for each Unit or portion thereof sold by the Placement Agent and accepted by the Company, (ii) an investment banking fee equal to two percent (2%) of the selling price for each Unit or portion thereof sold by the Placement Agent and accepted by the Company, and (iii) warrants for the purchase of Common Stock in a number equal to twenty percent (20%) multiplied by the aggregate selling price for each Unit or portion thereof sold by the Placement Agent and accepted by the Company with an exercise price equal to one hundred twenty percent (120%) of the Per Share Selling Price, provided, however, the Series B Warrants issued to the Placement Agent shall permit a cashless exercise of the Series B Warrant by the Placement Agent. Each of the Placement Agent and the Company shall have the right to reject any subscription and to allocate Securities among subscribers.

4.2 As described in the Confidential Offering Memorandum, during the period of the Offering, the Purchase Agreement duly executed by a subscriber and the proceeds from the subscriptions for the Securities shall, upon receipt by the Placement Agent, be promptly forwarded to the Company. Within ten (10) days of receipt by the Company of such documents and funds, the Company shall forward to such subscriber the Series B Debenture and Series B Warrant for the Securities so purchased.

4.3 Each of the parties hereto agree that this Agreement shall thereafter be automatically terminate (the "Termination Date") upon earlier of (i) the date that all Units (or such lesser number as the parties may agree in writing) of Securities shall have been subscribed for and the funds therefor shall have been delivered to the Company or (ii) December 15, 2002, unless extended by the Company for a reasonable period of time not to exceed sixty (60) days.

4.4 The Placement Agent shall use its best efforts to ensure that all purchasers of the Securities are accredited investors, however, the Company, in its reasonable discretion, prudently exercised, may accept up to thirty-five (35) non-accredited, yet sophisticated, investors. In so doing, the Company may review such investors financial information as may be reasonably necessary.

ARTICLE 5. THE OFFERING OF THE SECURITIES.

5.1 When offering the Securities for sale hereunder, the Placement Agent shall offer the Securities solely as an agent for the Company, and such offer of sale shall be made upon the terms and subject to the conditions set forth in the Confidential Offering Memorandum and the Purchase Agreement. The Placement Agent shall commence making such offer of sale as an agent for the Company on or about the date hereof. In connection with the Offering, the Placement Agent will not make a general solicitation or do anything else which will cause the Offering not to be exempt from the registration requirements of the Securities Act.

5.2 The information set forth in the section of the Confidential Offering Memorandum entitled "Plan of Distribution" relating to the Securities proposed to be sold by the Company (insofar as such information relates to the Placement Agent) constitutes the only information furnished by the Placement

Agent to the Company for inclusion in the Confidential Offering Memorandum and the Placement Agent hereby represents and warrants to the Company that the statements therein are true and correct as of the date such statements were made by the Placement Agent.

ARTICLE 6. COVENANTS. The Company covenants and agrees with the Placement Agent that:

6.1 The Company shall (a) comply with the provisions of and make all requisite filings with the Commission pursuant to the Securities Act and the rules and regulations promulgated by the Commission thereunder and (b) continue to make filings under the Exchange Act consistent with, and in accordance with, the Company's past practices. The Company shall immediately notify the Placement Agent in writing of all filings under the Exchange Act. The Company shall prepare, promptly upon the written request of the Placement Agent, any amendments of or supplements to the Confidential Offering Memorandum which, in the sole opinion of the Placement Agent, may be necessary or advisable in connection with the offer and sale of the Securities. The Company may not make any amendment or supplement to the Confidential Offering Memorandum unless such amendment or supplement is approved by the Placement Agent after reasonable notice thereof, provided that such approval may not be unreasonably denied, withheld or delayed. The Company shall advise the Placement Agent promptly of the issue by the Commission or any state or other regulatory body of any stop order or order suspending the sale of Securities, suspending or preventing the use of the Confidential Offering Memorandum or suspending the qualification of the Securities for offering or sale in any jurisdiction, or of the institution of any proceedings for any such purpose. The Company shall use its best efforts to prevent the issuance of any such stop order or other such order, and should a stop order or other such order be issued, the Company shall use its best efforts to obtain as soon as practicable after the imposition of such stop order or other such order the lifting thereof.

6.2 The Company shall furnish to the Placement Agent from time to time and without charge, copies of the Confidential Offering Memorandum including all exhibits and all amendments and supplements thereto in such quantities as the Placement Agent may reasonably request.

6.3 At all times during the Offering, the Company shall comply with all requirements imposed upon it by the Securities Act, the Exchange Act (to the extent applicable to the Company) and the rules and regulations promulgated by the Commission thereunder, so far as is necessary to permit the continuance of offers and sales of or dealings in the Securities as contemplated by the provisions of the Confidential Offering Memorandum and this Agreement. If, during such period, any event occurs that would result in the Confidential Offering Memorandum including an untrue statement of a material fact or omitting to state a material fact necessary to make the statements therein, in light of the circumstances then existing, not misleading, or during the Offering it is necessary to amend or supplement the Confidential Offering Memorandum to comply with the Securities Act, the Company shall promptly notify the Placement Agent and shall promptly supplement or amend the Confidential Offering Memorandum so as to correct such statement or omission or to effect such compliance.

6.4 The Company shall take or cause to be taken all necessary action and shall furnish to whomever the Placement Agent may direct such information as may be required to qualify the Securities for sale under the laws of such jurisdictions which the Placement Agent shall designate and shall continue such qualifications in effect for as long as may be necessary for the distribution of the Securities.

6.5 The Company shall apply the net proceeds of the sale of the Securities in the manner specified in the Confidential Offering Memorandum under the caption "Use of Proceeds" and shall file such reports, if any, with the Commission with respect to the sale of Securities and the application of the proceeds therefrom as may be required in accordance with applicable law and regulations, including without limitation applicable state securities or Blue Sky laws.

6.6 The Company will furnish to its security holders annual reports containing financial statements audited by independent public accounts and quarterly reports containing financial statements and financial information which may be unaudited. During the period of time until the earlier of five (5)

years from the date of this Agreement or the dissolution of the Company, the Company shall deliver to the Placement Agent copies of each annual report of the Company and each other report furnished by the Company to its securities holders and will deliver to the Placement Agent as soon as available copies of any other reports (financial or otherwise) that the Company shall publish or otherwise make available to its security holders generally and as soon as available, copies of any reports and financial statements furnished to or filed with the Commission or the NASD.

6.7 The Company shall pay or cause to be paid, upon request of the Placement Agent accompanied by invoices or other appropriate documentation, and prior approval by the Company, (i) all reasonable expenses incurred by the Placement Agent, in connection with (a) the preparation, printing, filing, delivery and shipping of the Confidential Offering Memorandum and any other documents, including, without limitation, questionnaires, powers of attorney, and Blue Sky memoranda, (b) all filing fees and fees and disbursements of counsel to the Placement Agent incurred in connection with the qualification of the Securities for sale under state securities or Blue Sky laws as provided herein, (c) any applicable listing fees, (d) the cost of printing documents and certificates representing the Securities, (e) the costs and charges of any transfer agent or registrar; and (ii) all other expenses of the Placement Agent, in an amount not to exceed $25,000.00, including (a) all reasonable out-of-pocket disbursements (including fees and disbursements of counsel) incurred by the Placement Agent in connection with its investigation, preparation to market and marketing of the Securities or the contemplation of performing its obligations hereunder, and (b) all other reasonable costs and expenses incident to the performance of the Placement Agent's obligations hereunder which are not otherwise provided for in this Section 6.7.

ARTICLE 7. CONDITIONS PRECEDENT.

7.1 The obligations of the Placement Agent hereunder are subject to the following further conditions:

(a) Subsequent to the execution and delivery of this Agreement and prior to the Termination Date, there shall not have occurred any change, or any development involving a prospective change, in the conditions (financial or otherwise), earnings, business, prospects, properties or operations of the Company or any Subsidiaries, taken as a whole, from that set forth in the Confidential Offering Memorandum that, in the judgment of the Placement Agent, is materially adverse and that makes it, in the judgment of the Placement Agent, impracticable to market the Securities on the terms and in the manner contemplated in the Confidential Offering Memorandum.

(b) The Placement Agent shall have received on the date hereof and on the Termination Date certificates, dated as of such dates and signed by the chief executive officer of the Company, to the effect that the representations and warranties of the Company contained in this Agreement are true and correct as of the dates of such certificates and that the Company has complied with all of the agreements and satisfied all of the conditions on its part to be performed or satisfied hereunder on or as of the date of such certificates.

(c) The Placement Agent shall have received an opinion of counsel to the Company, dated as of the date hereof, and shall be substantially to the effect that:

(i) the Company is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and has all requisite power and authority to own, lease and operate its property and conduct its business as described in the Confidential Offering Memorandum;

(ii) the Securities to be sold by the Company, when delivered in accordance with Section 4.1 hereof, have been duly authorized and will be, upon issuance and delivery against payment therefor in accordance with the terms of this Agreement, validly issued, fully paid and non-assessable and will not be subject to any preemptive or other rights to subscribe for or purchase Securities

pursuant to the organizational documents of the Company or, to the best of such counsel's knowledge, otherwise;

(iii) The Company's authorized shares consist of 100,000,000 shares of common stock, $0.001 par value, of which 17,126,531 shares are outstanding as of October 3, 2002, and 15,000,000 shares of preferred stock, par value $0.001 per share, of which no shares are outstanding. The outstanding shares of the Company's stock have been duly authorized and validly issued, were not issued in violation of any statutory preemptive rights of shareholders, and are fully paid and nonassessable. The Company has, as of October 3, 2002, issued warrants and options to purchase an aggregate of 3,116,160 shares of its Common Stock, as set forth in the Confidential Offering Memorandum, as well as the Series A Debentures and Series B Warrants as described in the Confidential Offering Memorandum. Except as described in the Confidential Offering Memorandum, there are no options, subscriptions, warrants, calls, rights or commitments obligating the Company to issue equity securities or acquire its equity securities;

(iv) the amounts, terms and designations of the capital stock of the Company conform as to legal matters in all material respects to the description thereof contained in the Confidential Offering Memorandum under the caption "Description of Capital Stock";

(v) this Agreement has been duly authorized, executed and delivered by the Company and, when so executed and delivered, constitutes the legal, valid and binding obligation of the Company, enforceable against the Company;

(vi) the execution, delivery and performance by the Company of this Agreement, before or as of the date hereof, (A) do not conflict with or violate the Articles of Incorporation, as the same may have been amended, the Bylaws, as the same may have been amended, of the Company and (B) are neither prohibited by, nor subject the Company to, any fine, penalty or similar sanction that would be materially adverse to the Company under any statute or regulation of the State of Utah or under federal law (including federal securities laws);

(vii) to the knowledge of such counsel, the Company has all necessary consents, authorizations, approvals, orders, certificates and permits of and from, and has made all declarations and filings with, all federal, state, local and other governmental authorities, all self-regulatory organizations, all courts and other tribunals, to own, lease, license and use its properties and assets and to conduct its business in the manner described in the Confidential Offering Memorandum, except to the extent that the failure to obtain or file would not have a material adverse effect on the Company;

(viii) to the knowledge of such counsel, no authorization, consent, approval of or qualification with any federal or state governmental authority is required for the execution, delivery or performance by the Company of this Agreement, except such as have been previously made or obtained, in connection with the distribution of the Securities by the Placement Agent, and except those which, if not made or obtained, will not, individually or in the aggregate, have a material adverse effect on the Company;

(ix) nothing has come to the attention of such counsel to cause such counsel to believe that (except for financial statements, projections, schedules and other financial and statistical information included or incorporated by reference in the Confidential Offering Memorandum as to which such counsel need not express any opinion) the Confidential Offering Memorandum contained any untrue statement of a material fact or omitted 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, or that the Confidential Offering Memorandum as of the Termination Date, contained any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were

made, not misleading;

(x) to such counsel's knowledge, there are no legal or governmental proceedings pending or threatened to which the Company or any Subsidiary is a party or to which any of the properties of the Company or any Subsidiary is subject that are not fairly summarized in all material respects in the Confidential Offering Memorandum or are attached as exhibits thereto;

(xi) to such counsel's knowledge, after due inquiry, all contracts, indentures, mortgages, loan agreements, leases or other documents to which the Company is a party or to which its business or properties are subject are fairly summarized in all material respects in the Confidential Offering Memorandum or are attached as exhibits thereto; and

(xii) after due inquiry, such counsel does not know of any pending or threatened proceeding relating to the revocation or modification of any consent, authorization, approval, order, certificate or permit necessary to the conduct of the business of the Company or any Subsidiary.

(d) The Placement Agent shall have received on the Termination Date an opinion of counsel to the Company, dated as of such Termination Date, substantially to the effect that:

(i) the Company is in good standing under the laws of the jurisdiction of its organization;

(ii) nothing has come to the attention of such counsel to cause such counsel to believe that (except for financial statements, schedules and other financial and statistical information included or incorporated by reference in the Confidential Offering Memorandum as to which such counsel need not express any opinion) the Confidential Offering Memorandum contained any untrue statement of a material fact or omitted 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, or that the Confidential Offering Memorandum as of the Termination Date, contained any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading;

(iii) to such counsel's knowledge, there are no pending or threatened proceedings relating to the revocation or modification of any consent, authorization, approval, order, certificate or permit necessary to the conduct of the business of the Company.

ARTICLE 8. INDEMNIFICATION.

8.1 The Company agrees to indemnify and hold harmless the Placement Agent and each person who "controls" the Placement Agent, as the term "control" is defined under either Section 15 of the Securities Act or Section 20 of the Exchange Act, from and against any and all losses, claims, damages and liabilities (including, without limitation, any legal or other expenses reasonably incurred by the Placement Agent or any such controlling person in connection with defending or investigating any such action or claim) caused by any untrue statement or alleged untrue statement of a material fact contained in the Confidential Offering Memorandum, or any application under federal or state securities laws, or caused by any omission or alleged omission to state therein 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, except insofar as such losses, claims, damages or liabilities are caused by any such untrue statement or omission or alleged untrue statement or omission based upon information relating to the Placement Agent or the manner in which the Securities will be offered that was furnished to the Company by the Placement Agent for use in the Confidential Offering Memorandum.

8.2 The Placement Agent agrees to indemnify and hold harmless the Company, any executive officer of the Company and each person who "controls" the

Company to the same extent as the foregoing indemnity from the Company to the Placement Agent, but only with reference to information relating to the Placement Agent, or the manner in which the Securities will be offered, that was furnished to the Company in writing by such Placement Agent expressly for use in the Confidential Offering Memorandum.

8.3 If any proceeding (including any governmental investigation) shall be instituted involving any person having the right to seek indemnity pursuant to this Article 8, such person (the "Indemnified Party") shall promptly notify the party against whom such indemnity may be sought (the "Indemnifying Party") in writing, and the Indemnifying Party, upon request of the Indemnified Party, shall retain counsel reasonably satisfactory to the Indemnified Party to represent the Indemnified Party and any other persons or entities Indemnifying

Party may designate in such proceeding and shall pay the fees and disbursements of such counsel related to such proceeding. In any such proceeding, the Indemnified Party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party unless (x) the Indemnifying Party and the Indemnified Party shall have mutually agreed to the retention of such counsel or (y) the named parties to any such proceeding (including any impleaded parties) include both the Indemnifying Party and the Indemnified Party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between the Indemnifying Party and the Indemnified Party. Each of the parties hereto agree that any Indemnified Party will notify the Indemnifying Party in writing if such Indemnified Party desires more than one separate firm (in addition to any local counsel) representing the Indemnified Party in connection with any proceeding or related proceedings in the same jurisdiction (such notice designating the name and address of such additional firm), and the Indemnifying Party shall not, with respect to the legal expenses of such Indemnified Party with respect to such additional firm in connection with such proceeding or related proceedings in the same jurisdiction, be liable for the fees and expenses of more than one separate firm (in addition to any local counsel) for such Indemnified Party. The Indemnifying Party shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent or if there be a final judgment for the plaintiff, the Indemnifying Party agrees to indemnify the Indemnified Party from and against any loss or liability by reason of such settlement or judgment. Notwithstanding the foregoing, if at any time an Indemnified Party shall have requested the Indemnifying Party to reimburse the Indemnified Party for fees and expenses of counsel as provided in this Article 8, the Indemnifying Party agrees that it shall be liable for any settlement of any proceeding effected without its written consent if (i) such settlement is entered into more than sixty (60) days after receipt by such Indemnifying Party of the aforesaid request; (ii) such Indemnifying Party shall not have reimbursed the Indemnified Party in accordance with such request prior to the date of such settlement; and (iii) such Indemnified Party shall have given the Indemnifying Party at least sixty (60) days' prior notice of its intention to settle. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, effect any settlement of any pending or threatened proceeding in respect of which any Indemnified Party is or could have been a party and indemnity could have been sought hereunder by such Indemnified Party, unless such settlement includes an unconditional release of such Indemnified Party from all liability with respect to claims that are the subject matter of such proceeding.

8.4 If the indemnification provided for in the Section 8.1 or 8.2 hereof is unavailable to the Indemnified Party or insufficient in respect of any losses, claims, damages or liabilities referred to therein, then each Indemnifying Party under such Section, 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 the relative benefits received by the Indemnifying Party (or parties, as the case may be), on the one hand, and the Indemnified Party (or parties, as the case may be), on the other hand, from the Offering; or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above, but also the

relative fault of the Indemnifying Party (or parties), on the one hand, and of the Indemnified Party (or parties), on the other hand, in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative benefits received by the Company, on the one hand, and the Placement Agent, on the other hand, in connection with the Offering 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 the total of all commissions received by the Placement Agent, in each case as set forth in the Confidential Offering Memorandum, bear to the aggregate price paid for the Securities by all subscribers therefor. The relative fault of the Company, on the one hand, and the Placement Agent, on the other hand, 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 or by the Placement Agent and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

8.5 The Company and the Placement Agent each agree that it would not be just or equitable if contribution pursuant to this Article 8 were determined by PRO RATA allocation or by any other method of allocation that does not take account of the equitable considerations referred to in Section 8.4 hereof. The amount paid or payable by an Indemnified Party as a result of the losses, claims, damages and liabilities referred to in Section 8.4 hereof shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such Indemnified Party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Article 8, the Placement Agent shall not be required to contribute any amount in excess of the amount by which the total price at which the Securities underwritten and offered by it and distributed to subscribers exceeds the amount of any damages that such Placement Agent has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of a fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The remedies provided for in this Article 8 are not exclusive and shall not limit any rights or remedies which may otherwise be available to any Indemnified Party at law or in equity.

8.6 The indemnity and contribution provisions contained in this Article 8 and the representations and warranties of the Company and the Placement Agent contained in this Agreement shall remain operative and in full force and effect regardless of (i) any termination of this Agreement; (ii) any investigation made by or on behalf of the Placement Agent or any person "controlling" the Placement Agent or by or on behalf of the Company, its officers, directors, employees or any person controlling the Company; and (iii) acceptance of and payment for any of the Securities.

ARTICLE 9. NOTICE OF TERMINATION; EFFECTIVE AGREEMENT. This Agreement shall be subject to termination by notice given by the Placement Agent to the Company, if (a) after the execution and delivery of this Agreement and prior to the Termination Date hereunder, (i) trading generally shall have been suspended or materially limited on or by, as the case may be, the New York Stock Exchange, the American Stock Exchange or the National Association of Securities Dealers, Inc.; (ii) trading of any securities of the Company shall have been suspended on any exchange or in any over-the-counter market; (iii) a general moratorium on

commercial banking activities in the State of New York shall have been declared by either federal authorities or authorities for the State of New York; or (iv) there shall have occurred any outbreak or escalation of hostilities or any change in financial markets or any calamity or crisis that, in the judgment of the Placement Agent, in its sole discretion, is material and adverse, and (b) in the case of any of the events specified in clauses (a)(i) through (iv), such event singly or together with any other such event makes it, in the judgment of the Placement Agent, in its sole discretion, impracticable or commercially unreasonable to market the Securities on the terms and in the manner contemplated in the Confidential Offering Memorandum.

ARTICLE 10. MISCELLANEOUS.

10.1 This Agreement shall become effective upon the execution and delivery hereof by the parties hereto.

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

10.3 This Agreement shall be governed by and construed in accordance with the internal laws of the State of Maryland, without giving effect to any principles of conflicts of laws.

10.4 All of the representations, warranties and covenants of the parties contained in this Agreement shall survive any Closing Date hereunder (even if the damaged party knew or had reason to know of any misrepresentation or breach of warranty at the time of such Closing).

10.5 Each of the parties to this Agreement hereby covenants and agrees that, from time to time, it will make, execute and deliver any and all such other instruments and documents and will do and perform any and all such further acts as shall be or become necessary, proper or convenient to carry out or effectuate the respective covenants, promises and undertakings contained in this Agreement.

10.6 This Agreement shall not be assigned by any party hereto without the prior written consent of the other parties hereto. This Agreement shall be binding upon and inure to the benefit of the respective parties hereto and their respective successors and permitted assigns.

