

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2022

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file number: 001-31972

TELKONET, INC.

(Name of registrant as specified in its charter)

Utah
(State or other jurisdiction of Incorporation or Organization)

87-0627421
(I.R.S. Employer identification No.)

20800 Swenson Drive, Suite 175, Waukesha, WI
(Address of principal executive offices)

53186
(Zip Code)

(414) 302-2299
(Registrant's telephone number, including area code)

None
(Former name or former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Trading Symbol</u>	<u>Name of Each Exchange on Which Registered</u>
None	None	None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$0.001 par value

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated Filer <input type="checkbox"/>	Accelerated Filer <input type="checkbox"/>
Non-accelerated Filer <input checked="" type="checkbox"/>	Smaller reporting company <input checked="" type="checkbox"/>
Emerging Growth Company <input type="checkbox"/>	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the registrant's common stock, par value \$0.001 per share, as of October 28, 2022, was 299,212,282.

TELKONET, INC.
FORM 10-Q
September 30, 2022

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

**TELKONET, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)**

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,721,024	\$ 2,361,059
Accounts receivable, net	1,939,676	1,010,554
Inventories, net	1,408,442	825,559
Contract assets	27,579	266,014
Prepaid expenses	316,754	735,092
Total current assets	<u>7,413,475</u>	<u>5,198,278</u>
Property and equipment, net	<u>137,879</u>	<u>84,201</u>
Other assets:		
Deposits	4,595	7,595
Operating lease right of use assets	474,831	570,512
Total other assets	<u>479,426</u>	<u>578,107</u>
Total Assets	<u>\$ 8,030,780</u>	<u>\$ 5,860,586</u>
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	\$ 628,604	\$ 1,865,535
Accrued liabilities	898,538	718,721
Line of credit	–	403,089
Contract liabilities - current	940,056	800,965
Lease Liabilities - current	153,276	195,176
Income taxes payable	3,599	5,431
Total current liabilities	<u>2,624,073</u>	<u>3,988,917</u>
Long-term liabilities:		
Lease liabilities	391,680	459,668
Contract liabilities - long term	79,301	140,265
Accrued royalties - long-term	255,000	360,000
Total long-term liabilities	<u>725,981</u>	<u>959,933</u>
Total liabilities	<u>3,350,054</u>	<u>4,948,850</u>
Stockholders’ Equity		

Preferred Stock Series A, par value \$.001 per share; 215 shares designated, 181 shares outstanding at September 30, 2022 and 185 outstanding at December 31, 2021, preference in liquidation of \$1,837,198 and \$1,822,450 as of September 30, 2022 and December 31, 2021, respectively.	1,310,765	1,340,566
Preferred Stock Series B, par value \$.001 per share; 567 shares designated, 52 shares outstanding at September 30, 2022 and December 31, 2021, preference in liquidation of \$513,179 and \$497,605 as of September 30, 2022 and December 31, 2021 respectively.	362,059	362,059
Common Stock, par value \$.001 per share; 475,000,000 shares authorized; 299,212,282 and 136,311,335 shares issued and outstanding at September 30, 2022 and December 31, 2021, respectively.	299,212	136,311
Additional paid-in-capital	132,583,520	127,740,976
Accumulated deficit	(129,874,830)	(128,668,176)
Total stockholders' equity	<u>4,680,726</u>	<u>911,736</u>
Total Liabilities and Stockholders' Equity	\$ <u>8,030,780</u>	\$ <u>5,860,586</u>

See accompanying notes to the unaudited condensed consolidated financial statements