10.7 If any provision, clause, or part of this Agreement, or the application thereof under certain circumstances, is held to be invalid or unenforceable under applicable law, such provision shall be excluded from this Agreement and the remainder of this Agreement, or the application of the remainder of such provision, clause or part under other circumstances, shall not be affected thereby, shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

10.8 This Agreement and other writings referred to herein or delivered pursuant hereto which form a part hereof contain the entire understanding of the parties with respect to the transactions contemplated hereby and supersede all prior agreements and understandings between the parties on such matters.

10.9 The Section headings contained in this Agreement are for reference purposes only and will not affect in any way the meaning or interpretation of this Agreement.

10.10 All notices, claims, certificates, requests, demands and other communications hereunder will be in writing and will be deemed to have been duly given if (i) personally delivered; (ii) sent by telecopy, facsimile transmission or other electronic means of transmitting written documents (if confirmation of such transmission is received with written confirmation to be immediately sent by regular U.S. mail, postage prepaid); or (iii) sent to the parties at their respective addresses indicated herein by registered or certified mail, postage prepaid, return receipt requested, or by private overnight mail courier service. The respective addresses to be used for all such notices, demands or requests are as follows:

If to the Placement Agent, to:

Attkisson, Carter & Company
3060 Peachtree Road, NW
Suite 1400
Atlanta, Georgia 30305
Attention: Ronald Attkisson
Facsimile: (404) 364-2156

If to the Company, to:

Telkonet, Inc.

902 A Commerce Road
Annapolis, MD 21401
Attention: J. Gregory Fowler, President and
Chief Executive Officer
Facsimile: (410) 897-5900

with a copy to:

Green Deveney, LLC
1104 Kenilworth Drive, Suite 303
Baltimore, Maryland 21204
Attention: James R. Deveney, II, Esq.
Facsimile: (410) 823-1173

or to such other address or addresses as the person to whom notice is to be given may have previously furnished to the other in writing in the manner set forth above.

10.11 Facsimile and telecopy versions of signed documents (other than this Agreement) shall be deemed to be original documents for purposes of any Closing.

10.12 This Agreement shall not confer any rights or remedies upon any person other than the parties hereto and their respective successors and permitted assigns.

10.13 Each of the parties hereto have participated in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by all of the parties, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this Agreement. Any reference to any federal, state, local, or foreign statute or law shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise. The word "including" shall mean including, without limitation. Each of the Parties intends that each representation, warranty, and covenant contained herein shall have independent significance.

10.14 Whenever the singular number is used in this Agreement and when required by the context, the same shall include the plural and vice versa, and the masculine gender shall include the feminine and neuter genders and vice versa.

Please confirm, by signing and returning to the Company, two (2) counterparts of this Agreement. By signing below, each of the Company and the Placement Agent certifies that the foregoing correctly sets forth the agreement among the Company and the Placement Agent.

Very truly yours,

TELKONET, INC.

By:_____
J. Gregory Fowler, President and
Chief Executive Officer

AGREED TO, CONFIRMED AND ACCEPTED AS OF THE DATE AND YEAR FIRST WRITTEN ABOVE:

ATTKISSON, CARTER & COMPANY

By:_____
Ronald Attkisson, President

Exhibit 1.3

INVESTMENT BANKING AGREEMENT

This Investment Banking Agreement (the "Agreement") is made and entered into as of May 21, 2003 by and among Telkonet, Inc. having a principal place of business at 435 Devon Park Drive Building 500, Wayne, PA 19087 (the "Company"), and vFinance Investments, Inc. ("VFI") a NASD member broker dealer, having a place of business at 880 Third Avenue, 4th Floor, New York, New York, 10022.

ENGAGEMENT OF SERVICES

The Company hereby retains VFI on a non-exclusive basis, for the purpose of providing to the Company Investment Banking services. VFI agrees to be retained to provide such services described in Section One below pursuant to the terms and conditions set forth herein.

SECTION ONE
STATEMENT OF WORK

VFI will, on behalf of the Company, perform the following Investment Banking and Advisory Services:

Investment Banking Services:
- ----------

(a) VFI will act as investment banker in executing the approved business plan. In this capacity, VFI will identify potential investors and or acquisition or merger candidates. VFI will contact these firms and investors on behalf of the Company and will qualify them as appropriate partners. VFI will, with prior approval, on behalf of the Company structure and negotiate a transaction that is favorable to the Company. Specifically, VFI will make introductions in an attempt to explore strategic partnerships, explore add on acquisitions/mergers for the Company of identified opportunities fitting pre screened criteria, analyze capital raising initiatives accompanying targeted acquisitions and if mutually agreed to, raise such acquisition capital to facilitate the transactions. VFI will produce a sensitivity analysis to permit company to determine appropriate timing, structure and amounts of stand alone capital raise which upon mutual agreement VFI will commence a best efforts offering to complete such.

Advisory Services:
- ----------

VFI will support the company by providing ongoing financial services to include:

(a) Capital market advice and will use its best efforts to work with the Company's management ("Management") in creating market awareness of the Company and its stock, and in the organization and sponsorship of investor presentations. VFI will make a market in the Company's stock and will use its best efforts to seek to establish other market makers in the Company's stock. VFI will use its best efforts to seek to increase liquidity and maintain an orderly market in the Company's publicly traded stock, including assisting the buy-side and in cross-block trades of the Company's stock.

(b) Advice to the Company pertaining to stock buyback plans, stock splits or dividends and other related plans as they pertain to the Company's stock price and liquidity. At the request of the Management of the Company, VFI will attend shareholder and Board Meetings to make presentations and provide shareholder communication services if requested.

OTHER SERVICES. In addition to the foregoing services VFI agrees to provide the following services to the Company:

(a) Advisory services, including general business and financial analysis, corporate strategy development, transactional feasibility analysis and valuation analysis;
(b) Assistance in the development of strategic priorities and acquisition/transaction criteria and identification of prospective candidates which satisfy those criteria;
(c) Assistance in the preparation of any descriptive materials to be issued by the Company that may be required as a result of VFI's recommendations. Specifically, VFI will spend the necessary time with management to outline strategic positioning, objectives and means to accomplish them, develop a financial model and then compile that data into a Company Profile. The Company Profile will be in the form similar to those presented to the Company and once completed, copies of the Profile shall be distributed to all VFI branches and available online as well to VFI customers, the Company and all their designated recipients.

For the duration of this Agreement, VFI will have the ability to engage in substantive discussions with potential investors, acquirers, merger or acquisition candidates on behalf of the Company. VFI will provide the Company with the names of parties to whom it intends to disclose proprietary information, which will be required to enter into a Confidentiality Agreement with the Company and VFI prior to receiving any proprietary or confidential information of the Company. Unless the Company reasonably objects to such party with five (5) business days of being informed by VFI, such parties will be identified and included as a "VFI Party" under this Agreement.

In the event the Company, Management or its principal stockholders receive an inquiry from, or are otherwise in contact with, a party concerning the availability of the Company regarding an Additional Transaction(s), as defined herein below in Section Six, the Company will have the option of determining whether to notify and refer such party to VFI in order that VFI may continue such discussions. If the Company determines to notify VFI, the party will be identified and included as a VFI Party. If an Additional Transaction as defined below results from an introduction by the Company of a VFI Party, then fees associated with that particular transaction shall be reduced by half.

In the event the Company withholds its written approval authorizing VFI to approach a VFI Party, the Company agrees that neither it nor its agents, will discuss nor will the Company enter into an Additional Transaction(s) with such party during the Term of this Agreement as defined in Section Four of this Agreement. VFI will submit to the Company a list of those parties it intends to contact in regards to additional transactions and agree to carve out those identified as previously known parties.

Each prospect will be qualified and meetings will be set to present the Company to potential investors and merger and acquisition candidates. VFI will use it best efforts to work with Management to negotiate and close an Additional Transaction(s), with the understanding that the Company shall have the sole and absolute discretion as to whether or not to consummate any such transaction.

In performing its services herein, VFI shall be entitled to rely without investigation upon all information that is provided by the Company, which information the Company hereby warrants that to the best of its knowledge and information shall be complete and accurate in all material respects, and not misleading. VFI in no way guarantees that the Company will successfully raise capital.

SECTION TWO
PLACE OF WORK

It is understood that VFI's services will be rendered both on and off-site of the Company. Subject to VFI providing reasonable prior notice, the Company agrees to provide an office, secretarial support, and time of key employees while VFI is on-site performing the services described in Section One.

SECTION THREE
TIME DEVOTED TO WORK

In the performance of the services covered by this Agreement, the services and the hours VFI works, will be entirely within VFI's control and the Company

enters into this Agreement in reliance upon VFI to put in such number of hours as is reasonably necessary to fulfill the spirit and the purpose of this Agreement.

SECTION FOUR
DURATION

The duration of this Agreement (the "Term") shall extend for a period of twelve (12) months from the date first written above. This Agreement may be terminated at any time by VFI or the Company with or without cause, upon thirty (30) days prior written notice to the other party. If the Agreement is terminated by VFI within the first 60 days, VFI will return the initial fee forwarded by the Company.

SECTION FIVE
PAYMENT

Upon execution of this Agreement, the Company will agree to pay VFI a non-refundable consulting fee of Twelve Thousand Dollars ($12,000) in consideration of the Investment Banking and Advisory services that VFI will commence to engage in. Four Thousand Dollars ($4,000) will be due upon execution of this Agreement. Four Thousand Dollars ($4,000) shall be due upon delivery of the draft of the Profile and the balance of Four Thousand Dollars ($4,000) shall be due 30 days thereafter. Upon the successful completion of any Additional Transaction(s) as defined below, VFI shall deduct the Twelve Thousand Dollars ($12,000) consulting fee from any success fee earned by and due to VFI. In addition, the Company shall grant to VFI or its designees Thirty Five Thousand (35,000) shares of its restricted common stock and Thirty Five Thousand (35,000) warrants to purchase shares of the Company's common stock for a period of three years at an exercise price equal to 125% of the closing price on the date which this Agreement is executed. These warrant shall contain customary cashless exercise and piggyback registration rights.

SECTION SIX
ADDITIONAL TRANSACTIONS

For purposes of this Agreement, Additional Transaction(s) shall mean any "Debt Financing", "Subordinated Debt Financing", "Private Placement, Capital Infusion, Equity Investment or Financing", or a "Purchase, Merger or Sale Transaction".

Debt Financings.
- ----------

Other than the Company's current debt financing in the amount of $5 million, For the purpose of this Agreement, a "Debt Financing" shall include any transaction (or series of transactions) which involves a VFI Party; and which directly or indirectly results in: (i) senior and working capital lines, or other similar borrowings of the Company normally undertaken by businesses in the course of operations which includes capital received in consideration for notes, bonds, equipment leasing transactions, or debentures not expressly defined as "junior" or "subordinated" (discussed below), (ii) a combination of any such debt described above together with the issuance and warrants/options to such VFI Parties, or (iii) convertible "debt, as described above, to equity" securities.

In the case of a "Debt Financing" where the source of debt financing, excluding subordinated debt financing, is originated by VFI or is from a VFI Party and the transaction closes during the Term of this Agreement, or within twelve (12) months of any termination or expiration thereof, VFI shall receive upon closing of the transaction, a lump-sum consulting fee computed by taking the total proceeds actually received by the Company multiplied by two (2%) percent. In the case of the Company's current debt financing of $5 million, where the source of debt financing, excluding subordinated debt financing, is originated by VFI or is from a VFI Party and the transaction closes during the term of this Agreement, or within twelve (12) months of any termination or expiration thereof, VFI shall receive upon closing of the transaction, a lump-sum consulting fee computed by taking the total proceeds actually received by the Company multiplied by four (4%) percent.

Subordinated Debt Financings.
- ----------

For the purpose of this Agreement, a "Subordinated Debt Financing" shall mean

any transaction (or series of transactions) which involves (a) a VFI Party; and (b) which directly or indirectly results in the Company receiving proceeds from any debt financing Junior or subordinated to other debt, i.e., repayable in the case of liquidation only after senior debt with a higher claim and priority has been satisfied. This type of debt may be but not necessarily characterized by such features as interest only payments for a specified period of time, equity participation through warrants/options and other instruments, and convertible features.

In the case of a "Subordinated Debt Financing" where the source of subordinated debt financing is originated by VFI or is from a VFI Party and the transaction closes during the Term of this Agreement, or within twelve (12) months of any termination or expiration thereof, VFI shall receive upon closing of the transaction, a lump-sum consulting fee computed by taking the total proceeds actually received by the Company multiplied by five (5%) percent.

Equity Raise.
- ----------

For the Purpose of this Agreement, a "Private Placement, Equity Capital Infusion, or any Equity Investment or Financing" where the source is originated by VFI or a VFI Party; which directly or indirectly results in the transaction closing during the Term of this Agreement, or within (12) months of any termination or expiration thereof, VFI shall receive upon closing of the transaction (1) if a retail placement effectuated through VP brokers, a lump-sun consulting fee computed by taking the total gross proceeds actually received by the Company multiplied by ten (10%) percent plus a non-accountable expense allowance of three percent (3%) multiplied by the total gross proceeds actually received by the Company and ten percent (10%) Placement Agent warrants (2) if an institutional placement effectuated by VFI investment bankers, a lump-sun consulting fee computed by taking the total gross proceeds actually received by the Company multiplied by six (6%) percent plus a non-accountable expense allowance of one and a half percent (1 1/2%) multiplied by the total gross proceeds actually received by the Company and six percent (6%) Placement Agent warrants.

Purchase, Merger or Sale Transaction.
- ------------------------------------

If an Purchase, Merger or Sale Transaction is consummated between the Company and en VF Party during the Tern of this Agreements or a period of twelve (12) months after the termination or expiration of this Agreement, Company shall pay VF or cause VF to be paid, at the closing of such transaction a fee computed by taking the Total Consideration received at each respective closing involved in such Purchase or Sale Transaction multiplied by a percentage determined pursuant to the following schedule:

Total Consideration	Fee
$0 to $999,999	5.0%
$1,000,000 to $1,999,999	4.0%
$2,000,000 to $2,999,999	3.0%
$3,000,000 to $3,999,999	2.0%
$4,000,000 or greater	1.0%

A Purchase. Merger or Sale Transaction (or series of transactions) which involves (a) a VF Party; and (b) which directly or indirectly results in (1) the acquisition by the Company of all or any part of the existing capital stock of such third party or all or any part of the assets of such third party (or any securities convertible into or exchangeable for or other rights to acquire all or any part of such capital stock or assets), or (ii) the acquisition by such third party of all or any part of the existing capital stock of the Company or all or any part of the assets of the Company (including any securities convertible into or exchangeable for or other rights to acquire all or any part of such capital stock or assets), including in each such case, without limitation, any sale or exchange of capital stock or assets (including cash and

other liquid assets), any merger or consolidation (including any such transaction in which the third party is the surviving entity) or any similar transaction outside of the ordinary course of the Company's business.

For the purposes of this Agreement with respect to a Purchase, Merger or Sale Transaction, Total Consideration shall mean and be computed as the total sale proceeds and other consideration received by Company, its stockholders, directed beneficiaries or any newly formed entity owned or participated in by Company ("New Company") an including, but not limited to: cash, securities, notes, debentures, agreements not-to-compete, including contingent and installment payments; consideration for assets owned by subsidiaries or entitles controlled by the Company; the total value of liabilities specifically assumed by the acquirer; and any other tangible net benefit to the Company, its shareholders or directed beneficiaries all as valued and set forth in the transaction documents, unless otherwise agreed in writing.

Payment of Fees and Warrants.
- ----------

All fees due to VF pursuant to this Agreement are payable in cash. All fees are payable to VF at the closing date of the subject transaction. To the extent amounts are payable to Company after the closing date of a transaction, the Company shall pay VF the applicable fee associated with such amounts at the time such amounts are actually received by Company. Any fees due and not paid when due will accrue interest at the rate of twelve percent (12.0%) annually and the Company will be responsible for reasonable legal expenses, including without limitation appellate expenses (at both the trial and appellate level) incurred by VF in collecting such fees. Warrant and registration rights as well as the Company's obligations to compensate VF as described in this Section Six shall remain in full force and effect for a period of twelve (12) months following the termination or expiration of this Agreement.

The Company will reimburse VFI for all pre-approved business expenses ("Expenses") incurred by VFI in the performance of the work as described in this Agreement. As of the execution of this Agreement, these expenses include 1) all phone, fax, postage, shipping, printing and internet connection charges; 2) mileage charges at Thirty-Six and One-Half Cents ($.365) per mile; and 3) all reasonable travel expenses for Company approved meetings. Expenses will be billed and paid on a monthly basis beginning on the first of each month beginning with the first calendar month following the date of this Agreement. No expense shall be incurred in excess of Two Hundred Fifty Dollars ($250) without approval from the Company prior to expenditure.

SECTION SEVEN
STATUS OF VFI; INDEMNIFICATION

VFI is and shall be an independent contractor and is not and shall not be deemed or construed to be employees of the Company by virtue of this Agreement. Neither VFI, nor the Company shall hold VFI out as an agent, partner, officer, director, or other employee of the Company in connection with this Agreement or the performance of any of the duties, obligations or performances contemplated hereby and VFI further specifically disclaims any and all rights to an equity interest in or a partnership with the Company by virtue of this Agreement or any of the transactions contemplated hereby, except as specifically provided herein. VFI specifically acknowledges and agrees that it shall have no authority to execute any contracts or agreements on behalf of the Company or any other person that, directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with the Company (an "Affiliate") and it shall have no authority to bind the Company or its Affiliates to any obligation (contractual or otherwise). For purposes of this Agreement, (a) the term "control" shall mean the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting interests, by contract or otherwise and (b) the term "person" shall mean an individual, partnership, corporation, limited liability company, limited liability partnership, trust, joint venture or other entity.

It is hereby acknowledged and agreed that the Company has not, is not and shall not be obligated to make, and that it is the sole responsibility of VFI to make, in connection with any income earned by VFI from the Company, all periodic withholding taxes, FICA taxes, SECA payments, Federal unemployment taxes (FUTA) and any other Federal or state taxes, payments or filings required to be paid,

made or maintained.

In the event that VFI becomes involved in any capacity in any action, proceeding or investigation in connection with any matter referred to in this Agreement not resulting from or relating to VFI's recklessness, negligence, bad faith or intentional wrongful acts, the Company will reimburse VFI for reasonable legal and other expenses as such expenses are incurred in connection therewith. The Company will also indemnify and hold harmless VFI and its officers, employees, agents and shareholders against losses, claims, damages or liabilities to which VFI may become subject in connection with any matter referred to in this Agreement, except to the extent that any such loss, claim, damage or liability results from the recklessness, negligence, bad faith or intentional wrongful acts of VFI performing the services that are the subject of this Agreement. The provisions of this Section 7 shall survive any termination or expiration of this Agreement for a period of twenty-four (24) months.

Upon receipt by VFI or its officers, employees, agents or shareholders ("Indemnified Person") of actual notice of an action against such Indemnified Person with respect to which indemnity may be sought under this Agreement, such Indemnified Person shall promptly notify the Company ("Indemnifying Party"), in writing; provided that failure so to notify such Indemnifying Party shall not relieve such Indemnifying Party from any liability which such Indemnifying Party may have on account of this indemnity or otherwise, except to the extent such Indemnifying Party shall have been materially prejudiced by such failure.

The Indemnifying Party shall, if requested by the Indemnified Person, assume the defense of any such action including the retention of counsel reasonably satisfactory to the Indemnified Person. Any Indemnified Person shall have the right to employ separate counsel in any such action and participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Person, unless: (i) the Indemnifying Party has failed promptly to assume the defense and employ counsel or (ii) the named parties to any such action (including any impleaded parties) include both such indemnified Person and the Indemnifying Party, and such indemnified Person shall have been advised by counsel that there may be one or more legal defenses available to it which are different from or in addition to those available to the Indemnifying Party; provided that the Indemnifying Party shall not in such event be responsible hereunder for the fees and expenses of more than one firm of separate counsel in connection with any action in the same jurisdiction, in addition to any local counsel. The indemnifying Party shall not be liable for any settlement of any action effected without its written consent, which consent shall not be unreasonably withheld. In addition, an indemnifying Party will not, without prior written consent of the applicable indemnified Person, settle, compromise or consent to the entry of any judgment in or otherwise seek to terminate any pending or threatened action in respect of which indemnification or contribution may be sought hereunder (whether or not any Indemnified Person is a party thereto) unless such settlement, compromise, consent or termination includes en unconditional release of each Indemnified Person from all Liabilities arising out of such action.

SECTION EIGHT
SERVICES FOR OTHERS

VFI may, during or subsequent to the Term, perform services for any other person or firm without the Company's prior approval.

SECTION NINE
OWNERSHIP

VFI acknowledges that the Company will be free to use all work developed under this Agreement for future and continued usage without any obligation to remit any payment to VFI other than that which is defined in this Agreement.

SECTION TEN
GOVERNING LAW

The laws of the State of Florida shall govern this Agreement. Any controversy or claim arising out of, or relating to, this Agreement, to the making, performance, or interpretation of it, shall be settled by arbitration in New York unless otherwise mutually agreed upon by the parties, under the commercial arbitration rules of the American Arbitration Association then existing, and any judgment on the arbitration award may be entered in any court having

jurisdiction over the subject matter of the controversy. If any legal action or any arbitration or other proceeding is brought for the enforcement of this Agreement or because of an alleged dispute, breach, default or misrepresentation in connection with any of the provisions of this Agreement, the Successful or prevailing party or parties shall be entitled to recover reasonable attorney's fees and other costs incurred in that action or proceeding, in addition to any other relief to which it or they may be entitled.

The Governing Law provisions shall survive any termination of this Agreement.

SECTION ELEVEN
INTEGRATION

This Agreement contains the entire Agreement among the parties and supersedes all prior oral and written agreements, understandings, and representations among the parties. No amendments to this Agreement shall be binding unless executed in writing by all the parties.

SECTION TWELVE
CONFIDENTIALITY

Except as otherwise required by law, the terms of this Agreement shall not be disclosed by VFI to any third party, with the exception of potential investors as part of their due diligence efforts, without the prior written consent of both parties to this Agreement VFI shall keep confidential and not disclose any non-public information provided to it by or on behalf of the Company or by any third-party, in relation to any of the services provided or to be provided by it to the Company, except that it may disclose any such information to its advisors (which persons shall be bound by similar confidentiality obligations and for which VFI shall accept full responsibility in compliance with this Section) or as required by law or with the prior consent of the Company. The restrictions in the preceding sentence shall not apply to information that becomes publicly available through no fault of VFI or information that VFI may be required by law to disclose.

IN WITNESS WHEREOF, the parties to this Agreement have duly executed it on the day and year first above written.

Telkonet, Inc.
By:

/s/ Ronald W. Pickett
- ----------
Name: Ronald W. Pickett
Date: May 21, 2003
Title: President

VFinance Investments, Inc.
By:

/s/ Leonard Sokolow
- ----------
Name: Leonard Sokolow
Date: May 22, 2003
Title: Chairman

Exhibit 3.2

BYLAWS

OF

TELKONET, INC.

ARTICLE I
Office

SECTION 1.1 OFFICE. The Corporation shall maintain such offices, within or without the State of Utah as the Board of Directors may from time to time designate. The location of the principal office may be changed by the Board of Directors.

ARTICLE II
Shareholder's Meeting

SECTION 2.1 ANNUAL MEETINGS. The annual meeting of the shareholders of the Corporation shall be held at such place within or without the State of Utah as shall be set forth in compliance with these Bylaws. The annual meeting shall be held at such time and place as shall be determined by the Board of Directors. This meeting shall be for the election of directors and for the transaction of such other business as may properly come before it.

SECTION 2.2 SPECIAL MEETINGS. Special meetings of shareholders may be called at any time by the Chairman of the Board, the President, a majority of the directors or by a shareholder or shareholders holding of record at least ten percent (10%) of the outstanding shares of the Corporation. Written notice of such meeting stating the place, the date and hour of the meeting, the purpose or purposes for which it is called, and the name of the person by whom or at whose direction the meeting is called shall be given to each shareholder of record in the same manner as notice of the annual meeting. No business other than that specified in the notice of meeting shall be transacted at any such special meeting.

SECTION 2.3 NOTICE OF SHAREHOLDERS' MEETING. The Secretary shall give written notice stating the place, day and hour of the meeting, and in the case of a special meeting the purpose or purposes for which the meeting is called, which shall be delivered not less than ten (10) nor more than sixty (60) days before the day of the meeting, either personally, by facsimile, by mail, by express cover or by any other means provided for under the Utah Revised Business Corporation Act (the "Act"), as the same may be amended from time to time to each shareholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail addressed to the shareholder at his address as it appears on the books of the Corporation, with postage thereon prepaid.

SECTION 2.4 NOTICE NOT REQUIRED. Notice of any meeting of the shareholders shall not be required to be given to any shareholder who shall attend such meeting in person or by proxy without objecting thereto, and if any shareholder shall, either personally, by facsimile, by mail, by express cover or by any other means provided for under the Act, waive notice of any meeting, whether before or after such meeting shall be held, notice thereof need not be given to him. Notice of any adjourned meeting of the shareholders shall not be required to be given, except where expressly required by law.

SECTION 2.5 PLACE OF MEETING. The Board of Directors may designate any place, either within or without the State of Utah, as the place of meeting for any annual meeting or for any special meeting called by the Board of Directors. If no designation is made, or if a special meeting is otherwise called, the place of meeting shall be the principal business office of the Corporation.

SECTION 2.6 RECORD DATE. The Board of Directors may fix a date not less than ten (10) nor more than seventy (70) days prior to any meeting as the record date for the purpose of determining shareholders entitled to notice of and to vote at, such meetings of the shareholders. The transfer books may be closed by the Board of Directors for a stated period not to exceed seventy (70) days for the purpose of determining shareholders entitled to receive payment of any

dividend, or in order to make a determination of shareholders for any other purpose. If the stock transfer books are not closed and no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive payment of a dividend, the date on which notice of the meeting is mailed or the date on which the resolution of the Board of Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination.

SECTION 2.7 QUORUM. A majority of the outstanding shares of the Corporation entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of shareholders. If less than a majority of the outstanding shares are represented at a meeting, a majority of the shares so represented may adjourn the meeting from time to time without further notice. At a meeting resumed after any such adjournment at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally noticed. The shareholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of shareholders in such number that less than a quorum remain.

SECTION 2.8 VOTING. A holder of an outstanding share entitled to vote at a meeting in accordance with the terms and provisions of the Articles of Incorporation and these Bylaws may vote at such meeting in person or by proxy. Except as may otherwise be provided in the Articles of Incorporation, every shareholder shall be entitled to one vote for each share entitled to vote held in his name on the record of shareholders. Except as herein or in the Articles of Incorporation otherwise provided, all corporate action shall be determined by a majority of the votes cast at a meeting of shareholders by the holders of shares entitled to vote thereon.

SECTION 2.9 PROXIES. At all meetings of shareholders, a shareholder may vote in person or by proxy executed In writing by the shareholder or by his duly authorized attorney in fact. such proxy shall be filed with the secretary of the Corporation before or at the time of the meeting. No proxy shall be valid after eleven (11) months from the date of its execution, unless provided in the proxy.

SECTION 2.10 INFORMAL ACTION BY SHAREHOLDERS. Unless otherwise provided by law, any action required to be taken at a meeting of the shareholders, or any other action which may be taken at a meeting of the shareholders, may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes entitled to vote with respect to the subject matter thereof, provided that the Corporation complies with the provisions of the Act with respect thereto.

ARTICLE III
Board of Directors

SECTION 3.1 GENERAL POWERS. The business and affairs of the Corporation shall be managed by its Board of Directors. The directors shall, in all cases, act as a Board and may adopt such rules and regulations for the conduct of their meetings and the management of the Corporation as they deem proper, consistent with these Bylaws and the laws of this State.

SECTION 3.2 NOMINATION FOR DIRECTORS AND SUBMISSION OF PROPOSALS.

(a) Nominations for directors to be elected may be made at a meeting of shareholders only by (i) the Board of Directors (or any committee thereof), or (ii) a shareholder of the Corporation entitled to vote for the election of directors at the meeting who complies with the procedure set forth in Section 3.2(b) of these Bylaws. Business may be conducted at a meeting of the shareholders of the Corporation only if such business (i) was specified in the notice of meeting (or any supplement thereto) given by the Board of Directors, (ii) is otherwise properly brought before the meeting by the Board of Directors, or (iii) is otherwise properly brought before the meeting by a shareholder of the Corporation in accordance with the procedure set forth in Section 3.2(b) of these Bylaws. Notwithstanding the foregoing, at any time prior to the election of directors at a meeting of shareholders, the Board of Directors may designate a substitute nominee to replace any bona fide nominee who was nominated as set forth above and who, for any reason, becomes unavailable for election as a director.

(b) Beginning with the annual meeting of the shareholders to be held in 2000, nominations by shareholders for directors to be elected, or proposals by shareholders to be considered, at a meeting of shareholders and which have not been previously approved by the Board of Directors must be submitted to the Secretary of the Corporation in writing, either by personal delivery, nationally-recognized express mail or United States mail, postage prepaid, not later than (i) with respect to an election to be held, or a proposal to be considered, at an annual meeting of shareholders, the latest date upon which shareholder proposals must be submitted to the Corporation for inclusion in the Corporation's proxy statement relating to such meeting pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, as amended, or applicable rules or regulations under the federal securities laws or, if no such rules apply, at least ninety (90) days prior to the date one year from the date of the immediately preceding annual meeting of shareholders, and (ii) with respect to an election to be held, or a proposal to be considered, at a special meeting of shareholders, the close of business on the tenth day following the date on which notice of such meeting is first given to shareholders. Each such nomination or proposal shall set forth: (i) the name and address of the shareholder making the nomination or proposal and the person or persons nominated, or the subject matter of the proposal submitted; (ii) a representation that the shareholder is a holder of record of capital stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to vote for the person or persons nominated, or the proposal submitted; (iii) a description of all arrangements and understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination was made, or the proposal was submitted, by the shareholder; (iv) such other information regarding each nominee proposed by such shareholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had the nominee been nominated by the Board of Directors; and (v) the consent of each nominee to serve as a director of the Corporation if so elected. All late nominations and proposals shall be rejected.

SECTION 3.3 NUMBER, TENURE, AND QUALIFICATIONS. The number of directors for the initial Board of Directors of the Corporation shall be not less than three (3) nor more than fifteen (15) members. Each director shall hold office until the next annual meeting of shareholders and until his successor shall have been elected and qualified. Directors need not be residents of the State of Utah or shareholders of the Corporation. The number of directors may be changed by resolution adopted by the Board of Directors.

SECTION 3.4 REGULAR MEETINGS. A regular meeting of the Board of Directors shall be held without other notice than by these Bylaws, at such places and times as the Board of Directors shall from time to time determine. The Board of Directors may provide, by resolution, the time and place for the holding of additional regular meetings without other notice than such resolution.

SECTION 3.5 SPECIAL MEETINGS. Special meetings of the Board of Directors may be called by order of the Chairman of the Board, the Chief Executive Officer or by a majority of the directors. The Secretary shall give notice of the time, place, and purpose or purposes of such special meeting by delivering the written notice personally, by facsimile, by mail, by express cover or by any other means provided for under the Act at least three (3) days before the meeting to each director.

SECTION 3.6 QUORUM. A majority of the members of the Board of Directors shall constitute a quorum for the transaction of business, but less than a quorum may adjourn any meeting from time to time until a quorum shall be present, whereupon the meeting may be held, as adjourned, without further notice. At any meeting at which every director shall be present, even though without any notice, any business may be transacted.

SECTION 3.7 MANNER OF ACTING. At all meetings of the Board of Directors, each director shall have one (1) vote. The act of a majority present at a meeting shall be the act of the Board of Directors, provided a quorum is present. Any action required to be taken or which may be taken at a meeting of the directors may be taken without a meeting if a consent in writing setting forth the action so taken shall be signed by all the directors. The directors may conduct a meeting by means of a telephone conference or any similar

communications equipment by which all persons participating in the meeting can hear each other.

SECTION 3.8 VACANCIES. A vacancy in the Board of Directors shall be deemed to exist in case of death, resignation or removal of any director, or if the authorized number of directors be increased, or if the shareholders fail at any meeting of shareholders at which any director is to be elected, to elect the full authorized number to be elected at that meeting. Newly created directorships resulting from an increase in the number of directors and vacancies occurring in the Board for any reason except removal of a director without cause may be filled by vote of a majority of the directors then in office, although less than a quorum exists. Vacancies occurring by reason of the removal of a director without cause shall be filled by vote of the shareholders. A director elected to fill a vacancy caused by resignation, death or removal shall hold office for the unexpired term of his predecessor.

SECTION 3.9 REMOVAL. Directors may be removed at any time with or without cause, by a vote of the shareholders holding a majority of the shares issued and outstanding and entitled to vote. Directors may also be removed for cause by vote of a majority of the Board of Directors (excluding the affected director). Such vacancy shall be filled by the directors then in office, though less than a quorum, to hold office until the next annual meeting or until his

successor is duly elected and qualified, except that any directorship to be filled by reason of removal by the shareholders may be filled by election, by the shareholders, at the meeting at which the director is removed. No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of his term of office if a director is elected by a voting group of shareholders, unless the shareholders of such voting group may participate in the vote to remove such director.

SECTION 3.10 RESIGNATIONS. A director may resign at any time by giving written notice thereof to the Board of Directors, the President or the Secretary of the Corporation. Such resignation shall become effective upon its acceptance by, the Board of Directors; provided, however, that if the Board of Directors has not acted thereon within ten days from the date of its delivery, the resignation shall be deemed effective upon the tenth day following receipt thereof.

SECTION 3.11 PRESUMPTION OF ASSENT. A director of the Corporation who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

SECTION 3.12 COMPENSATION. Directors shall not receive any stated salary for their services, but, by resolution of the Board of Directors, the directors may be paid for their expenses, if any, of attendance at any meeting of the Board of Directors, and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary as a director. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

SECTION 3.13 EMERGENCY POWER. When, due to a national disaster or death, a majority of the directors are incapacitated or otherwise unable to attend the meetings and function as directors, the remaining members of the Board of Directors shall have all the powers necessary to function as a complete Board and, for the purpose of doing business and filling vacancies, shall constitute a quorum until such time as all directors can attend or vacancies can be filled pursuant to these Bylaws.

SECTION 3.14 CHAIRMAN. The Board of Directors may elect from its own number a Chairman of the Board, who shall initiate, organize and preside at all meetings of the Board of Directors, provide the agenda therefor and shall perform such other duties as may be prescribed from time to tome by the Board of Directors.

SECTION 3.15 DIRECTOR'S COMMITTEES. The following committees of the Board of Directors may be established by the Board of Directors in addition to any other committee the Board of Directors may in its discretion establish: (a) Executive Committee; (b) Audit Committee; and (c) Compensation Committee.

(a) EXECUTIVE COMMITTEE. The Executive Committee shall consist of at least two (2) directors. Meetings of the Executive Committee may be called at any time by the Chairman of the Executive Committee and shall be called whenever two or more members of the Committee so request in writing. The Executive Committee shall have and exercise the authority of the Board of Directors in the management of the business of the Corporation between the dates of the regular meetings of the Board.

(b) AUDIT COMMITTEE. The Audit Committee shall consist of at least two (2) directors, a majority of which shall be independent. Meetings of the Audit Committee may be called at any time by the Chairman of the Audit Committee and shall be called whenever two or more members of the Committee so request in writing. The Audit Committee shall have the following authority, powers and responsibilities:

(1) To recommend each year to the Board the independent accountants to audit the annual financial statements of the Corporation and its consolidated subsidiaries and to review the fees charged for such audits or for special engagements given to such accountants;

(2) To meet with the independent accountants, Chief Executive Officer, Chief Financial Officer and any other Corporation executives as the Audit Committee deems appropriate at such times as the Audit Committee shall determine to review: (i) the scope of the audit plan; (ii) the Corporation's financial statements; (iii) the results of external and internal audits; (iv) the effectiveness of the Corporation's system of internal controls; (v) any limitations imposed by Corporation personnel on the independent public accountants; and (vi) such other matters as the Audit Committee shall deem appropriate;

(3) To report to the entire Board at such time as the Audit Committee shall determine; and

(4) To take such other action as the Audit Committee shall deem necessary or appropriate to assure that the interests of the Company are adequately protected.

(c) COMPENSATION COMMITTEE. The Compensation Committee shall consist of at least two (2) directors. Meetings of the Compensation Committee may be called at any time by the Chairman of the Committee and shall be called whenever two or more members of the Committee so request in writing. The Committee shall review compensation of executive officers and make recommendations to the Board of Directors regarding executive compensation and shall have such other duties as the Board of Directors prescribes.

(d) APPOINTMENT OF COMMITTEE MEMBERS. The Board of Directors shall appoint or shall establish a method of appointing the members of the Executive, Audit and Compensation Committees and of any other committee established by the Board of Directors, and the Chairman of each such committee, to serve until the next annual meeting of shareholders.

(e) ORGANIZATION AND PROCEEDINGS. Each committee of the Board of Directors shall effect its own organization by the appointment of a Secretary and such other officers, except the Chairman, as it may deem necessary. The Secretary of the Executive Committee shall be the Secretary of the Corporation, but the Secretary of the Audit and Compensation Committees and of any other committee need not be the Secretary of the Corporation. A record of the proceedings of all committees shall be kept by the Secretary of such committee and filed and presented as provided in Section 3.16 of these Bylaws.

(f) COMMITTEES. In the absence or disqualification of any member of any committee established by the Board of Directors, the members thereof who are present at any meeting of such committee and are not disqualified from voting,

whether or not they constitute a quorum, may unanimously appoint another director to act at such meeting in the place of such absent or disqualified member.

SECTION 3.16 REPORTS AND RECORDS. The reports of officers and committees and the records of the proceedings of all committees shall be filed with the Secretary of the Corporation and presented to the Board of Directors, if practicable, at its next regular meeting. The Board of Directors shall keep complete records of its proceedings in a minute book kept for that purpose. When a director shall request it, the vote of each director upon a particular question shall be recorded in the minutes.

ARTICLE IV
Officers

SECTION 4.1 NUMBER. The officers of the Corporation shall be a Chairman of the Board, a Chief Executive Officer, a President, one or more Vice Presidents, a Secretary, and a Treasurer, each of whom shall be elected by a majority of the Board of Directors. Such other officers and assistant officers as may be deemed necessary may also be elected and appointed by the Board of Directors. In its discretion, the Board of Directors may leave unfilled for any such period as it may determine any office except those of President and Secretary. Any two or more offices may be held by the same person, except the offices of President and Secretary. Officers may or may not be directors or shareholders of the Corporation.

SECTION 4.2 ELECTION AND TERM OF OFFICE. The officers of the Corporation are to be elected annually by the Board of Directors at the first meeting of the Board of Directors held after the annual meeting of the shareholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as convenient. Each officer shall hold office until his successor shall have been duly elected and shall have qualified or until his death or until he shall resign or shall have been removed in the manner hereinafter provided.

SECTION 4.3 RESIGNATIONS. Any officer may resign at any time by giving written resignation either to the President or to the Secretary of the Corporation. Unless otherwise specified therein, such resignation shall take effect upon delivery.

SECTION 4.4 REMOVAL. Any officer or agent elected or appointed by the Board may be removed by the Board of Directors whenever in its judgment, the best interests of the Corporation will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights. Any such removal shall require a majority vote of the Board of Directors, exclusive of the office in question if he is also a director.

SECTION 4.5 VACANCIES. A vacancy in any office because of death resignation, removal, disqualification or otherwise, or if a new office shall be created or may be filled by the Board of Directors for the unexpired portion of the term.

SECTION 4.6 CHAIRMAN OF THE BOARD. The Chairman of the Board shall be a member of the Board of Directors and shall preside at the meetings of the Board and perform such other duties as may be prescribed by the Board of Directors.

SECTION 4.7 CHIEF EXECUTIVE OFFICER. The Chief Executive Officer shall have general supervision of all of the departments and business of the Corporation; he or she shall prescribe the duties of the other officers and employees and see to the proper performance thereof. The Chief Executive Officer shall be responsible for having all orders and resolutions of the Board of Directors carried into effect. The Chief Executive Officer shall execute on behalf of the Corporation all authorized documents and instruments requiring such execution, except to the extent that signing and execution thereof shall have been delegated to some other officer or agent of the Corporation by the Board of Directors or by the Chief Executive Officer. The Chief Executive Officer shall be a member of the Board of Directors. In the absence or disability of the Chairman of the Board or his or her refusal to act, the Chief Executive Officer shall perform all the duties and exercise all the powers and authorities incident to his or her office or as prescribed by the Board of

Directors.

SECTION 4.8 PRESIDENT. The President shall perform such duties as are incident to his or her office as prescribed by the Board of Directors or the Chief Executive Officer. In the event of the absence or disability of the Chief Executive Officer or his or her refusal to act, the President shall perform the duties and have the powers and authorities of the Chief Executive Officer. The President shall execute on behalf of the Corporation and may affix or cause to be affixed a seal to all authorized documents and instruments requiring such execution, except to the extent that signing and execution thereof shall have been delegated to some other officer or agent of the Corporation by the Board of the Directors or the President.

SECTION 4.9 VICE PRESIDENTS. The Vice Presidents shall perform such duties, do such acts and be subject to such supervision as may be prescribed by the Board of Directors, the Chief Executive Officer or the President. In the event of the absence or disability of the Chief Executive Officer and the President or their refusal to act, the Vice Presidents, in the order of their rank, and within the same rank in the order of their seniority, shall perform the duties and have the powers and authorities of the Chief Executive Officer and President, except to the extent inconsistent with applicable law.

SECTION 4.10 SECRETARY. The Secretary shall act under the supervision of the Chief Executive Officer and President or such other officer as the Chief Executive Officer or President may designate. Unless a designation to the contrary is made at a meeting, the Secretary shall attend all meetings of the Board of Directors and all meetings of the shareholders and record all of the proceedings of such meetings in a book to be kept for that purpose, and shall perform like duties for the standing committees when required by these Bylaws or otherwise. The Secretary shall perform such other duties as may be prescribed by the Board of Directors, Chief Executive Officer, President or such other supervising officer as the Chief Executive Officer or President may designate.