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

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2022	2021	2022	2021
Revenues, net:				
Product Revenue	\$ 1,828,954	\$ 1,290,389	\$ 5,570,775	\$ 4,071,159
Recurring Revenue	188,380	163,679	535,634	532,607
Total Net Revenues	<u>2,017,334</u>	<u>1,454,068</u>	<u>6,106,409</u>	<u>4,603,766</u>
Cost of Sales:				
Product COGS	1,371,312	851,873	3,049,048	2,164,586
Recurring COGS	32,952	13,646	94,027	36,868
Total Cost of Sales	<u>1,404,264</u>	<u>865,519</u>	<u>3,143,075</u>	<u>2,201,454</u>
Gross Profit	<u>613,070</u>	<u>588,549</u>	<u>2,963,334</u>	<u>2,402,312</u>
Operating Expenses:				
Research and development	272,144	268,917	798,913	876,778
Selling, general and administrative	1,026,023	1,200,569	3,310,127	3,362,761
Depreciation and amortization	8,702	10,346	31,129	33,935
Total Operating Expenses	<u>1,306,869</u>	<u>1,479,832</u>	<u>4,140,169</u>	<u>4,273,474</u>
Operating Profit / (Loss)	<u>(693,799)</u>	<u>(891,283)</u>	<u>(1,176,835)</u>	<u>(1,871,162)</u>
Other Income / (Expenses):				
Gain / (Loss) on Debt Extinguishment	-	916,107	-	1,836,780
Gain / (Loss) on Fixed Assets Disposal	(70)	-	(526)	-
Interest expense, net	(2,735)	(7,584)	(21,940)	(19,286)
Total Other Income / (Expenses):	<u>(2,805)</u>	<u>908,523</u>	<u>(22,466)</u>	<u>1,817,494</u>
Income (Loss) before Provision for Income Taxes	(696,604)	17,240	(1,199,301)	(53,668)
Income Tax Provision /(Benefit)	968	-	7,353	1,948
Net Income (Loss)	<u>\$ (697,572)</u>	<u>\$ 17,240</u>	<u>\$ (1,206,654)</u>	<u>\$ (55,616)</u>
Net Income (Loss) per Common Share:				
Basic – net income (loss) attributable to common stockholders	<u>\$ 0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Diluted – net income (loss) attributable to common stockholders	<u>\$ 0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Weighted Average Common Shares Outstanding – basic	299,212,282	136,311,335	295,592,261	136,311,335
Weighted Average Common Shares Outstanding – diluted	299,212,282	136,311,335	295,592,261	136,311,335

See accompanying notes to the unaudited condensed consolidated financial statements

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TELKONET, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)
JANUARY 1, 2021 THROUGH SEPTEMBER 30, 2021

	Series A Preferred Stock	Series A Preferred Stock	Series B Preferred Stock	Series B Preferred Stock	Common Stock	Common Stock	Additional Paid In Capital	Accumulated Deficit	Total Stockholders' Equity
Balance at January 1, 2021	185	\$ 1,340,566	52	\$ 362,059	136,311,335	\$ 136,311	\$ 127,733,714	\$ (128,255,391)	\$ 1,317,259
Stock-based compensation expense related to employee stock options	-	-	-	-	-	-	1,815	-	1,815
Net loss attributable to common stockholders	-	-	-	-	-	-	-	82,739	82,739
Balance at Mar 31, 2021	<u>185</u>	<u>1,340,566</u>	<u>52</u>	<u>362,059</u>	<u>136,311,335</u>	<u>136,311</u>	<u>127,735,529</u>	<u>(128,172,652)</u>	<u>1,401,813</u>
Stock-based compensation expense related to employee stock options	-	-	-	-	-	-	1,816	-	1,816
Net loss attributable to common stockholders	-	-	-	-	-	-	-	(155,595)	(155,595)
Balance at June 30, 2021	<u>185</u>	<u>1,340,566</u>	<u>52</u>	<u>362,059</u>	<u>136,311,335</u>	<u>136,311</u>	<u>127,737,345</u>	<u>(128,328,247)</u>	<u>1,248,034</u>
Stock-based compensation expense related to employee stock options	-	-	-	-	-	-	1,815	-	1,815
Net loss attributable to common stockholders	-	-	-	-	-	-	-	17,240	17,240
Balance at September 30, 2021	<u>185</u>	<u>1,340,566</u>	<u>52</u>	<u>362,059</u>	<u>136,311,335</u>	<u>136,311</u>	<u>127,739,160</u>	<u>(128,311,007)</u>	<u>1,267,089</u>