SECTION 4.11 TREASURER. The Treasurer shall act under the supervision of the Chief Executive Officer and President or such other officer as the Chief Executive Officer or President may designate. The Treasurer shall have custody of the Corporation's funds and such other duties as may be prescribed by the

Board of Directors, Chief Executive Officer, President or such other supervising officer as the Chief Executive Officer or President may designate.

SECTION 4.12 ASSISTANT OFFICERS. Unless otherwise provided by the Board of Directors, each assistant officer shall perform such duties as shall be prescribed by the Board of Directors, Chief Executive Officer, President or the Officer to whom he or she is an assistant. In the event of the absence or disability of an officer or his or her refusal to act, his or her assistant officers shall, in the order of their rank, and within the same rank in the order of their seniority, have the powers and authorities of such officer.

SECTION 4.13 OTHER OFFICERS. Other officers appointed by the Board of Directors shall perform such duties and have such powers as may be assigned to them by the Board of Directors.

SECTION 4.14 SALARIES. The salaries or other compensation of the officers of the Corporation shall be fixed from time to time by the Board of Directors except that the Board of Directors may delegate to any person or group of persons the power to fix the salaries or other compensation of any subordinate officers or agents. No officer shall be prevented from receiving any such salary or compensation by reason of the fact that he is also a director of the Corporation.

SECTION 4.15 SURETY BONDS. In case the Board of Directors shall so require, any officer or agent of the Corporation shall execute to the Corporation a bond in such sums and with surety or sureties as the Board of Directors may direct, conditioned upon the faithful performance of his duties to the Corporation, including responsibility for negligence and for the accounting for all property, monies or securities of the Corporation which may come into his hands.

ARTICLE V

Contracts, Loans, Checks and Deposits

SECTION 5.1 CONTRACTS. The Board of Directors may authorize any officer or officers, agents or agent, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

SECTION 5.2 LOANS. No loan or advances shall be contracted on behalf of the Corporation, no negotiable paper or other evidence of its obligation or indebtedness under any loan or advance shall be issued in its name, and no property of the Corporation shall be mortgaged, pledged, hypothecated or transferred as security for the payment of any loan, advance, indebtedness or liability of the Corporation unless and except as authorized in writing by resolution of the Board of Directors. Any such authorization may be general or confined to specific instances.

SECTION 5.3 DEPOSITS. All funds of the corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board of Directors may select, or as may be selected by any officer or agent authorized to do so by resolution of the Board of Directors.

SECTION 5.4 CHECKS AND DRAFTS. All notes, drafts, acceptances, checks, endorsements and evidences of indebtedness of the Corporation shall be signed by such officer or officers or such agent or agents of the Corporation and in such manner as the Board of Directors from time to time may, by resolution, determine. Endorsements for deposit to the credit of the Corporation in any of its duly authorized depositories shall be made in such manner as the Board of Directors from time to time may, by resolution, determine.

ARTICLE VI
Capital Stock

SECTION 6.1 CERTIFICATES OF STOCK. Every shareholder shall be entitled to have a certificate, signed by, or in the name of the Corporation, by the President and the Secretary of the Corporation, certifying the number of shares of stock of the Corporation owned by him or her. No certificate shall be issued for any share until such share is fully paid. Each certificate representing shares shall state that the Corporation is organized under the laws of the State of Utah, the name of the person to whom issued, and the par value of each share represented by such certificate or a statement that the shares are without par value. Each stock certificate issued by or on behalf of the Corporation shall have written, stamped, printed, or otherwise affixed on the face or back thereof a legend, stating in substance:

> THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AND MAY BE OFFERED AND SOLD ONLY IF REGISTERED PURSUANT TO THE PROVISIONS OF THAT ACT OR IF ANY EXEMPTION FROM REGISTRATION IS AVAILABLE. THE SHARES REPRESENTED BY THIS CERTIFICATE MAY NOT BE TRANSFERRED UNLESS THE HOLDER HEREOF SHALL HAVE COMPLIED WITH ALL PROVISIONS OF THE ARTICLES OF INCORPORATION AND ANY APPLICABLE AGREEMENT WITH THE CORPORATION AND/OR SHAREHOLDERS OF THE CORPORATION AFFECTING THE SALE THEREOF.

Each such stock certificate shall be transferable on the stock books of the Corporation in person or by attorney, but, in except as hereinafter provided in the case of loss, destruction or mutilation of certificates, no transfer of stock shall be entered until the previous certificate, if any, given for the same shall have been surrendered and canceled.

SECTION 6.2 CERTIFICATES FOR SHARES. The shares of the Corporation shall be represented by certificates prepared by the Board of Directors and signed by the President and by the Secretary or such other officers authorized by law and authorized by the Board of Directors. The signatures of such officers upon a certificate may be facsimiles if the certificate is countersigned by a transfer agent or registered by a registrar other than the Corporation itself or one of its employees. All certificates for shares shall be consecutively numbered or otherwise identified. The name and address of the shareholder, with the number of shares and date of issue, shall be entered on the stock transfer books of the Corporation. All certificates surrendered to the Corporation for

transfer shall be canceled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and canceled, except that in case of a lost, destroyed or mutilated certificate a new one may be issued therefore upon such terms and indemnity to the Corporation as the Board of Directors may prescribe.

SECTION 6.3 TRANSFER OF SHARES. Transfer of shares of the Corporation shall be made only on the stock transfer books of the Corporation by the holder of record thereof or by his legal representative, who shall furnish proper evidence of authority to transfer, or by his attorney thereunto authorized by power of attorney duly executed and filed with the Secretary of the Corporation, and. on surrender for cancellation of the certificate for such shares. The person in whose name shares stand on the books of the Corporation shall be deemed by the Corporation to be the owner thereof for all purposes.

SECTION 6.4 TRANSFER AGENT AND REGISTRAR. The Board of Directors shall have power to appoint one or more transfer agents and registrars for the transfer and registration of certificates of stock of any class, and may require that stock certificates shall be countersigned and registered by one or more of such transfer agents and registrars.

SECTION 6.5 LOST OR DESTROYED CERTIFICATES. The Corporation may issue a new certificate to replace any certificate theretofore issued by it alleged to have been lost or destroyed. The Board of Directors may require the owner of such a certificate or his legal representatives to give the Corporation a bond in such sum and with such sureties as the Board of Directors may direct to indemnify the Corporation and its transfer agents and registrars, if any, against claims that may be made on account of the issuance of such new certificates. At the direction of the Board a new certificate may be issued without requiring any bond.

SECTION 6.6 CONSIDERATION FOR SHARES. The capital stock of the Corporation shall be issued for such consideration, but not less than the par value thereof, as shall be fixed from time to time by the Board of Directors. In the absence of fraud, the determination of the Board of Directors as to the value of any property or services received in full or partial payment of shares shall be conclusive.

SECTION 6.7 REGISTERED SHAREHOLDERS. The Corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder thereof in fact, and shall not be bound to recognize any equitable or other claim to or on behalf of the Corporation, any and all of the rights and powers incident to the ownership of such stock at any such meeting, and shall have power and authority to execute and deliver proxies and consents on behalf of the Corporation In connection with the exercise by the Corporation of the rights and powers incident to the ownership of such stock. The Board of Directors, from time to time, may confer like powers upon any other person or persons.

ARTICLE VII
Indemnification

SECTION 7.1 INDEMNIFICATION. No officer or director shall be personally liable for any obligations arising out of any acts or conduct of said officer or director performed for or on behalf of the Corporation by reason of his office. The Corporation shall and does hereby indemnify and hold harmless each person and his heirs and administrators who shall serve at any time hereafter as a director or officer of the Corporation from and against any and all claims, judgments and liabilities to which such persons shall become subject by reason of his having heretofore or hereafter been a director of officer of the Corporation, or by reason of any action alleged to have been heretofore or hereafter taken or omitted to have been taken by him as such director or officer, and shall reimburse each such person for all legal and other expenses

reasonably incurred by him in connection with any such claim or liability; including power to defend such person from all suits as provided for under the provisions of the Act; provided, however that no such person shall be indemnified against, or be reimbursed for, any expense incurred in connection with any claim or liability arising out of his own negligence or willful

misconduct. The rights accruing to any person under the foregoing provisions of this section shall not exclude any other right to which he may lawfully be entitled, nor shall anything herein contained restrict the right of the Corporation to indemnify or reimburse such person in any proper case, even though not specifically herein provided for. The Corporation, its directors, officers, employees and agents shall be fully protected in taking any action or making any payment or in refusing so to do in reliance upon the advice of counsel.

SECTION 7.2 OTHER INDEMNIFICATION. The indemnification herein provided shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any Bylaw, agreement, vote of shareholders or disinterested directors, or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer or employee and shall inure to the benefit of the heirs, executors and administrators of such a person.

SECTION 7.3 INSURANCE. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer or employee of the Corporation, or is or was serving at the request of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against liability under the provisions of this Article VIII or of the Act.

SECTION 7.4 SETTLEMENT BY CORPORATION. The right of any person to be indemnified shall be subject always to the right of the Corporation by its Board of Directors, in lieu of such indemnity, to settle any such claim, action, suit or proceeding at the expense of the Corporation by the payment of the amount of such settlement and the costs and expenses incurred in connection therewith.

ARTICLE VIII
Waiver of Notice

Whenever any notice is required to be given to any shareholder or director of the Corporation under the provisions of these Bylaws or under the provisions of the Articles of Incorporation or under the provisions of the Act, a waiver thereof in writing signed by the person or persons entitled to such notice, whether before or after the time state therein, shall be deemed equivalent to the giving of, such notice. Attendance at any meeting shall constitute a waiver of notice of such meetings, except where attendance is for the express purpose of objecting to the legality of that meeting.

ARTICLE IX
Amendments

These Bylaws may be altered, amended, repealed, or added to by the affirmative vote of the holders of a majority of the shares entitled to vote in the election of any director at an annual meeting or at a special meeting called for that purpose, provided that a written notice shall have been sent to each shareholder of record entitled to vote at such meetings at least ten days before the date of such annual or special meeting, which notice shall state the alterations, amendments, additions, or changes which are proposed to be made in

such Bylaws. Only such changes shall be made as have been specified in the notice. The Bylaws may also be altered, amended, repealed, or new Bylaws adopted by the Board of Directors at any regular or special meeting. Any Bylaws adopted by the Board may be altered, amended, or repealed by a majority of the shareholders entitled to vote.

ARTICLE X
Fiscal Year

The fiscal year of the Corporation shall be fixed and may be varied by resolution of the Board of Directors.

ARTICLE XI
Dividends

SECTION 11.1 PAYMENT OF DIVIDENDS. The Board of Directors may at any regular or special meeting, as they deem advisable, declare dividends on its outstanding shares payable out of the surplus of the Corporation in the manner and upon the terms and conditions provided by law.

SECTION 11.2 RESERVES. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for preparing or maintaining any property of the Corporation, or for such other purpose as the Board of Directors shall think conducive to the interest of the Corporation, and the Board of Directors may modify or abolish any such reserve in the manner in which it was created.

Adopted by resolution of the Board of Directors on the _____ day of September, 2000.

Robert P. Crabb, Secretary

Exhibit 4.3

THIS SENIOR NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS AND MAY NOT BE SOLD, OFFERED FOR SALE, TRANSFERRED, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT TO THE SECURITIES UNDER SUCH ACT AND ANY APPLICABLE STATE SECURITIES LAW OR PURSUANT TO RULE 144 OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

TELKONET, INC.

SENIOR NOTE

Wayne, Pennsylvania

$_____ April __, 2003

TELKONET, INC., a Utah corporation (the "Company"), FOR VALUE RECEIVED, hereby promises to pay to the order of _____ (the "Holder"), the principal sum of _____ Dollars ($_____),together with interest at the rate of eight percent (8%) per annum, on the outstanding principal balance of this Senior Promissory Note (this "Note").

1. ADVANCES. The Holder shall advance the full principal amount to the Company on the date hereof.

2. INTEREST PAYMENTS. The Company shall pay to the Holder quarterly payments of accrued interest only at the interest rate specified above on the unpaid principal balance of this Note on each January 1, April 1, July 1 and October 1 during the term of this Note.

3. DUE DATE. The entire outstanding balance of this Note, including principal and unpaid accrued interest (together, the "Note Balance"), will be due and payable in a single installment on the date which occurs thirty six (36) months from the date of this Note (the "Due Date").

4. NO RIGHTS AS STOCKHOLDER. Nothing contained in this Note shall be construed as conferring upon the Holder hereof or its transferees, prior to the conversion of this Note, the right to vote or to receive dividends or to consent or to receive notice as a stockholder in respect of any meeting of stockholders for the election of directors of the Company or of any other matter, or any other rights as a stockholder of the Company.

5. PREPAYMENT. The Company may not prepay the outstanding principal amount of this Note, or any accrued interest thereon, in whole or in part, without the prior written consent of the Holder.

6. NO IMPAIRMENT. The Company will not, by amendment of its Certificate of Incorporation or Bylaws or through reorganization, consolidation, merger, dissolution, sale of assets or other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Note, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the Holder of this Note against impairment.

7. DEFAULT.

(a) EVENTS OF DEFAULT. The occurrence of any of the following shall constitute an "Event of Default":

(i) Default in the payment of any amount payable under this Note if such default is not cured by the Company within five (5) business days after the Holder has given the Company written notice of such default; or

(ii) The Company shall fail to perform or observe in any material respect any other term, covenant or agreement contained in (x) this Note or (y) that certain Security Agreement, of even date herewith, by the Company for the benefit of the Holder (the "Security Agreement"), if such failure is not cured by the Company within five (5) business days after the Holder has given the Company written notice thereof; or

(iii) The Company shall admit in writing its inability to pay its debts; or

(iv) The Company shall come under the authority of a custodian, receiver or trustee for it or for substantially all of its property; or

(v) A proceeding shall be commenced against the Company under any bankruptcy, reorganization, arrangement, readjustment of debt, moratorium or similar law or statute and relief is ordered against it, or the proceeding is commenced but is not dismissed within sixty (60) days after the commencement thereof; or

(vi) Proceedings under any law related to bankruptcy, insolvency, liquidation or the reorganization, readjustment or the release of debtors are instituted or commenced by the Company or an assignment for the benefit of creditors is made.

(b) REMEDIES. Upon the occurrence of an Event of Default, the entire Note Balance and all fees, charges, costs and expenses, if any, owed by the Company to the Holder shall become immediately due and payable and the Holder may then institute such actions or proceedings in law or equity as the Holder shall deem expedient for the protection of its rights and may prosecute and enforce its claims against all assets of the Company.

(c) COST OF COLLECTION. In the event of any default under this Note, the Company shall pay all costs of collection incurred by the Holder (including reasonable attorney's fees and expenses).

8. WAIVERS.

(d) The Company hereby waives presentment, demand for payment, notice of dishonor, notice of protest, and protest in connection with the delivery, acceptance, performance, or default of this Note.

(e) No delay by the Holder in exercising any power or right hereunder shall operate as a waiver of any power or right, nor shall an single or partial exercise of any power or right preclude other or further exercise thereof, or the exercise of any other power or right hereunder or otherwise. No waiver or modification of the terms hereof shall be valid unless set forth in writing by the Holder.

9. SECURITY INTEREST.

(a) GRANT OF SECURITY INTEREST. As security for the Secured Obligations (as defined in the Security Agreement), the Company shall grant to the Holder, pursuant to the provisions of the Security Agreement, a security interest in and lien on all of the Company's right, title and interest in and to all accounts, accounts receivable, contract rights, chattel paper, instruments, inventory, investment property, equipment, goods, documents, general intangibles (including without limitation goodwill, domain names, "URLs" and similar assets), rights with respect to any intellectual property, customer lists, software, proprietary information and all other tangible and intangible property of the Company now owned or hereafter acquired, and all amounts due or paid with respect to the use, lease, license or disposition of any of the foregoing, what ever is collected on or in respect of or distributed on or in respect of any of the foregoing, all rights of any kind relating to or arising out of any of the foregoing (including but not limited to insurance and warranty claims) and all proceeds of any kind of any of the foregoing and all proceeds of proceeds (collectively, the "Collateral").

(f) (b) PERFECTION OF SECURITY INTEREST. The Company agrees to execute

such financing statements and to take whatever other reasonable actions are requested by the Holder to perfect and continue the Holder's security interest in the Collateral.

10. SUBORDINATION OF NOTE. The indebtedness evidenced by this Note is subordinate and subject in the right of payment as to principal and interest to the prior payment in full of all principal, premium, if any, and interest on all indebtedness of the Company, regardless of when incurred, for money borrowed from any bank or other comparable financial institution up to a maximum of $_____Dollars ($_____) outstanding at any one time, but such maximum shall not apply to money borrowed that is secured by a first mortgage or other first lien on real property of the Company ("Senior Indebtedness"). Upon maturity of any Senior Indebtedness, payment in full must be made on such Senior Indebtedness before any payment is made on or in respect of this Note. During the continuance of any default with respect to any Senior Indebtedness entitling the holder thereof to accelerate the maturity thereof, or if any such default would be caused by any payment upon or in respect of the Debentures, no payment may be made by the Company upon or in respect of the Note. Upon any distribution

of assets of the Company in any dissolution, winding up, liquidation, or reorganization of the Company, payment of the principal of and interest on the Note will be subordinated to the prior payment in full of all Senior Indebtedness. Such subordination will not prevent the occurrence of any Event of Default. The holder of this Note, by accepting the same, agrees to and shall be bound by the subordination provisions hereof and invites each present and any future holder of Senior Indebtedness now or hereafter outstanding to rely thereon.

11. GENERAL.

(a) SUCCESSORS; ASSIGNMENT. This Note and the obligations and rights of the Company hereunder shall be binding upon and inure to the benefit of the Company and the Holder and their respective successors. The Company may not assign this Note or any obligations hereunder without the prior written consent of the Holder.

(b) CHANGES. Changes in or additions to this Note may be made or compliance with any term, covenant, agreement, condition or provision set forth herein may be omitted or waived (either generally or in a particular instance and either retroactively or prospectively) upon written consent of the Company and the Holder.

(c) CURRENCY. All payments shall be made in such currency of the United States of America at the time of payment shall be legal tender therein for the payment of public and private debts.

(d) NOTICES. All notices, claims, certificates, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if personally delivered or if sent by nationally-recognized overnight courier service or by certified mail, return receipt requested and postage prepaid, addressed to such address as the party to whom notice is to be given has furnished to the other party hereto in writing in accordance herewith. Any such notice or communication shall be deemed to have been received (a) in the case of personal delivery, on the date of such delivery, (b) in the case of nationally-recognized overnight courier service, on the next business day after the date when sent and (c) in the case of mailing, on the third business day following that on which the piece of mail containing such communication is posted.

(e) SEVERABILITY. If any term or provision of this Note shall be held invalid, illegal or unenforceable, the validity of all other terms and provisions hereof shall in no way be affected thereby.

12. GOVERNING LAW. This Note shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the laws of the State of _____, without regard to choice of law principles.

[SIGNATURES NEXT PAGE]

IN WITNESS WHEREOF, this Note has been executed and delivered on the date first above written by the duly authorized representative of the Company.

TELKONET, INC.

By: _____
Howard Lubert,
Chief Executive Officer

TELKONET, INC.,
A UTAH CORPORATION
NOT TRANSFERABLE OR EXERCISABLE EXCEPT
UPON CONDITIONS HEREIN SPECIFIED
VOID AFTER 5:00 O'CLOCK P.M.,
EASTERN STANDARD TIME, _____ , 2006

SENIOR NOTE OFFERING
WARRANT

THIS WARRANT AND THE SHARES OF COMMON STOCK ISSUABLE UPON THE EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER EITHER THE SECURITIES ACT OF 1933 (THE "ACT") OR APPLICABLE STATE SECURITIES LAWS (THE "STATE ACTS") AND SHALL NOT BE SOLD, PLEDGED, HYPOTHECATED, DONATED, OR OTHERWISE TRANSFERRED (WHETHER OR NOT FOR CONSIDERATION) BY THE HOLDER EXCEPT UPON THE ISSUANCE TO THE COMPANY OF A FAVORABLE OPINION OF COUNSEL AND/OR SUBMISSION TO THE COMPANY OF SUCH EVIDENCE AS MAY BE SATISFACTORY TO COUNSEL TO THE COMPANY, IN EACH SUCH CASE, TO THE EFFECT THAT ANY SUCH TRANSFER SHALL NOT BE IN VIOLATION OF THE ACT AND THE STATE ACTS.

TELKONET, INC.,
a Utah corporation
Not Transferable Or Exercisable Except
Upon Conditions Herein Specified
Void after 5:00 O'Clock P.M.,
Eastern Standard Time, _____, 2006

SENIOR NOTE OFFERING WARRANT

WARRANT TO PURCHASE 100,000 SHARES

Telkonet, Inc., a Utah corporation (the "Company") hereby certifies that, as of _____ __, 2003, _____ and his or its registered successors and permitted assigns registered on the books

of the Company maintained for such purposes as the registered holder hereof (the "Holder"), for value received, is entitled to purchase from the Company One Hundred Thousand (100,000) fully paid and nonassessable shares (the "Shares") of common stock of the Company, par value of one-tenth cent ($.001) per Share, (the "Common Stock") at the purchase price of One Dollar ($1.00) per share (the "Exercise Price") (the number of Shares and Exercise Price being subject to adjustment as hereinafter provided) upon the terms and conditions herein provided.

1. EXERCISE OF WARRANTS.

(a) CASH EXERCISE. Subject to subsection (c) of this Section 1, upon presentation and surrender of this Warrant with the Purchase Form in the form of Exhibit A hereto duly executed, at the principal office of the Company at 435 Devon Park Drive Building 500, Wayne, Pennsylvania 19087, or at such other place as the Company may designate by notice to the Holder hereof, together with a wire transfer or certified or bank cashier's check payable to the order of the Company in the amount of the Exercise Price times the number of Shares being purchased, the Company shall promptly deliver to the Holder hereof, certificates representing the Shares being purchased. In the event that the Holder elects to exercise less than the full Warrant, and if the Warrant has not then expired, the Company shall execute and deliver to the Holder a new Warrant of like tenor granting the right to purchase an amount of Shares equal to the number of Shares granted hereby reduced by the sum of the number of Shares purchased upon such exercise.

(b) INSTALLMENTS. Subject to subsection (c) of this Section 1, this Warrant may be exercised in whole or in part in installments of not less than one thousand (1,000) Shares each; and, in case of exercise hereof in part only, the Company, upon surrender hereof, will deliver to the Holder a new Warrant of like tenor entitling the Holder to purchase the number of Shares as to which this Warrant has not been exercised.

(c) EXPIRATION. This Warrant may be exercised in whole or in part at any time prior to the date which occurs three (3) years from the date hereof (the "Expiration Date"), provided that at the time of each exercise the requirements of all applicable statutes regarding the exercise of this Warrant and the issuance of the Shares are met and satisfied. After the Expiration Date or any exercise of this Warrant in whole, this Warrant shall terminate and be null, void and of no further force or effect.

2. EXCHANGE AND TRANSFER OF WARRANT. This Warrant (a) at any time prior to the exercise hereof, upon presentation and surrender to the Company, may be exchanged, alone or with other Warrants of like tenor registered in the name of the Holder, for another Warrant or other Warrants of like tenor in the name of such transferee Holder exercisable for the same aggregate number of Shares as the Warrant or Warrants surrendered, and (b) may be sold, transferred, hypothecated, or assigned, in whole or in part, but only upon compliance with applicable federal and state securities laws by the transferor and the transferee (including the delivery of investment representation letters and legal opinions reasonably satisfactory to the Company, if requested by the Company).

3. RIGHTS AND OBLIGATIONS OF WARRANT HOLDER.

(a) The Holder of this Warrant shall not, by virtue hereof, be entitled to any rights of a stockholder in the Company, either at law or in equity; provided, however, in the event that any certificate representing the Shares is issued to the Holder hereof upon exercise of this Warrant, such Holder shall, for all purposes, be deemed to have become the holder of record of such Shares on the date on which this Warrant, together with a duly executed Purchase Form, was surrendered and payment of the Exercise Price was made pursuant to the terms of this Warrant Certificate, irrespective of the date of delivery of such Share certificate. The rights of the Holder of this Warrant are limited to those expressed herein and the Holder of this Warrant, by its acceptance hereof, consents to and agrees to be bound by and to comply with all the provisions of this Warrant, including, without limitation, all the obligations imposed upon the Holder hereof by Sections 2 and 5 hereof. In addition, the Holder of this Warrant, by accepting the same, agrees that the Company may deem and treat the person in whose name this Warrant is registered on the books of the Company maintained for such purpose as the absolute, true and lawful owner for all

purposes whatsoever, notwithstanding any notation of ownership or other writing thereon, and the Company shall not be affected by any notice to the contrary.

(b) No Holder of this Warrant, as such, shall be entitled to vote or receive dividends or to be deemed the holder of Shares for any purpose, nor shall anything contained in this Warrant be construed to confer upon any Holder of this Warrant, as such, any of the rights of a stockholder of the Company or any right to vote, give or withhold consent to any action by the Company, whether upon any recapitalization, issue of stock, reclassification of stock, consolidation, merger, conveyance or otherwise, receive notice of meetings or other action affecting stockholders (except for notices provided for herein), receive dividends, subscription rights, or otherwise, until this Warrant shall have been exercised and the Shares purchasable upon the exercise thereof shall have become deliverable as provided herein; provided, however, that any such exercise on any date when the stock transfer books of the Company

shall be closed shall constitute the person or persons in whose name or names the certificate or certificates for those Shares are to be issued as the record holder or holders thereof for all purposes at the opening of business on the next succeeding day on which such stock transfer books are open, and the Warrant surrendered shall not be deemed to have been exercised, in whole or in part as the case may be, until the next succeeding day on which stock transfer books are open for the purpose of determining entitlement to dividends on the Company's common stock.

4. SHARES UNDERLYING WARRANTS. The Company covenants and agrees that all Shares delivered upon exercise of this Warrant shall, upon delivery and payment therefor, be duly and validly authorized and issued, fully-paid and non-assessable, and free from all stamp taxes, liens, and charges with respect to the purchase thereof. The Company further covenants and agrees that, at all times prior to the Expiration Date, the Company shall reserve from its authorized and unissued Common Stock a sufficient number of shares of Common Stock as shall be sufficient to permit the exercise in full of this Warrant and, should the need in the future arise, the Company shall again take such actions as are necessary to authorize the requisite number of shares of Common Stock to permit the exercise in full of this Warrant.

5. DISPOSITION OF WARRANTS OR SHARES.

(a) The Holder of this Warrant and any transferee hereof or of the Shares issuable upon the exercise of the Warrant, by their acceptance hereof, hereby understand and agree that this Warrant, and the Shares issuable upon the exercise hereof, have not been registered under either the Securities Act of 1933 (the "Act") or applicable state securities laws (the "State Acts") and shall not be sold, pledged, hypothecated, donated, or otherwise transferred (whether or not for consideration) except, if requested by the Company, upon the issuance to the Company of a favorable opinion of counsel and/or submission to the Company of such evidence as may be satisfactory to counsel to the Company, in each such case, to the effect that any such transfer shall not be in violation of the Act and the State Acts. It shall be a condition to the transfer of this Warrant that any transferee thereof deliver to the Company its written agreement to accept and be bound by all of the terms and conditions of this Warrant.

(b) The stock certificates of the Company that will evidence the shares of Common Stock with respect to which this Warrant may be exercisable will be imprinted with a conspicuous legend in substantially the following form:

> "The securities represented by this certificate have not been registered under either Securities Act of 1933 (the "Act") or applicable state securities laws (the "State Acts") and shall not be sold, pledged, hypothecated, donated or otherwise transferred (whether or not for consideration) by the holder except, if requested by the Company, upon the issuance to the Company of a favorable opinion of its counsel and/or submission to the Company of such other evidence as may be satisfactory to counsel of the Company, in each such case, to the effect that any such transfer shall not be in violation of the Act and the State Acts."

Except as provided in Section 9 hereof, the Company has not agreed to

register any of the Shares with respect to which this Warrant may be exercisable for distribution in accordance with the provisions of the Act or the State Acts, and the Company has not agreed to comply with any exemption from registration

under the Act or the State Acts for the resale of the Shares with respect to which this Warrant may be exercised. Hence, it is the understanding of the Holder of this Warrant that by virtue of the provisions of certain rules respecting "restricted securities" promulgated by the Securities and Exchange Commission (the "SEC"), the Shares may be required to be held indefinitely, unless and until registered under the Act and the State Acts, unless an exemption from such registration is available, in which case the Holder may still be limited as to the number of Shares with respect to which this Warrant may be exercised that may be sold.

6. ADJUSTMENTS. The number of Shares issuable upon the exercise of this Warrant is subject to adjustment from time to time upon the occurrence of any of the events enumerated below:

(a) In case the Company shall: (i) pay a dividend in Common Stock, (ii) subdivide its outstanding Common Stock into a greater number of shares of Common Stock, (iii) combine its outstanding shares of Common Stock into a smaller number of shares of Common Stock, or (iv) issue, by reclassification of its shares of Common Stock, any shares of its capital stock, the number of Shares purchasable upon the exercise of each Warrant immediately prior thereto shall be adjusted so that the Holder shall be entitled to receive upon exercise of this Warrant that number of Shares which the Holder would have owned or would have been entitled to receive after the happening of such event had the Holder exercised the Warrant immediately prior to the record date, in the case of such dividend, or the effective date, in the case of any such subdivision, combination or reclassification. An adjustment made pursuant to this subsection (a) shall be made whenever any of such events shall occur, but shall become effective retroactively after such record date or such effective date, as the case may be, as to shares exercised between such record date or effective date and the date of happening of any such event.

(b) In case the Company shall (i) issue or sell any Common Stock, except for the Exempt Stock (as defined below), for less than the Current Market Price (as hereafter defined in Section 6(e)) per share at the time of such issuance or sale, or (ii) grant (whether directly or by assumption in a merger or otherwise) any rights to subscribe for or to purchase, or any options or warrants for the purchase of, Common Stock or any stock or securities convertible into or exchangeable for Common Stock, whether or not immediately exercisable, convertible or exchangeable (such rights, options or warrants being herein called "Options" and such convertible or exchangeable stock or securities being herein called "Convertible Securities"), or issue or sell (whether directly or by assumption in a merger or otherwise) Options or Convertible Securities, and the price per share for which shares of Common Stock are issuable upon exercise, conversion or exchange of such Options or Convertible Securities (determined by dividing (x) the aggregate amount received or receivable by the Company as consideration for the issue, sale or grant of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the exercise, conversion or exchange thereof, by (y) the total maximum number of shares of

Common Stock issuable upon the exercise, conversion or exchange of all such Options or Convertible Securities) shall be less than the Current Market Price per share of Common Stock on the date of such issue, sale or grant, whether or not the rights to exercise, exchange or convert thereunder are immediately exercisable, then (A) the Exercise Price shall be reduced to a price determined by multiplying the Exercise Price in effect prior to the adjustment referred to in this Section 6(b) by a fraction, the numerator of which is an amount equal to the sum of (x) the number of shares of Common Stock outstanding immediately prior to such issue, sale or grant, plus (y) the consideration, if any, received by the Company upon any such issue or sale divided by the Current Market Price per Share at the time of such issue or sale, and the denominator of which is the total number of Shares outstanding immediately after such issue, sale or grant, and (b) the number of Shares for which this Warrant is exercisable shall be

adjusted to equal the number obtained by dividing (x) the Exercise Price in effect immediately prior to such issue, sale or grant, multiplied by the number of Shares for which this Warrant is exercisable immediately prior to such issue, sale or grant by (y) the Exercise Price resulting from the adjustment made pursuant to this Section 6(b). If any such Options, or rights or the conversion privilege represented by any such Convertible Securities shall expire without having been exercised, the Exercise Price adjusted upon the issuance of such Options or Convertible Securities shall be readjusted to the Exercise Price that would have been in effect had an adjustment been made on the basis that the only Common Stock issued was the Common Stock, if any, actually issued or sold on the exercise of such Options or rights of conversion of such Convertible Securities, and such Common Stock, if any, was issued or sold for the consideration actually received by the Company upon such exercise, plus the consideration, if any, actually received by the Company for the granting of all such Options, whether or not exercised, plus the consideration received for issuing or selling the Convertible Securities actually converted plus the consideration, if any, actually received by the Company on the conversion of such Convertible Securities. For purposes of this provision, "Exempt Stock" shall mean (i) shares of Common Stock (or securities convertible into or exchangeable directly or indirectly for Common Stock) issued to officers, directors, employees, consultants or vendors (if in transactions with primarily non-financing purposes) to the Company pursuant to any stock purchase or stock option plan or agreement or otherwise, in each case as approved by the Board of Directors of the Company; (ii) securities issued in connection with credit agreements with equipment lessors or commercial lenders approved by the Board of Directors; or (iii) securities issued pursuant to the acquisition of all or part of another company by the Corporation by merger or reorganization, or by the purchase of all or part of the assets of another company, pursuant to a plan, agreement, or arrangement approved by the Board of Directors.

(c) In case the Company shall pay a dividend or make a distribution of shares of its capital stock (other than Shares), evidences of its indebtedness, assets or rights, warrants or options (excluding (i) dividends or distributions payable in cash out of the current year's or retained earnings of the Company, (ii) distributions relating to subdivisions and combinations covered by Section 6(a), (iii) distributions relating to reclassifications, changes, consolidations, mergers, sales or conveyances covered by Section 6(d) and (iv) rights, warrants or options to purchase or subscribe for shares of Common Stock or Convertible Securities), then in each such case (A) the Exercise Price shall be adjusted so that the same shall equal the price determined by multiplying the Exercise Price in effect immediately prior to the record date

mentioned below by a fraction, the numerator of which shall be (x) the total number of shares of Common Stock then outstanding multiplied by the Current Market Price per Share on the record date mentioned below, less (y) the fair market value (as determined by the Board of Directors of the Company or any duly authorized committee thereof) as of such record date of said shares of stock, evidences of indebtedness or assets so paid or distributed or of such rights, warrants or options, and the denominator of which shall be the total number of shares of Common Stock then outstanding multiplied by the Current Market Price per Share on the record date mentioned below; and (B) the number of Shares for which this Warrant is exercisable shall be adjusted to equal the number obtained by dividing (x) the Purchase Price in effect immediately prior to such dividend or distribution multiplied by the number of Shares for which this Warrant is exercisable immediately prior to such dividend or distribution by (y) the Purchase Price resulting from the adjustment made pursuant to this Section 6(c). Such adjustment shall be made whenever any such dividend is paid or such distribution is made and shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution.

In the event of a distribution by the Company of stock of a subsidiary or securities convertible into or exercisable for such stock, then in lieu of an adjustment in the Exercise Price, the Holder of this Warrant, upon the exercise thereof at any time after such distribution, shall be entitled to receive from the Company, such subsidiary or both, as the Company shall determine, the stock or other securities to which such Holder would have been entitled if such Holder had exercised such Warrant immediately prior thereto, all subject to further adjustment as provided in this Section 6.

(d) If any capital reorganization, reclassification or similar transaction involving the capital stock of the Company (other than as provided in Section 6(a)), any consolidation, merger or business combination of the Company with another corporation, or the sale or conveyance of all or substantially all of its assets to another corporation, shall be effected in such a way that holders of Common Stock shall be entitled to receive stock, securities, or assets with respect to or in exchange for Common Stock, then, prior to and as a condition of such reorganization, reclassification, consolidation, merger, business combination, sale or conveyance, lawful and adequate provision shall be made whereby the Holder shall thereafter have the right to purchase and receive upon the basis and upon the terms and conditions specified in this Warrant and in lieu of the Shares immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby, such shares of stock, securities or assets as may be issued or payable with respect to or in exchange for a number of outstanding shares of Common Stock equal to the number of Shares immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby had such reorganization, reclassification, consolidation, merger, business combination, sale or conveyance not taken place. In any such case, appropriate provision shall be made with respect to the rights and interests of the Holder to the end that the provisions hereof (including, without limitation, provisions for adjustment of the Exercise Price and of the number of Shares purchasable upon the exercise of this Warrant) shall thereafter be applicable, as nearly as may be, in relation to any stock, securities or assets thereafter deliverable upon the exercise hereof. The Company shall not effect any such consolidation, merger, business

combination, sale or conveyance unless prior to or simultaneously with the consummation thereof the survivor or successor corporation (if other than the Company) resulting from such consolidation or merger or the corporation purchasing such assets shall (1) assume by written instrument executed and sent to each registered Holder, the obligation to deliver to such Holder such shares of stock, securities or assets as, in accordance with the foregoing provisions, such Holder may be entitled to receive, and containing the express assumption by such successor corporation of the due and punctual performance and observance of every provision of this Warrant to be performed and observed by the Company and of all liabilities and obligations of the Company hereunder, and (2) deliver to the registered Holder an opinion of counsel, in form and substance satisfactory to such Holder, to the effect that such written instrument has been duly authorized, executed and delivered by such successor corporation and constitutes a legal, valid and binding instrument enforceable against such successor corporation in accordance with its terms (except as enforcement thereof may be subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally, and general principles or equity (regardless of whether such enforcement is sought in a proceeding in equity or at law)), and to such further effects as such Holder may reasonably request.

(e) For the purpose of any computation under this Warrant Certificate, the Current Market Price per Share at any date shall be: (i) if the Shares are listed on any national securities exchange, the average of the daily closing prices for the fifteen (15) consecutive business days commencing two (2) business days before the day in question (the "Trading Period"); (ii) if the Shares are not listed on any national securities exchange but are quoted on the National Association of Securities Dealers, Inc. Automated Quotation System ("NASDAQ"), the average of the high and low bids as reported by NASDAQ for the Trading Period; and (iii) if the Shares are neither listed on any national securities exchange nor quoted on NASDAQ, the fair market value of the Shares as determined in good faith by the Board of Directors of the Company.

(f) No adjustment in the Exercise Price shall be required unless such adjustment would require an increase or decrease of at least $.01; provided, however, that any adjustments which by reason of this subsection (f) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Section 6 shall be made to the nearest cent or to the nearest one-hundredth of a Share, as the case may be.

(g) Whenever the number of Shares purchasable hereunder is adjusted as herein provided, the Company shall cause to be mailed to the Holder in accordance with the provisions of this Section 6 a notice (i) stating that

the number of Shares purchasable upon exercise of this Warrant have been adjusted, (ii) setting forth the adjusted number of Shares purchasable upon the exercise of a Warrant, and (iii) showing in reasonable detail the computations and the facts, including the amount of consideration received or deemed to have been received by the Company, upon which such adjustments are based.

7. FRACTIONAL SHARES. The Company shall not be required to issue any fraction of a Share upon the exercise of Warrants. If more than one Warrant shall be surrendered for exercise at one time by the same Holder, the number of full Shares which shall be issuable upon exercise thereof shall be computed on the basis of the aggregate number of Shares with respect to which this Warrant is exercised. If any fractional interest in a Share shall be deliverable upon the exercise of this Warrant, the Company shall make an adjustment therefor in cash equal to such fraction multiplied by the Current Market Price of the Shares on the business day next preceding the day of exercise.

8. REPURCHASE. The Company shall have no right to repurchase this Warrant or the Shares which may be purchased under this Warrant.

9. REGISTRATION RIGHTS.

9.1 COMPANY'S REGISTRATION OPTION.

(a) (i) If the Company at any time elects or proposes to register any of its Shares (the "Registration Shares") under the Act on any Registration Statement forms in effect at such time with the SEC pursuant to which Shares owned by any shareholder of the Company may be registered, the Company shall give prompt written notice (the "Registration Notice") to the Holder of its intention to register the Registration Shares

(ii) Within fifteen (15) days after the Registration Notice shall have been given to the Holder, the Holder shall give written notice to the Company (the "Holder Notice"), stating the number of Shares to be registered (the "Holder Shares"). In the event the Registration Notice is given by the Company prior to the time that this Warrant has been exercised pursuant to Section l (a) hereof, the Holder Notice shall be accompanied by this Warrant Certificate together with a duly executed Purchase Form and payment of the Exercise Price for the Holder Shares in accordance with Section 1 hereof.

(iii) The Company shall use its best efforts to register the Holder Shares under the Act and the applicable state securities laws (the "State Acts") designated by the Holder in the Holder Notice. Anything contained herein to the contrary notwithstanding, the Company shall have the right to withdraw and discontinue registration of the Holder Shares at any time prior to the effective date of such Registration Statement if the registration of the Registration Shares is withdrawn or discontinued.

(iv) The Company shall not be required to include any of the Holder Shares in any Registration Statement unless the Holder agrees, if so requested by the Company, to: (A) offer and sell the Holder Shares to or through an underwriter selected by the Company and, to the extent possible, on substantially the same terms and conditions under which the Registration Shares are to be offered and sold; (B) comply with any arrangements, terms and conditions with respect to the offer and sale of the Shares to which the Company may be required to agree; and (C) enter into any underwriting agreement containing customary terms and conditions, including provisions for the indemnification of the underwriters.

(b) If the offering of the Registration Shares by the Company is, in whole or in part, an underwritten public offering, and if the managing underwriter determines and advises the Company in writing that the inclusion in such Registration Statement of all of the Holder Shares, together with the Shares of other persons who have exercised their right to include their Shares in the Registration Statement (collectively referred to as the "Aggregate Shares") would adversely affect the marketability of the offering of the Registration Shares, then the Holder shall be entitled to register a proportion, as determined in Subsection (b)(i) below, of such number of Aggregate Shares as the managing underwriter determines may be included without such adverse effects ("Aggregate Underwriter Shares"), subject to the terms, exceptions and conditions of this Section 9.

(i) The proportion of the Aggregate Underwriter Shares which the Holder shall be entitled to register shall be equal to the ratio which the Holder Shares bears to the Aggregate Shares.

(c) The Company shall bear all costs and expenses of registration of the Registration Shares and the Holder Shares.