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TELKONET, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)
JANUARY 1, 2022 THROUGH SEPTEMBER 30, 2022

	Series A Preferred Stock	Series A Preferred Stock	Series B Preferred Stock	Series B Preferred Stock	Common Stock	Common Stock	Additional Paid In Capital	Accumulated Deficit	Total Stockholders' Equity
Balance at January 1, 2022	185	\$ 1,340,566	52	\$ 362,059	136,311,335	\$ 136,311	\$ 127,740,976	\$ (128,668,176)	\$ 911,736
Stock and warrants issued in VDA Transaction	-	-	-	-	162,900,947	162,901	4,837,099	-	5,000,000
Shares cancelled per severance agreement	(4)	(29,801)	-	-	-	-	-	-	(29,801)
Stock-based compensation expense related to employee stock options	-	-	-	-	-	-	1,815	-	1,815
Net loss attributable to common stockholders	-	-	-	-	-	-	-	(517,828)	(517,828)
Balance at March 31, 2022	<u>181</u>	<u>1,310,765</u>	<u>52</u>	<u>362,059</u>	<u>299,212,282</u>	<u>299,212</u>	<u>132,579,890</u>	<u>(129,186,004)</u>	<u>5,365,922</u>
Stock-based compensation expense related to employee stock options	-	-	-	-	-	-	1,815	-	1,815
Net profit attributable to common stockholders	-	-	-	-	-	-	-	8,746	8,746
Balance at June 30, 2022	<u>181</u>	<u>1,310,765</u>	<u>52</u>	<u>362,059</u>	<u>299,212,282</u>	<u>299,212</u>	<u>132,581,705</u>	<u>(129,177,258)</u>	<u>5,376,483</u>
Stock-based compensation expense related to employee stock options	-	-	-	-	-	-	1,815	-	1,815
Net profit attributable to common stockholders	-	-	-	-	-	-	-	(697,572)	(697,572)
Balance at September 30, 2022	<u>181</u>	<u>1,310,765</u>	<u>52</u>	<u>362,059</u>	<u>299,212,282</u>	<u>299,212</u>	<u>132,583,520</u>	<u>(129,874,830)</u>	<u>4,680,726</u>

See accompanying notes to the unaudited condensed consolidated financial statements

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

	Nine Months Ended September 30	
	2022	2021
Cash Flows from Operating Activities:		
Net loss	\$ (1,206,654)	\$ (55,616)
Adjustments to reconcile net loss to cash used in operating activities:		
Stock-based compensation expense related to employee stock options	5,445	5,446
Depreciation and amortization	31,129	33,935
Loss / (gain) on fixed asset disposal	526	–
Noncash operating lease expense (ROU)	95,681	172,161
Gain on debt extinguishment	–	(1,836,780)
Changes in operating assets and liabilities:		
Accounts receivable, net	(929,122)	6,758
Inventories, net	(582,883)	533,648
Prepaid expenses	418,338	(474,370)
Deposits	3,000	–
Accounts payable	(1,236,931)	84,733
Accrued royalties - long-term	(105,000)	(105,000)
Accrued liabilities	179,817	235,124
Contract liabilities	78,127	232,825
Contract assets	238,435	(76,772)
Operating lease liabilities	(109,888)	(180,134)
Accrued income tax payable	(1,832)	7,509
Income taxes receivable	–	105,745
Net Cash Used In Operating Activities	(3,121,812)	(1,310,788)
Cash Flows From Investing Activities:		
Payments for Property & Equipment	(86,633)	–
Proceeds from sale of fixed assets	1,300	–
Net Cash Used in Investing Activities	(85,333)	–
Cash Flows From Financing Activities:		
Proceeds from Note Payable	–	913,063
Proceeds from stock and warrants issued in VDA Transaction	5,000,000	–
Repurchase of employee-owned Class A shares	(29,801)	–
Proceeds from line of credit	4,434,152	5,357,000
Payments on line of credit	(4,837,241)	(5,357,996)
Net Cash Provided By Financing Activities	4,567,110	912,067
Net increase/(decrease) in cash and cash equivalents	1,359,965	(398,721)
Cash and cash equivalents at the beginning of the period	2,361,059	3,011,811
Cash and cash equivalents at the end of the period	\$ 3,721,024	\$ 2,613,090