(d) It shall be a condition precedent to the Company's obligation to utilize its best efforts to register any Holder Shares pursuant to this Section 9 that the Holder provide the Company with all information and documents, and shall execute, acknowledge, seal and deliver all documents reasonably necessary, to enable the Company to comply with the Act, the State Acts, and all applicable laws, rules and regulations of the SEC or of any State Securities Commission.

(e) The Holder shall indemnify and hold harmless the Company, each of its directors and officers who have signed the Registration Statement, each person, if any, who is a controlling person or the Company and any underwriter from and against any and all losses, claims, damages, expenses or liabilities (including amounts paid in settlement and reasonable attorneys' fees) (the "Liabilities"), joint or several, to which they or any of them may become subject under the Act, under any State Act or at common law or otherwise insofar as the Liabilities arise from written information provided by the Holder for specific inclusion in such Registration Statement; provided that the maximum amount which may be recovered from the Holder pursuant to this paragraph or otherwise shall be limited to the amount of net proceeds received by the Holder from the sale of Shares pursuant to such Registration Statement.

(f) The Company shall indemnify and hold harmless the Holder from and against any and all losses, claims, damages, expenses or liabilities (including amounts paid in settlement and reasonable attorneys' fees) (the "Liabilities"), joint or several, to which they or any of them may become subject under the Act, under any State Act or at common law or otherwise insofar as the Liabilities arise from written information provided by the Company for specific inclusion in such Registration Statement; provided that the maximum amount which may be recovered from the Company pursuant to this paragraph or otherwise shall be limited to a sum equal to the number of Shares exercised by Holder multiplied by the then Current Market Price at the time of exercise.

9.2 REGISTRATION PROCEDURES AND EXPENSES. If and whenever the Company is required by the provisions of Section 9.1 hereof to use its best efforts to effect the registration of any of the Shares under the Act, the Company will, as expeditiously as possible:

(a) prepare and file with the SEC a Registration Statement (which, in the case of an underwritten public offering, shall be on Form S-1 or other form of general applicability satisfactory to the managing underwriter selected as therein provided) with respect to such securities and use its best efforts to cause such Registration Statement to become and remain effective for the period of the distribution contemplated thereby (determined as hereinafter provided);

(b) prepare and file with the SEC such 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 the period hereinafter provided and as shall comply with the provisions of the Act with respect to the disposition of all Shares covered by such Registration Statement in accordance with the sellers' intended method of disposition set forth in such Registration Statement for such period;

(c) furnish to each seller and to each underwriter such number of copies of the Registration Statement and the prospectus included therein (including each preliminary prospectus) as such persons may reasonably request in order to facilitate the public sale or other disposition of the Shares covered by such Registration Statement;

(d) use its best efforts to register or qualify the Shares covered by such Registration Statement under the securities or blue sky laws of

such jurisdictions as the sellers of Shares or, in the case of an underwritten public offering, the managing underwriter, shall reasonably request;

(e) immediately notify each seller under such Registration Statement and each underwriter, at any time when a prospectus relating thereto is required to be delivered under the Act, of the happening of any event as a result of which the prospectus contained in such Registration Statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing;

(f) use its best efforts (if the offering is underwritten) to furnish, at the request of any seller, on the date that Shares are delivered to the underwriters for sale pursuant to such registration: (i) an opinion dated such date of counsel representing the Company for the purposes of such registration, addressed to the underwriters and to such seller, stating that such Registration Statement has become effective under the Act and that (A) to the best knowledge of such counsel, no stop order suspending the effectiveness thereof has been issued and no proceedings for that purpose have been instituted or are pending or contemplated under the Act, (B) the Registration Statement, the related prospectus, and each amendment or supplement thereof, comply as to form in all material respects with the requirements of the Act and the applicable rules and regulations of the SEC thereunder (except that such counsel need express no opinion as to financial statements contained therein) and (C) to such other effects as may reasonably be requested by counsel for the underwriters or by such seller or its counsel, and (ii) a letter dated such date from the independent public accountants retained by the Company, addressed to

the underwriters and to such seller, stating that they are independent public accountants within the meaning of the Act and that, in the opinion of such accountants, the financial statements of the Company included in the Registration Statement or the prospectus, or any amendment or supplement thereof, comply as to form in all material respects with the applicable accounting requirements of the Act, and such letter shall additionally cover such other financial matters (including information as to the period ending no more than five business days prior to the date of such letter) with respect to the registration in respect of which such letter is being given as such underwriters or seller may reasonably request; and

(g) make available for inspection by each seller, any underwriter participating in any distribution pursuant to such Registration Statement, and any attorney, accountant or other agent retained by such seller or underwriter, all financial and other records, pertinent corporate documents and properties of the Company, and cause the Company's officers, directors and employees to supply all information reasonably requested by any such seller, underwriter, attorney, accountant or agent in connection with such Registration Statement.

For purposes of Section 9.2(a) and (b) hereof, the period of distribution of Shares in a firm commitment underwritten public offering shall be deemed to extend until each underwriter has completed the distribution of all securities purchased by it, and the period of distribution of Shares in any other registration shall be deemed to extend until the earlier of the sale of all Shares covered thereby or nine months after the effective date thereof.

In connection with each registration hereunder, the selling holders of Shares will furnish to the Company in writing such information with respect to themselves and the proposed distribution by them as shall be reasonably necessary in order to assure compliance with federal and applicable state securities laws.

In connection with each registration pursuant to Section 9.1 hereof covering an underwritten public offering, the Company agrees to enter into a written agreement with the managing underwriter selected in the manner herein provided in such form and containing such provisions as are customary in the securities business for such an arrangement between major underwriters and companies of the Company's size and investment stature, provided that such agreement shall not contain any such provision applicable to the Company which is inconsistent with the provisions hereof and, further, provided, that the time and place of the closing under said agreement shall be as mutually agreed upon between the

Company and such managing underwriter.

10. LOSS OR DESTRUCTION. Upon receipt of evidence satisfactory to the Company of the loss, theft, destruction, or mutilation of this Warrant and, in the case of any such loss, theft or destruction, upon delivery of an indemnity agreement or bond satisfactory in form, substance and amount to the Company or, in the case of any such mutilation, upon surrender and cancellation of this Warrant, the Company at its expense will execute and deliver, in lieu thereof, a new Warrant of like tenor.

11. SURVIVAL. The various rights and obligations of the Holder hereof as set forth herein shall survive the exercise of the Warrants represented hereby and the surrender of this Warrant.

12. REPRESENTATIONS OF HOLDER. The Holder represents and warrants to the Company as follows:

(a) The Holder may receive this Warrant free and clear of any restriction, agreement, claim or other impediment and the Holder is free to exercise this Warrant in accordance with the terms and conditions set forth in this Warrant; and

(b) The execution and delivery of this Warrant to the Holder by the Company does not constitute a breach or default under any other agreement, contract or arrangement which is binding upon the Holder.

13. NOTICES. Whenever any notice, payment of any purchase price, or other communication is required to be given or delivered under the terms of this Warrant, it shall be in writing and delivered by hand delivery, by overnight courier services for next day delivery, or United States registered or certified mail, return receipt requested, postage prepaid, and will be deemed to have been given or delivered on the date such notice, purchase price or other communication is so delivered or posted, as the case may be; and, if to the Company, it will be addressed to the address specified in Section 1 hereof, and if to the Holder, it will be addressed to the registered Holder at his address as it appears on the books of the Company.

14. SUCCESSORS. This Warrant shall be binding upon any successors or assigns of the Company and upon any heirs, successors or assigns of the Holder.

15. GOVERNING LAW. This Warrant shall be governed by and construed in accordance with the laws of the State of Utah.

16. HEADINGS. The headings used in this Warrant are used for convenience only and are not to be considered in construing or interpreting this Warrant.

17. SATURDAYS, SUNDAYS, HOLIDAYS. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday or a Sunday or shall be a legal holiday in the State of Delaware, then such action may be taken or such right may be exercised on the next succeeding day not a legal holiday.

18. ATTORNEY'S FEES. In the event that any dispute among the parties to this Warrant should result in litigation, the prevailing party in such dispute shall be entitled to recover from the losing party all fees, costs and expenses of enforcing any right of such prevailing party under or with respect to this Warrant, including without limitation, such reasonable fees and expenses of attorneys and accountants, which shall include, without limitation, all fees, costs and expenses of appeals.

IN WITNESS WHEREOF, Telkonet, Inc. has caused this Warrant to be executed and attested under seal by its officers thereunto duly authorized as of the ___ day of _____, 2003.

TELKONET, INC.

By:_____ (SEAL)
Howard Lubert,
Chief Executive Officer

EXHIBIT A

PURCHASE FORM TO BE EXECUTED
UPON CASH EXERCISE OF WARRANT

Telkonet, Inc.
435 Devon Park Drive Building 500
Wayne, Pennsylvania 19087

The undersigned hereby irrevocably elects to exercise the attached Warrant, according to the terms and conditions thereof, to the extent of _____ shares of Common Stock, and hereby tenders $_____ in full payment of the purchase price in accordance with Section 1(a) of the Warrant.

Date: _____ _____

* * * * *

The Common Stock certificates are to be issued as indicated below:

NAME	ADDRESS	SSN/TAX ID	NO. SHARES

Exhibit 5

[Baker & Hostetler LLP Letterhead]

August 28, 2003

Telkonet, Inc.
902A Commerce Road
Annapolis, Maryland 21401

Gentlemen:

We have acted as counsel to Telkonet, Inc., a Utah corporation (the "Company"), in connection with the Company's Registration Statement on Form S-1 (the "Registration Statement") filed under the Securities Act of 1933, as amended (the "Act") relating to the registration of 17,353,367 shares of common stock, par value $0.001 per share (the "Common Shares"), of the Company, which have been included in the Registration Statement for the respective accounts of the persons identified in the Registration Statement as selling stockholders.

In connection with the foregoing, we have examined: (a) the Articles of Incorporation of the Company, as amended, (b) the Bylaws of the Company, as amended, and (c) such records of the corporate proceedings of the Company and such other documents as we deemed necessary to render this opinion.

Based on such examination, we are of the opinion that the issued and outstanding Common Shares are legally issued, fully paid and nonassessable, the Common Shares subject to acquisition upon exchange of the Series A and Series B 8.0% Convertible Debentures (collectively, the "Debentures") and exercise of the Stock Purchase Warrants held by the debenture holders (the "Warrants"), when paid for and issued in accordance with the Debentures and the Warrants, will be legally issued, fully paid and nonassessable.

We hereby consent to the use of this Opinion as Exhibit 5 to the Registration Statement and the reference to our firm in Item 5 of Part II of the Registration Statement.

Very truly yours,

/s/ Baker & Hostetler LLP

Exhibit 10.4

AMENDMENT TO EMPLOYMENT AGREEMENT

THIS AMENDMENT TO EMPLOYMENT AGREEMENT (this "Amendment") is made this 12 day of April, 2002 by and between TELKONET COMMUNICATIONS, INC., a Utah corporation (the "Company") and STEPHEN L. SADLE (the "Executive").

WHEREAS, the Executive is employed as Executive Vice President and Chief Operating Officer of the Company pursuant to a June 19, 2000 Employment Agreement (the "Initial Agreement");

WHEREAS, the Initial Agreement was amended by the parties on January 12, 2002 (the "Initial Amendment," together with the Initial Agreement, the "Agreement"); and

WHEREAS, the Executive and the Company desire to amend the Agreement as set forth herein.

NOW, THEREFORE, in consideration of the premises and the mutual promises herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Unless otherwise defined herein, capitalized terms shall have the same meaning as in the Agreement.

2. Paragraph 3(b) of the Agreement is amended and restated in its entirety as follows:

(b) 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 6(A)(ii)). This shall apply in the following conditions:

(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)).

3. The Stock Lock-up Provision of the Initial Amendment is superceded in its entirety by the Lock-up Agreement, attached hereto and made a part hereof as SCHEDULE A.

4. The Stock Surrender Provision of the Initial Amendment is amended and restated in its entirety as follows:

> The Executive agrees that, should he voluntarily terminate his employment with Telkonet for any reason, other than the events enumerated in paragraph 3(b) of the Employment Agreement or death of the Executive, at any time between January 12, 2002 and January 12, 2005 (the "Stock Surrender Period"), the Executive shall forfeit 40,000 shares of the Founders Stock (as hereinafter defined) held by him for each month of the Stock Surrender Period remaining following such termination. For purposes of this paragraph, "Founders Stock" means 1,500,000 shares of the shares of common stock, par value $0.001 per share, of Telkonet (the "Common Stock") owned by the Executive on January 12, 2002. Notwithstanding the foregoing, the number of shares of Founders Stock subject to this Stock Surrender Provision shall be decreased upon each exercise by the Executive of an option to purchase Common Stock (each, an "Option") by a percentage calculated by dividing the number of shares of Common Stock acquired upon exercise of each Option by the total number of shares of Common Stock subject to purchase pursuant to Options on such date.
>
> The Executive also agrees to the terms and conditions of the Non-Competition and Confidentiality Agreement, which is attached hereto and made a part hereof as ATTACHMENT A.

5. In the event of any inconsistency or discrepancy between the Agreement and this Amendment, the provisions of this Amendment shall govern and control.

6. This Amendment shall be governed by, and construed in accordance with, the laws of the state of Maryland, without giving effect to applicable conflict of laws principles.

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

TELKONET COMMUNICATIONS, INC.,
a Maryland corporation

By:_____
Name:_____
Title:_____

_____
Stephen L. Sadle

SCHEDULE A

LOCK-UP AGREEMENT

THIS LOCK-UP AGREEMENT (this "Agreement") is made as of the _____ day of _____, 2002, by and between Stephen L. Sadle ("Stockholder") and TELKONET, INC., a Utah corporation ("Telkonet").

WHEREAS, Stockholder is the owner of the shares of Telkonet common stock, par value $0.001 ("Common Stock"), listed on EXHIBIT A, as may be amended from time to time, attached hereto and made a part hereof (the "Telkonet Stock");

WHEREAS, Stockholder has been granted options to purchase the shares of Common Stock listed on EXHIBIT B, as may be amended from time to time, attached hereto and made a part hereof (the "Telkonet Options");

WHEREAS, the parties have agreed that Stockholder shall not make any Transfer (defined herein) of shares of Telkonet Stock, except in accordance with this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein contained, the parties hereto hereby agree as follows:

1. RESTRICTIONS ON TRANSFER OF TELKONET STOCK. (a) Stockholder hereby agrees that, without the consent of Telkonet, it will not, directly or indirectly, sell, assign, transfer, pledge or otherwise dispose of (collectively "Transfer") the Telkonet Stock prior to the end of the thirty-six (36) month period following the date hereof, except in accordance with the release schedule set forth in paragraph 1(b).

(b) The Telkonet Stock subject to restriction on Transfer (the "Lock-up Restriction") hereunder shall be released from such Lock-up Restriction in accordance with the following schedule:

(i) Upon execution of this Agreement, 139,280 shares of the Telkonet Stock shall be released from the Lock-up Restriction;

(ii) On December 1, 2002, 50,000 shares of the Telkonet Stock shall be released from the Lock-up Restriction;

(iii) On December 1, 2003, 50,000 shares of the Telkonet Stock shall be released from the Lock-up Restriction;

(iv) On January 1, 2005, 50,000 shares of the Telkonet Stock shall be released from the Lock-up Restriction;

(v) Upon execution of all or a portion of the Telkonet Options, that number of shares of Telkonet Stock determined by multiplying the Telkonet Stock subject to the Lock-up Restriction by a percentage calculated by dividing the number of shares of Common Stock acquired upon exercise of the Telkonet Options by the number of shares of Common Stock subject to purchase pursuant to the Telkonet Options on such date, shall be released from the Lock-up Restriction.

(c) Notwithstanding the foregoing, Stockholder may Transfer the Telkonet Stock to (i) the spouse or children of such Stockholder, whether directly or in trust (including pursuant to the uniform gift to minors provisions) for their sole benefit, provided that the transferee agrees in writing to be bound by the terms of this Agreement, and provided further that Stockholder may not disclaim beneficial ownership of such Telkonet Stock for purposes of any filing pursuant to any securities law, or (ii) a trust in which Stockholder owns all of the beneficial interest therein provided that the transferee agrees in writing to be bound by the terms of this Agreement, and provided further that Stockholder may not disclaim beneficial ownership of such Telkonet Stock for purposes of any filing pursuant to any securities law, or (iii) a third party making a cash tender or exchange offer in compliance with Regulations 14D and 14E under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), following the filing with the SEC by Tekonet, in compliance with the Exchange Act, a Recommendation Statement on Schedule 14D-9 pursuant to which Telkonet affirmatively recommends to the Telkonet stockholders the acceptance of such cash tender or exchange offer.

2. MISCELLANEOUS

(a) CHANGE OF CONTROL. In the event of a Change of Control (as hereinafter defined) of Telkonet, all shares of Telkonet Stock still subject to the Lock-up Restriction on the date of such Change of Control shall be immediately released from the Lock-up Restriction.

For purposes of this paragraph 2(a), "Change of Control" means any consolidation, merger or share exchange, regardless of whether Telkonet is the surviving company, in which any person or affiliated persons acquires in excess of 20% of the combined voting power of the then outstanding securities of Telkonet, inclusive of the voting power represented by any outstanding securities of Telkonet, owned by such person or persons prior to the consummation of such transaction, and regardless of whether such person or persons are deemed to be affiliates or in control of Telkonet by virtue of their ownership of outstanding securities of Telkonet, representation on Telkonet's Board of Directors or otherwise prior to the consummation of such transaction.

(b) SEVERABILITY. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

(c) BINDING EFFECT AND ASSIGNMENT. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, but except as otherwise specifically provided, neither this Agreement nor any of the rights, interests or obligations of the parties hereto may be assigned by any of the parties hereto without the prior written consent of the other.

(d) AMENDMENTS AND MODIFICATION. This Agreement may not be modified, amended, altered or supplemented except upon the execution and delivery of a written agreement executed by the parties hereto.

(e) SPECIFIC PERFORMANCE. The parties hereto acknowledge that Telkonet will be irreparably harmed and that there will be no adequate remedy at law for a violation of any of the covenants or agreements of Stockholder set forth herein. Therefore, it is agreed that, in addition to any other remedies which may be available to Telkonet upon such violation, Telkonet shall have the right to enforce such covenants and agreements by specific performance, injunctive relief or by any other means available to Telkonet at law or in equity.

(f) NOTICES. All notices and other communications hereunder shall be in writing and shall be acceptable if (a) delivered personally or by telecopy, or (b) if sent by registered or certified mail (return receipt requested) and postage prepaid, or (c) if sent by reputable overnight courier, so long as the parties to this Agreement receive such notices at the following addresses or at such other address for a party as shall be specified by like notice.

If to Stockholder: Stephen L. Sadle

_____

_____

If to Telkonet: Telkonet, Inc.
902 A Commerce Road
Annapolis, Maryland 21401

All such notices and communications shall be deemed to have been received on the date of delivery if delivered personally or by telecopy, or on the date of receipt, if mailed, or one day after mailing, if by overnight courier. Any party giving notice under this Agreement to one party to this Agreement shall be required to give such notice to all parties to this Agreement in order for such notice to be effective.

(g) ENTIRE AGREEMENT. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements and understandings, written and oral.

(h) APPLICABLE LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Maryland, without giving effect to applicable conflict of laws principles.

(i) SECTION HEADINGS. The section and other headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

(j) COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be a single agreement.

IN WITNESS WHEREOF, the undersigned have signed their names as of the date first written above.

STOCKHOLDER:

_____
Stephen L. Sadle

TELKONET, INC.

By:_____
Name:_____
Title:_____

EXHIBIT A

Telkonet Stock: 3,500,000 shares

EXHIBIT B

Telkonet Options: options to purchase 1,000,000 shares of Common Stock

Exhibit 10.5

EXECUTIVE EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is entered into as of the 18TH, DAY OF JANUARY, 2003, by and between TELKONET COMMUNICATIONS, INC., a Delaware corporation (the "Company"), and STEPHEN L. SADLE (the "Executive").

W I T N E S S E T H:

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 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 January 17, 2006 (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 Chief Operating Officer of the Company. Without limiting the general scope of the Executive's position: (i) the Executive shall not be required to report to any single individual other than the President, CEO and the Board of Directors, (ii) no other individual shall be elected or appointed as Chief Operating Officer of the Company, and (iii) no individual or group of individuals (including a committee established or other designee appointed by the Board) shall have any authority over or equal to the authority of the Executive in his role as Chief Operating Officer or could have the effect of, or appear to have the effect of, giving such authority to any such individual or group. The Executive shall be entitled to the full protection of applicable indemnification provisions of the certificate of incorporation and bylaws of the Company, as the same may be amended from time to time, for his service as a director, officer and employee of the Company.

(b) If:

(i) the Company materially changes the Executive's duties and responsibilities as set forth in Paragraph 3(a) without his consent (including, without limitation, violation of any of the provisions of clause (i), (ii) or (iii) of Paragraph 3 (a));

(ii) the Executive's place of employment is moved to a location more than fifty (50) miles from the geographical center of Severna Park, Maryland;

(iii) 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;

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

(v) the Board or any nominating committee thereof or

committee performing a Board nomination function fails to nominate the Executive for election to the Board in connection with any shareholders' meeting to be held or action to be taken for the election of directors;

(vi) 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 6(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 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) 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 Executive shall receive options to purchase 900,000 shares of common stock from the Employee Stock Incentive Plan at the exercise price of $1.00 per share.

(c) The Company may pay to the Executive bonus compensation for each calendar or fiscal year of the Company, not later than sixty (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 of 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.

(d) 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. 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 and does not result in a proportionately greater reduction in the rights of or benefits to the Executive as compared with any other officers 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. 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.

(e) 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 to be made hereunder as the Company shall reasonably request. Depending on the individuals exact duties, a Company owned vehicle may be provided.

(f) Upon dissolution or liquidation of the Company, or upon a merger or consolidation in which the Company is not the surviving corporation, all Options awarded to the Executive under the ESOP and not previously exercised and vested shall become fully exercisable and vested no later than the date of such dissolution, merger or consolidation, and the Executive shall have the right to exercise such Executive's Options in whole or in part at any time within the next four (4) years.

(g) The Company shall pay the full cost of providing health and group life insurance for the Executive, his spouse and eligible dependent children and any other such benefits as the Company may choose to offer the employees of the Company.

(h) The Company will reimburse the Executive for the monthly cost of his cellular phone service.

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 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 (5a). If such insurance is obtained, the premiums shall be added to the employees W-2 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

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 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 5(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 2 week notice cure opportunities during each fiscal year of the Company.

The exercise by the Company of its rights of termination under this Paragraph 6 shall be the Company's sole remedy in the event of the occurrence of an event as a result of which such right to terminate arises. 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.

In the event of a termination claimed by the Company to be for "cause" pursuant to Paragraph 6(a)(ii), the Executive shall have the right to have the justification for said termination determined 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 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 6, or if the Executive terminates his employment, unless as 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 6(a)(i) or 6(a)(ii) or if 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 6(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

(D)NON-COMPETITION AND CONFIDENTIALITY AGREEMENT 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, and is acknowledged by the

Executive's signature on this Employment Agreement.

To induce Telkonet Communications, Inc., a Delaware corporation ("Telkonet") to employ the Employee pursuant to this Employment Agreement, the Employee agrees that for the term of the Employment Agreement and a period of One (1) year following termination of the Employment Agreement (the "Noncompetition Period"), he will not (a) Participate In (as hereinafter defined) any other business or organization which at any time during the Noncompetition Period is engaged in the same business as or in competition with Telkonet within the geographic confines of the markets where Telkonet's products are sold or targeted; (b) directly or indirectly solicit for business any person or enterprise that at any time during the two (2) year period preceding the date of termination of the Employment Agreement was a customer of Telkonet; or (c) directly or indirectly employ any person who, at any time during the two (2) year period preceding the date of termination of the Employment Agreement was, or during the Noncompetition Period is, an employee of Telkonet. As used in this Agreement, "Participate In" shall mean "directly or indirectly, for his own benefit or for, with, or through any other person or entity, own, manage, operate, control, loan money to, or participate in the ownership, management, operation, or control of, or be connected as a director, officer, employee, partner, consultant, agent, independent contractor, or otherwise with, or acquiesce in the use of his name in;" provided, nothing contained herein shall prohibit the Employee from owning, directly or indirectly up to 5.0% of the outstanding voting securities of any company, the securities of which are traded on a national securities exchange or listed for quotation on an automated system of quotation.

In consideration of the execution, delivery and performance of this Noncompetition Agreement by the Employee, Telkonet has executed the Employment Agreement, which confers a substantial economic benefit upon the Employee.

Notwithstanding anything in this Noncompetition Agreement to the contrary, if at any time the Employment Agreement is terminated by either Telkonet or the Employee for any reason (whether or not constituting cause) or for no reason, the provisions of this Noncompetition Agreement shall remain binding upon the Employee. Nothing in this Noncompetition Agreement shall be deemed to entitle or confer upon the Employee the right to be employed by Telkonet for a term or otherwise alter the employment status of the Employee with Telkonet.

A material breach of this Noncompetition Agreement by the Employee could not adequately be compensated by money damages and will constitute irreparable harm and injury to Telkonet. In the event of any such material breach or threatened or anticipated breach, Telkonet shall be entitled, in addition to any other right and remedy available, to an injunction restraining such breach or a threatened breach, and no bond or other security shall be required in connection therewith provided Telkonet satisfies the applicable burden of proof with respect to all legal requirements applicable to the issuance of an injunction other than with respect to the inadequacy of money damages and /or irreparable harm or injury.
The Employee agrees that the provisions of this Noncompetition Agreement are necessary and reasonable to protect Telkonet in the conduct of its business. If any restriction contained in this Noncompetition Agreement shall be deemed to be invalid, illegal, or unenforceable by reason of the extent, duration, or geographical scope thereof, or otherwise, then the court making such determination shall have the right to reduce such extent, duration, geographical scope, or other provisions hereof, to the minimal extent necessary to comply with applicable law or equitable considerations, and in its reduced form such restriction shall then be enforceable in the manner contemplated hereby.

This Noncompetition Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to conflict of laws principles.

7. 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.

(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 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:_____
Name: Ronald W. Pickett
Title: President & Chairman

_____
Stephen L. Sadle

Exhibit 10.6

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is effective as of the 30th day of January 2002, by and between TELKONET COMMUNICATIONS, INC., a Delaware corporation (the "Company"), and J. GREGORY FOWLER (the "Executive").

W I T N E S S E T H

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 Chief Executive 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 January 30th, 2005 (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 a 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 Chief Executive 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 judgment. 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) 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 6(A)(ii)). This shall apply in the following conditions:

(i) the Executive is required to relocate from his current residence in Charlotte, NC;

(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 written consent in excess of the period of nonpayment for similar Executives.

(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) 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 Executive shall receive options to purchase 650,000 shares of common stock from the Employee Stock Option plan at the exercise price of $1.00 per share. The first 50,000 shares are immediately vested upon the execution of the Employment Agreement and the remaining 600,000 shares vest ratably at 50,000 shares per consecutive calendar quarter from the date of the Employment Agreement.

(c) 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.

(d) 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.

(e) 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 reasonable 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.

(f) Upon dissolution or liquidation of the Company, or upon a merger or consolidation in which the Company is not the surviving corporation, all Options awarded to the Executive under the ESOP and not previously exercised and vested shall become fully exercisable and vested no later than the date of such dissolution, merger or consolidation, and the Executive shall have the right, immediately prior to such dissolution or liquidation, or such merger or consolidation, to exercise such Executive's Options in whole or in part, but only to the extent that such Options are otherwise exercisable under the terms of the Plan.

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). 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 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 the Executive 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 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 6(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 6, or if the Executive terminates his employment, unless as 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 6(A)(i) or 6(A)(ii) or if 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 6(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 Non-Competition 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/ Robert P. Crabb

Name: Robert P. Crabb
Title: Secretary

/s/ J. Gregory Fowler J.
- ---

GREGORY FOWLER

Exhibit 10.7

THIS EMPLOYMENT AGREEMENT (the "Agreement") is effective as of the 15th, day of February 2002, by and between TELKONET COMMUNICATIONS, INC., a Delaware corporation (the "Company"), and David S.Yaney, Ph.D. (the "Executive").

W I T N E S S E T H:

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 Chief Technology 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 February 15th, 2005 (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 a 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 Chief Technology 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 Board of Directors from time to time in the exercise of its reasonable business judgment may change the duties and scope of authority. 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) 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 6(A)(ii)). This shall apply in the following conditions:

(i) the Executive is required relocate from his current residence in Gaithersburg, 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 written consent in excess of the period of non-payment for similar Executives.

(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 Executive shall receive options to purchase 300,000 shares of common stock from the Employee Stock Option plan at the exercise price of $1.00 per share. The 300,000 shares vest ratably at 25,000 shares per consecutive calendar quarter from the date of the Employment Agreement.

(c) 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.

(d) 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.

(e) 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.

(f) Upon dissolution or liquidation of the Company, or upon a merger or consolidation in which the Company is not the surviving corporation, all Options awarded to the Executive under the ESOP and not previously exercised and vested shall become fully exercisable and vested no later than the date of such dissolution, merger or consolidation, and the Executive shall have the right, immediately prior to such dissolution or

liquidation, or such merger or consolidation, to exercise such Executive's Options in whole or in part, but only to the extent that such Options are otherwise exercisable under the terms of the Plan.

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). 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 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 the Executive 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 6 (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 6, or if the Executive terminates his employment, unless as 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 6(A)(i) or 6(A)(ii) or if 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 6(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 Non-competition 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:_____
Name:_____
Title:_____

_____
David S.Yaney, Ph.D.

EXHIBIT 10.8

EXECUTIVE EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is entered into as of the 1st, day of February, 2003, by and between TELKONET COMMUNICATIONS, INC., a Delaware corporation (the "Company"), and Howard Lubert (the "Executive").

W I T N E S S E T H:

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 Chief Executive 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 January 31st, 2006 (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 a 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 Chief Executive Officer of the Company. Without limiting the general scope of the Executive's position: (i) the Executive shall not be required to report to any single individual other than the Chairman and the Board of Directors, (ii) no other individual shall be elected or appointed as Chief Executive Officer of the Company, and (iii) no individual or group of individuals (including a committee established or other designee appointed by the Board) shall have any authority over or equal to the authority of the Executive in his role as Chief Executive Officer or could have the effect of, or appear to have the effect of, giving such authority to any such individual or group. The Executive shall be entitled to the full protection of applicable indemnification provisions of the certificate of incorporation and bylaws of the Company, as the same may be amended from time to time, for his service as a director, officer and employee of the Company.

(b) If:

(i) the Company materially changes the Executive's duties and responsibilities as set forth in Paragraph 3(a) without his consent (including, without limitation, violation of any of the provisions of clause (i), (ii) or (iii) of Paragraph 3(a));

(ii) the Executive's place of employment is moved to a location more than fifty (50) miles from the geographical center of Wayne, Pennsylvania;

(iii) 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;

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

(v) the Board or any nominating committee thereof or committee performing a Board nomination function fails to nominate the Executive for election to the Board in connection with any shareholders' meeting to be

held or action to be taken for the election of directors;

(vi) 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 6(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 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) 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 Executive shall receive options to purchase One Million (1,000,000) shares of common stock from the Employee Stock Incentive Plan at the exercise price of $1.00 per share.

(c) 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.

(d) 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. 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 and does not result in a proportionately greater reduction in the rights of or benefits to the Executive as compared with any other officers 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. 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.

(e) 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 to be made hereunder as the Company shall reasonably request. Depending on the individual's exact duties, a Company owned vehicle may be provided.

(f) Upon dissolution or liquidation of the Company, or upon a merger or consolidation in which the Company is not the surviving corporation, all Options awarded to the Executive under the ESOP and not previously exercised and vested shall become fully exercisable and vested no later than the date of such dissolution, merger or consolidation, and the Executive shall have the right to exercise such Executive's Options in whole or in part at any time within the next four (4) years.

(g) The Company shall pay the full cost of providing health and group life insurance for the Executive, his spouse and eligible dependent children and any other such benefits as the Company may choose to offer the employees of the Company.

(h) The Company will reimburse the Executive for the monthly cost of his cellular phone service.

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 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 premiums shall be added to the employees W-2 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 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 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 5(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 2 week notice cure opportunities during each fiscal year of the Company.

The exercise by the Company of its rights of termination under this Paragraph 6 shall be the Company's sole remedy in the event of the occurrence of an event as a result of which such right to terminate arises. 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.

In the event of a termination claimed by the Company to be for "cause" pursuant to Paragraph 6(a)(ii), the Executive shall have the right to have the justification for said termination determined 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 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 6, or if the Executive terminates his employment, unless as 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 6(a)(i) or 6(a)(ii) or if 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 6(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.

(D) NON-COMPETITION AND CONFIDENTIALITY AGREEMENT 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, and is acknowledged by the Executive's signature on this Employment Agreement.

To induce Telkonet Communications, Inc., a Delaware corporation ("Telkonet") to employ the Employee pursuant to this Employment Agreement, the Employee agrees

that for the term of the Employment Agreement and a period of One (1) year following termination of the Employment Agreement (the "Noncompetition Period"), he will not (a) Participate In (as hereinafter defined) any other business or organization which at any time during the Noncompetition Period is engaged in the same business as or in competition with Telkonet within the geographic confines of the markets where Telkonet's products are sold or targeted; (b) directly or indirectly solicit for business any person or enterprise that at any time during the two (2) year period preceding the date of termination of the Employment Agreement was a customer of Telkonet; or (c) directly or indirectly employ any person who, at any time during the two (2) year period preceding the date of termination of the Employment Agreement was, or during the Noncompetition Period is, an employee of Telkonet. As used in this Agreement, "Participate In" shall mean "directly or indirectly, for his own benefit or for, with, or through any other person or entity, own, manage, operate, control, loan money to, or participate in the ownership, management, operation, or control of, or be connected as a director, officer, employee, partner, consultant, agent, independent contractor, or otherwise with, or acquiesce in the use of his name in, provided, nothing contained herein shall prohibit the Employee from owning, directly or indirectly up to 5.0% of the outstanding voting securities of any company, the securities of which are traded on a national securities exchange or listed for quotation on an automated system of quotation.

In consideration of the execution, delivery and performance of this Noncompetition Agreement by the Employee, Telkonet has executed the Employment Agreement, which confers a substantial economic benefit upon the Employee.

Notwithstanding anything in this Noncompetition Agreement to the contrary, if at any time the Employment Agreement is terminated by either Telkonet or the Employee for any reason (whether or not constituting cause) or for no reason, the provisions of this Noncompetition Agreement shall remain binding upon the Employee. Nothing in this Noncompetition Agreement shall be deemed to entitle or confer upon the Employee the right to be employed by Telkonet for a term or otherwise alter the employment status of the Employee with Telkonet.

A material breach of this Noncompetition Agreement by the Employee could not adequately be compensated by money damages and will constitute irreparable harm and injury to Telkonet. In the event of any such material breach or threatened or anticipated breach, Telkonet shall be entitled, in addition to any other right and remedy available, to an injunction restraining such breach or a threatened breach, and no bond or other security shall be required in connection therewith provided Telkonet satisfies the applicable burden of proof with respect to all legal requirements applicable to the issuance of an injunction other than with respect to the inadequacy of money damages and/or irreparable harm or injury. The Employee agrees that the provisions of this Noncompetition Agreement are necessary and reasonable to protect Telkonet in the conduct of its business. If any restriction contained in this Noncompetition Agreement shall be deemed to be invalid, illegal, or unenforceable by reason of the extent, duration, or geographical scope thereof, or otherwise, then the court making such determination shall have the right to reduce such extent, duration, geographical scope, or other provisions hereof, to the minimal extent necessary to comply with applicable law or equitable considerations, and in its reduced form such restriction shall then be enforceable in the manner contemplated hereby.

This Noncompetition Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to conflict of laws principles.

7. 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.

(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 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/ Warren V. Musser

Name: Warren V. Musser
Title: Chairman

/s/ Howard Lubert

Howard Lubert, Chief Executive Officer

EXHIBIT 10.9

TELKONET, INC.
902-A Commerce Road
Annapolis, Maryland 21401
410-897-5900

Mr. Howard Lubert
Re: Stock Option Plan - Registered Shares

Mr. Lubert,

Your 83,333 vested options in the Telkonet, Inc. Stock Option Plan have been registered on SEC Form S-8. Upon the proper exercise of your options you will receive registered, free-trading shares of Telkonet, Inc. Common Stock from the Telkonet, Inc. Transfer Agent. A copy of the exercise form has been attached for your convenience.

If you have any questions regarding the exercise of options please contact Mr. Stephen Sadle, Chief Operating Officer at 410-897-5900.

Sincerely,

/s/ E. Barry Smith, CFO

EXERCISE OF OPTIONS

TELKONET, INC. STOCK OPTION PLAN

TELKONET, INC.
902-A COMMERCE ROAD
ANNAPOLIS, MARYLAND 21401

The undersigned hereby irrevocably elects to exercise, the attached Option Certificate, according to the terms and conditions thereof, to the extent of 83,333 shares of Common Stock and hereby tenders $_83,333.00 in full payment of the purchase price.

/s/ Howard E. Lubert	/s/ Robert Crabb
- ----------	----------
Optionee	Company Secretary (or other Company Officer)
Date: 6/19/03	Date: June 24, 2003

* * * *

This completed form along with the proper remittance and the original Option Agreement must be sent to the Company at the address above. Recommended that these documents and funds be sent FedEx or certified mail in order to guarantee proper delivery and provide for tracking in case of loss or delay.

The Common Stock certificates are to be issued as indicated below:

Name	Address	SSN/Tax ID	No. Shares
- ----	-------	----------	----------

Certificate to be delivered

TELKONET COMMUNICATIONS, INC.

902-A Commerce Road, Annapolis, MD 21401
410 897 5900

General Release And Agreement

NOTICE:

Various state and federal laws, including the Civil Rights Acts of 1964 and 1991, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Employee Retirement Income Security Act of 1974, the Family and Medical Leave Act, the Pennsylvania Wage Payment and Collection Act and the Pennsylvania Human Relations Act prohibit employment discrimination based on age, sex, race, color, national origin, religion, disability and veteran status. These laws are enforced through the Equal Employment Opportunity Commission ("EEOC"), the Pennsylvania Human Relations Commission and the Department of Labor.

If you sign this General Release and Agreement and accept the agreed upon special transition allowance and other separation benefits described in Exhibit A attached hereto, you are giving up your right to file suit in state or federal court against Telkonet Communications, Inc. ("Telkonet"), with respect to any claims relating to your employment or separation therefrom which arise up to the date this Agreement is executed.

This Agreement does not prevent you from filing a charge of discrimination with the Equal Employment Opportunity Commission, although by signing this Agreement you waive your right to recover any damages or other relief in any claim or suit brought by or through the Equal Employment Opportunity Commission or any other state or local agency on your behalf under any federal or state discrimination law, except where prohibited by law. You agree to release and discharge Telkonet not only from any and all claims which you could make on your own behalf but also specifically waive any right to become, and promise not to become, a member of any class in any proceeding or case in which a claim or claims against Telkonet may arise, as it relates to any employment issues, in whole or in part, from any event which occurred as of the date of this Agreement. You agree to pay for any legal fees or costs incurred by Telkonet as a result of any breach of the promises in this paragraph. The parties agree that if you, by no action of your own, become a mandatory member of any class from which you cannot, by operation of law or order of court, opt out, you shall not be required to pay for any legal fees or costs incurred by Telkonet as a result.

We encourage you to discuss the following language with an attorney prior to executing this Agreement. In any event, you should thoroughly review and understand the effect of the Release before acting on it. Therefore, please take this Release home and consider it for up to twenty-one (21) days before you decide to sign it.

TELKONET COMMUNICATIONS, INC.

902-A Commerce Road, Annapolis, MD 21401
410 897 5900

GENERAL RELEASE AND AGREEMENT

As consideration for the special transition benefits offered to me by Telkonet Communications, Inc. ("Telkonet") (attached as Exhibit A and incorporated herein), I, Howard Lubert release and discharge Telkonet, its trustees, directors, officers, agents, employees, subsidiaries and any and all affiliates, as well as any successor to Telkonet, from all claims, liabilities, demands and causes of action, arising up to the date of execution of this Agreement, fixed or contingent, which I may have or claim to have against

Telkonet arising from my employment or as a result of my separation from employment, including an obligation to reinstate or re-employ me, and do hereby covenant not to file a lawsuit or other legal action to assert such claims, except as described in the Notice provision of this Agreement. This includes but is not limited to claims arising pursuant to the Civil Rights Acts of 1964 and 1991, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Employee Retirement Income Security Act of 1974, the Family and Medical Leave Act, the Pennsylvania Wage Payment and Collection Act, the Pennsylvania Human Relations Act or any other federal, state or local law or regulation relating to discrimination in employment or equal opportunity, any claims growing out of any legal restrictions on Telkonet's right to terminate its employees or any other claim related to employment issues in contract or tort, including claims for wrongful discharge, breach of employment agreement, slander and defamation, as well as all claims for counsel fees and costs, except that Telkonet or any of its insurance carriers are not released from any indemnification obligation they have to me as a Director, Officer or former Director, Officer of Telkonet .

I agree that I will not at any time publicize, write about, divulge or discuss the existence of this General Release and Agreement, with any person or entity whatsoever, except as necessary with my attorney, tax/financial advisors, and immediate family members. I also agree that I will take all steps necessary to dismiss with prejudice any and all pending complaints, charges and grievances against Telkonet, regardless of whether they have been filed internally or externally, except as set forth in the Notice provision hereof. Finally both Telkonet and I agree that we will not engage in any conduct or make any statement that would disparage the personal, professional or business reputations of Telkonet, its directors, officers, agents or employees

I understand that this Agreement is revocable by me for a period of seven (7) days following execution hereof by providing written notice to Telkonet, Attn.: Pete Musser. This Agreement shall not become effective or enforceable until this seven-day revocation period has ended.

I have carefully read and fully understand all the provisions of this

Notice, General Release and Agreement which set forth the entire agreement between me and Telkonet, and I acknowledge that I have not relied upon any representation or statement, written or oral, not set forth in this document.

IN WITNESS WHEREOF, _____ as hereunto set his/her hand and seal this ____ day of _____, 2003.

/s/ Howard Lubert

HOWARD LUBERT

WITNESS: /s/ E. Barry Smith

E. Barry Smith, CFO

TELKONET COMMUNICATIONS, INC.

902-A Commerce Road, Annapolis, MD 21401
410 897 5900

SCHEDULE A

SUMMARY OF SPECIAL TRANSITION BENEFITS

The following is a summary of your special transition benefits:

- Separation compensation and benefits paid through December 17, 2004. Thereafter you will be eligible for continuation of benefits under COBRA for which you will be responsible to pay for at the then current premium.

- Vested options of 83,333 - ELECTION TO EXERCISE IS ATTACHED.

- Certification of options exercisable into free trading registered shares attached.

- Upon receipt of your tax withholding payment your certificate will be released to you via overnight mail.

Exhibit 10.10

EXECUTIVE EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is entered into as of the 18TH, DAY OF JANUARY, 2003, by and between TELKONET COMMUNICATIONS, INC., a Delaware corporation (the "Company"), and ROBERT P. CRABB (the "Executive").

W I T N E S S E T H:

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 the Assistant to the President and Corporate Secretary of the Company 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 January 17, 2006 (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 Assistant to the President and Corporate Secretary of the Company. Without limiting the general scope of the Executive's position: (i) the Executive shall be permitted to work from his office at his residence in Rising Sun, Maryland and shall not be required to report to any single individual other than the President, and the Board of Directors, (ii) no other individual shall be elected or appointed as Assistant to the President or Corporate Secretary of the Company, and (iii) no individual or group of individuals (including a committee established or other designee appointed by the Board) shall have any authority over or equal to the authority of the Executive in his role as Assistant to the President and Corporate Secretary or could have the effect of, or appear to have the effect of, giving such authority to any such individual or group. The Executive shall be entitled to the full protection of applicable indemnification provisions of the certificate of incorporation and bylaws of the Company, as the same may be amended from time to time, for his service as a director, officer and employee of the Company,

(b) If:

(i) the Company materially changes the Executive's duties and responsibilities as set forth in Paragraph 3(a) without his consent (including, without limitation, violation of any of the provisions of clause (i), (ii) or (iii) of Paragraph 3 (a));

(ii) the Company requires the Executive to work full-time at a location other than his residence at 583 Lombard Road, Rising Sun, Maryland;

(iii) 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;

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

(v) the Board or any nominating committee thereof or committee performing a Board nomination function fails to nominate the Executive for election to the Board in connection with any shareholders' meeting to be held or action to be taken for the election of directors;

(vi) 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 6(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 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 ($120,000) 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 Executive shall receive Incentive Stock Options to purchase 500,000 shares of common stock from the Employee Stock Incentive Plan at the exercise price of $1.00 per share.

(c) The Company may pay to the Executive bonus compensation for each calendar or fiscal year of the Company, not later than sixty (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 of 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.

(d) 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. 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 and does not result in a proportionately greater reduction in the rights of or benefits to the Executive as compared with any other officers 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. 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.

(e) 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 to be made hereunder as the Company shall reasonably request. Depending on the individuals exact duties, a Company owned vehicle may be provided.

(f) Upon dissolution or liquidation of the Company, or upon a merger or consolidation in which the Company is not the surviving corporation, all Options awarded to the Executive under the ESOP and not previously exercised and vested shall become fully exercisable and vested no later than the date of such dissolution, merger or consolidation, and the Executive shall have the right to exercise such Executive's Options in whole or in part at any time within the next four (4) years.

(g) The Company shall pay the full cost of providing health and group life insurance for the Executive, his spouse and eligible dependent children and any other such benefits as the Company may choose to offer the employees of the Company.

(h) The Company will reimburse the Executive for the monthly cost of his cellular phone service and Business telephone charges from his residence phone.

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 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 (5a). If such insurance is obtained, the premiums shall be added to the employees W-2 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 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 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 5(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 2 week notice cure opportunities during each fiscal year of the Company.

The exercise by the Company of its rights of termination under this Paragraph 6 shall be the Company's sole remedy in the event of the occurrence of an event as a result of which such right to terminate arises. 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.

In the event of a termination claimed by the Company to be for "cause" pursuant to Paragraph 6(a)(ii), the Executive shall have the right to have the justification for said termination determined 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 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 6, or if the Executive terminates his employment, unless as 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 6(a)(i) or 6(a)(ii) or if 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 6(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

(D)NON-COMPETITION AND CONFIDENTIALITY AGREEMENT 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, and is acknowledged by the Executive's signature on this Employment Agreement.

To induce Telkonet Communications, Inc., a Delaware corporation ("Telkonet") to employ the Employee pursuant to this Employment Agreement, the Employee agrees that for the term of the Employment Agreement and a period of One (1) year following termination of the Employment Agreement (the "Noncompetition Period"), he will not (a) Participate In (as hereinafter defined) any other business or organization which at any time during the Noncompetition Period is engaged in the same business as or in competition with Telkonet within the geographic confines of the markets where Telkonet's products are sold or targeted; (b) directly or indirectly solicit for business any person or enterprise that at any time during the two (2) year period preceding the date of termination of the Employment Agreement was a customer of Telkonet; or (c) directly or indirectly employ any person who, at any time during the two (2) year period preceding the date of termination of the Employment Agreement was, or during the Noncompetition Period is, an employee of Telkonet. As used in this Agreement, "Participate In" shall mean "directly or indirectly, for his own benefit or for, with, or through any other person or entity, own, manage, operate, control, loan money to, or participate in the ownership, management, operation, or control of, or be connected as a director, officer, employee, partner, consultant, agent, independent contractor, or otherwise with, or acquiesce in the use of his name in;" provided, nothing contained herein shall prohibit the Employee from owning, directly or indirectly up to 5.0% of the outstanding voting securities of any company, the securities of which are traded on a national securities exchange or listed for quotation on an automated system of quotation.

In consideration of the execution, delivery and performance of this Noncompetition Agreement by the Employee, Telkonet has executed the Employment Agreement, which confers a substantial economic benefit upon the Employee.

Notwithstanding anything in this Noncompetition Agreement to the contrary, if at any time the Employment Agreement is terminated by either Telkonet or the Employee for any reason (whether or not constituting cause) or for no reason, the provisions of this Noncompetition Agreement shall remain binding upon the Employee. Nothing in this Noncompetition Agreement shall be deemed to entitle or confer upon the Employee the right to be employed by Telkonet for a term or otherwise alter the employment status of the Employee with Telkonet.

A material breach of this Noncompetition Agreement by the Employee could not adequately be compensated by money damages and will constitute irreparable harm and injury to Telkonet. In the event of any such material breach or threatened or anticipated breach, Telkonet shall be entitled, in addition to any other right and remedy available, to an injunction restraining such breach or a threatened breach, and no bond or other security shall be required in connection therewith provided Telkonet satisfies the applicable burden of proof with respect to all legal requirements applicable to the issuance of an injunction other than with respect to the inadequacy of money damages and /or irreparable harm or injury.

The Employee agrees that the provisions of this Noncompetition Agreement are necessary and reasonable to protect Telkonet in the conduct of its business. If any restriction contained in this Noncompetition Agreement shall be deemed to be invalid, illegal, or unenforceable by reason of the extent, duration, or geographical scope thereof, or otherwise, then the court making such determination shall have the right to reduce such extent, duration, geographical scope, or other provisions hereof, to the minimal extent necessary to comply with applicable law or equitable considerations, and in its reduced form such restriction shall then be enforceable in the manner contemplated hereby.

This Noncompetition Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to conflict of laws principles.

7. 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.

(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 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:_____

Name: Ronald W. Pickett
Title: President & Chairman

_____
Robert P. Crabb

Exhibit 10.11

EXECUTIVE EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is entered into as of the 30TH, DAY OF JANUARY, 2003, by and between TELKONET COMMUNICATIONS, INC., a Delaware corporation (the "Company"), and RONALD W. PICKETT (the "Executive").

W I T N E S S E T H:

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 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 the Executive shall serve at the pleasure of the board of Directors

3. POSITION AND DUTIES.

(a) The Executive shall serve as President of the Company. Without limiting the general scope of the Executive's position: (i) the Executive shall be permitted to work from his home office located in Wilmington, North Carolina and he shall not be required to report to any single individual other than the Chairman of the Board of Directors,

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 Thousand Dollars ($100,000) 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 Executive shall receive 3,000 shares of common stock per month, for every month that the Executive serves as President, from the Employee Stock Incentive Plan.

(c) The Company may pay to the Executive bonus compensation for each calendar or fiscal year of the Company, not later than sixty (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 of 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.

(d) 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. 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 and does not result in a proportionately greater reduction in the rights of or benefits to the Executive as compared with any other officers 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. 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.

(e) 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 to be made hereunder as the Company shall reasonably request. The Company will reimburse the Executive for the monthly cost of his cellular and home office phone service.

(f) Upon dissolution or liquidation of the Company, or upon a merger or consolidation in which the Company is not the surviving corporation, all Options awarded to the Executive under the ESOP and not previously exercised and vested shall become fully exercisable and vested no later than the date of such dissolution, merger or consolidation, and the Executive shall have the right to exercise such Executive's Options in whole or in part at any time within the next four (4) years.

(g) The Company shall pay the full cost of providing health and group life insurance for the Executive, his spouse and eligible dependent children and any other such benefits as the Company may choose to offer the employees of the Company.

5. TERMINATION.

The employment of the Executive under this Employment Agreement, and the terms hereof, may be terminated by the Company at any time upon sixty (60) days notice and the Executive may resign at any time by giving the Company sixty (60) days notice.

6. NON-COMPETITION AND CONFIDENTIALITY AGREEMENT 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, and is acknowledged by the Executive's signature on this Employment Agreement.

To induce Telkonet Communications, Inc., a Delaware corporation ("Telkonet") to employ the Employee pursuant to this Employment Agreement, the Employee agrees that for the term of the Employment Agreement and a period of One (1) year following termination of the Employment Agreement (the "Noncompetition Period"), he will not (a) Participate In (as hereinafter defined) any other business or organization which at any time during the Noncompetition Period is engaged in the same business as or in competition with Telkonet within the geographic confines of the markets where Telkonet's products are sold or targeted; (b) directly or indirectly solicit for business any person or enterprise that at any time during the two (2) year period preceding the date of termination of the

Employment Agreement was a customer of Telkonet; or (c) directly or indirectly employ any person other than Robert P. Crabb who, at any time during the two (2) year period preceding the date of termination of the Employment Agreement was, or during the Noncompetition Period is, an employee of Telkonet. As used in this Agreement, "Participate In" shall mean "directly or indirectly, for his own benefit or for, with, or through any other person or entity, own, manage, operate, control, loan money to, or participate in the ownership, management, operation, or control of, or be connected as a director, officer, employee, partner, consultant, agent, independent contractor, or otherwise with, or acquiesce in the use of his name in;" provided, nothing contained herein shall prohibit the Employee from owning, directly or indirectly up to 5.0% of the outstanding voting securities of any company, the securities of which are traded on a national securities exchange or listed for quotation on an automated system of quotation.

In consideration of the execution, delivery and performance of this

Noncompetition Agreement by the Employee, Telkonet has executed the Employment Agreement, which confers a substantial economic benefit upon the Employee.

Notwithstanding anything in this Noncompetition Agreement to the contrary, if at any time the Employment Agreement is terminated by either Telkonet or the Employee for any reason (whether or not constituting cause) or for no reason, the provisions of this Noncompetition Agreement shall remain binding upon the Employee. Nothing in this Noncompetition Agreement shall be deemed to entitle or confer upon the Employee the right to be employed by Telkonet for a term or otherwise alter the employment status of the Employee with Telkonet.

A material breach of this Noncompetition Agreement by the Employee could not adequately be compensated by money damages and will constitute irreparable harm and injury to Telkonet. In the event of any such material breach or threatened or anticipated breach, Telkonet shall be entitled, in addition to any other right and remedy available, to an injunction restraining such breach or a threatened breach, and no bond or other security shall be required in connection therewith provided Telkonet satisfies the applicable burden of proof with respect to all legal requirements applicable to the issuance of an injunction other than with respect to the inadequacy of money damages and /or irreparable harm or injury.

The Employee agrees that the provisions of this Noncompetition Agreement are necessary and reasonable to protect Telkonet in the conduct of its business. If any restriction contained in this Noncompetition Agreement shall be deemed to be invalid, illegal, or unenforceable by reason of the extent, duration, or geographical scope thereof, or otherwise, then the court making such determination shall have the right to reduce such extent, duration, geographical scope, or other provisions hereof, to the minimal extent necessary to comply with applicable law or equitable considerations, and in its reduced form such restriction shall then be enforceable in the manner contemplated hereby.

This Noncompetition Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to conflict of laws principles.

7. 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.

(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 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:_____
Name: Warren V. Musser
Title: Chairman of the Board

_____
Ronald W. Pickett, President

Exhibit 10.12

EXECUTIVE EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is entered into as of the 1ST, DAY OF FEBRUARY, 2003, by and between TELKONET COMMUNICATIONS, INC., a Delaware corporation (the "Company"), and E. BARRY SMITH (the "Executive").

W I T N E S S E T H:

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 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 January 31st 2004 (the "Base Term") and shall automatically be extended for an additional one year (each a "Renewal Term") 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 a Renewal Term or termination occurs pursuant to Section 6.(a) (iii) of this Agreement 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 Chief Financial Officer of the Company. Without limiting the general scope of the Executive's position: (i) the Executive shall not be required to report to any single individual other than the CEO, President and Chairman of the Board of Directors, (ii) no other individual shall be elected or appointed as Chief Financial Officer of the Company, and (iii) no individual or group of individuals (including a committee established or other designee appointed by the Board) shall have any authority over or equal to the authority of the Executive in his role as Chief Financial Officer or could have the effect of, or appear to have the effect of, giving such authority to any such individual or group. The Executive shall be entitled to the full protection of applicable indemnification provisions of the certificate of incorporation and bylaws of the Company, as the same may be amended from time to time, for his service as a director, officer and employee of the Company.

(b) If:

(i) the Company materially changes the Executive's duties and responsibilities as set forth in Paragraph 3 (a) without his consent (including, without limitation, violation of any of the provisions of clause (i), (ii) or (iii) of Paragraph 3 (a));

(ii) the Executive's place of employment is moved to a location more than fifty (50) miles from the geographical center of Wayne, Pennsylvania;

(iii) 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;

(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 6 (a)(ii)).

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) 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 Executive shall receive options to purchase Three Hundred and Fifty Thousand (350,000) shares of common stock from the Employee Stock Incentive Plan at the exercise price of $1.00 per share. The terms of the options and vesting schedule are incorporated herein by reference under section 4.(i) below.

(c) The Company may pay to the Executive bonus compensation for each calendar or fiscal year of the Company, not later than sixty (60) 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 of 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.

(d) 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. 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 and does not result in a proportionately greater reduction in the rights of or benefits to the Executive as compared with any other officers 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. 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.

(e) 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 to be made hereunder as the Company shall reasonably request. Depending on the individuals exact duties, a Company owned vehicle may be provided.

(f) Upon dissolution or liquidation of the Company, or upon a merger or consolidation in which the Company is not the surviving corporation, all Options awarded to the Executive under the ESOP and not previously exercised and vested shall become fully exercisable and vested no later than the date of such dissolution, merger or consolidation, and the Executive shall have the right to exercise such Executive's Options in whole or in part at any time within the next four (4) years.

(g) The Company shall pay the full cost of providing health and group life insurance for the Executive, his spouse and eligible dependent children and any other such benefits as the Company may choose to offer the employees of the

Company.

(h) The Company will reimburse the Executive for the monthly cost of his cellular phone service.

(i) The Executive has previously served the Company under the terms of an Interim Consulting Agreement, which is incorporated herein by reference and attached hereto.

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 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 (5a). If such insurance is obtained, the premiums shall be added to the employees W-2 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 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 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 5(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 2 week notice cure opportunities during each fiscal year of the Company.

The exercise by the Company of its rights of termination under this Paragraph 6 shall be the Company's sole remedy in the event of the occurrence of an event as a result of which such right to terminate arises. 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.

In the event of a termination claimed by the Company to be for "cause" pursuant to Paragraph 6(a)(ii), the Executive shall have the right to have the justification for said termination determined 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 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 6, or if the Executive terminates his employment, unless as 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 6(a)(i) or 6(a)(ii) or 6(a)(ii) or if 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 six (6) months following the date of such termination (the "Severance Period"). For purposes of this Paragraph 6(C), with respect to any benefits payable to the Executive following termination, the Company may elect to 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 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 the balance of the present contract term or a period not less than Six (6) 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.

(iii) if both the President and the Chairman of the Board of Directors request the resignation of the Executive at any time within the Base Term and the first six (6) months of the first Renewal Term of this Agreement in which case 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 six (6) months following the date of such termination (the "Severance Period").

(D) NON-COMPETITION AND CONFIDENTIALITY AGREEMENT 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, and is acknowledged by the Executive's signature on this Employment Agreement.

To induce Telkonet Communications, Inc., a Delaware corporation ("Telkonet") to employ the Employee pursuant to this Employment Agreement, the Employee agrees that for the term of the Employment Agreement and a period of One (1) year following termination of the Employment Agreement (the "Noncompetition Period"), he will not (a) Participate In (as hereinafter defined) any other business or organization which at any time during the Noncompetition Period is engaged in the same business as or in competition with Telkonet within the geographic confines of the markets where Telkonet's products are sold or targeted; (b) directly or indirectly solicit for business any person or enterprise that at any

time during the two (2) year period preceding the date of termination of the Employment Agreement was a customer of Telkonet; or (c) directly or indirectly employ any person who, at any time during the two (2) year period preceding the date of termination of the Employment Agreement was, or during the Noncompetition Period is, an employee of Telkonet. As used in this Agreement, "Participate In" shall mean "directly or indirectly, for his own benefit or for, with, or through any other person or entity, own, manage, operate, control, loan money to, or participate in the ownership, management, operation, or control of, or be connected as a director, officer, employee, partner, consultant, agent, independent contractor, or otherwise with, or acquiesce in the use of his name in;" provided, nothing contained herein shall prohibit the Employee from owning, directly or indirectly up to 5.0% of the outstanding voting securities of any company, the securities of which are traded on a national securities exchange or listed for quotation on an automated system of quotation.

In consideration of the execution, delivery and performance of this Noncompetition Agreement by the Employee, Telkonet has executed the Employment Agreement, which confers a substantial economic benefit upon the Employee.

Notwithstanding anything in this Noncompetition Agreement to the contrary, if at any time the Employment Agreement is terminated by either Telkonet or the Employee for any reason (whether or not constituting cause) or for no reason, the provisions of this Noncompetition Agreement shall remain binding upon the Employee. Nothing in this Noncompetition Agreement shall be deemed to entitle or confer upon the Employee the right to be employed by Telkonet for a term or otherwise alter the employment status of the Employee with Telkonet.

A material breach of this Noncompetition Agreement by the Employee could not adequately be compensated by money damages and will constitute irreparable harm and injury to Telkonet. In the event of any such material breach or threatened or anticipated breach, Telkonet shall be entitled, in addition to any other right and remedy available, to an injunction restraining such breach or a threatened breach, and no bond or other security shall be required in connection therewith provided Telkonet satisfies the applicable burden of proof with respect to all legal requirements applicable to the issuance of an injunction other than with respect to the inadequacy of money damages and /or irreparable harm or injury.

The Employee agrees that the provisions of this Noncompetition Agreement are necessary and reasonable to protect Telkonet in the conduct of its business. If any restriction contained in this Noncompetition Agreement shall be deemed to be invalid, illegal, or unenforceable by reason of the extent, duration, or geographical scope thereof, or otherwise, then the court making such determination shall have the right to reduce such extent, duration, geographical scope, or other provisions hereof, to the minimal extent necessary to comply with applicable law or equitable considerations, and in its reduced form such restriction shall then be enforceable in the manner contemplated hereby.

This Noncompetition Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to conflict of laws principles.

7. 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.

(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 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:_____
Name: Ronald W. Pickett
Title: President

_____
E. Barry Smith, Chief Financial Officer

Exhibit 21

LIST OF SUBSIDIARIES

EXHIBIT 21 TO FORM S-1

Telkonet Communications, Inc., a Delaware Corporation, a wholly-owned subsidiary of Telkonet, Inc.

Exhibit 23.1

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

TO: Telkonet, Inc.

We hereby consent to the use in this Registration Statement on Form S-1 of our reports dated February 27, 2003 and February 14, 2002, which include explanatory paragraphs regarding the substantial doubt about the Company's ability to continue as a going concern, relating to the consolidated financial statements of Telkonet, Inc., which appear in such Registration Statement and related Prospectus for the registration of 17,353,367 shares of its common stock. We also consent to the references to us under the headings "Experts," "Summary Historical and Unaudited Pro Forma Financial Data" and "Selected Historical Financial Data" in such Registration Statement.

/s/ Russell Bedford Stefanou Mirchandani LLP
Russell Bedford Stefanou & Mirchandani LLP

McLean, Virginia
August 26, 2003