	Nine Months Ended September 30	
	2022	2021
Supplemental Disclosures of Cash Flow Information:		
Cash transactions:		
Cash paid during the period for interest	\$ 21,940	\$ 18,643

See accompanying notes to the unaudited condensed consolidated financial statements

TELKONET, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022
(UNAUDITED)

NOTE A – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

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

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. However, the results from operations for the interim periods presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2022. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated December 31, 2021 financial statements and footnotes thereto included in the Company’s Form 10-K filed with the SEC.

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Telkonet Communications, Inc., operating as a single reportable business segment.

Business

Telkonet, Inc. (“we,” “us,” “our,” the “Company,” or “Telkonet”), formed in 1999 and incorporated under the laws of the state of Utah, is the creator of the EcoSmart and the Rhapsody Platforms of intelligent automation solutions designed to optimize energy efficiency, comfort and analytics in support of the emerging Internet of Things (“IoT”). The platforms are deployed primarily in the hospitality, educational, governmental and other commercial markets, and is specified by engineers, HVAC professionals, building owners, and building operators. We currently operate in a single reportable business segment.

In 2007, the Company acquired substantially all of the assets of Smart Systems International (“SSI”), which was a provider of energy management products and solutions to customers in the United States and Canada and the precursor to the Company’s EcoSmart Platform. In 2020, the Company launched the Rhapsody Platform, which simplifies the installation and setup of the Company’s newest products and integrations. Both platforms provide comprehensive savings, management reporting, analytics and virtual engineering of a customer’s portfolio and/or property’s room-by-room energy consumption. Telkonet has deployed more than a half million intelligent devices worldwide in properties within the hospitality, educational, governmental and other commercial markets. The platforms are recognized as solutions for reducing energy consumption, operational costs and carbon footprints, and eliminating the need for new energy generation in these marketplaces – all whilst improving occupant comfort and convenience.

On August 6, 2021, the Company entered into a stock purchase agreement (the “Purchase Agreement”) with VDA Group S.p.A., an Italian joint stock company (“VDA”), pursuant to which VDA would, at the Closing (as defined in the Purchase Agreement), contribute \$ 5 million to Telkonet (the “Financing”) and, in exchange, Telkonet would issue to VDA (the “Issuance”): (i) 162,900,947 shares of the Company’s common stock; and (ii) a warrant to purchase 105,380,666 additional shares of the Company’s common stock (the “Warrant”) (the Issuance and the Financing referred to collectively herein as the “VDA Transaction”). The Closing occurred on January 7, 2022.

Following the issuance of 162,900,947 shares of the Company’s common stock to VDA upon the Closing, VDA owns 53% of the issued and outstanding common stock on a fully diluted as exercised/converted basis, resulting in a change of control of the Company. VDA could eventually own as much as 65% of the issued and outstanding common stock on a fully diluted as exercised/converted basis if it fully exercises the Warrant.

The Company has elected not to apply pushdown accounting adjustments to the Company’s financial statements related to the change in control as allowed by Accounting Standards Update No. 2014-17.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. On an ongoing basis, the Company evaluates significant estimates used in preparing its consolidated financial statements including those related to revenue recognition and allowances for uncollectible accounts receivable, inventory obsolescence, recovery of long-lived assets, income tax provisions and related valuation allowance, stock-based compensation, and contingencies. The Company bases its estimates on historical experience, underlying run rates and various other assumptions that the Company believes to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from these estimates. The following critical judgments, assumptions, and estimates used in the preparation of the consolidated financial statements are summarized below. Please refer to our most recent Form 10-K filed with the SEC for a more in-depth analysis of such policies.

Revenue from Contracts with Customers

Accounting Standards Codification Topic 606, Revenue from Contracts with Customers (“ASC 606, the Standard”) supersedes nearly all legacy revenue recognition guidance. ASC 606, the Standard outlines a comprehensive five-step revenue recognition model based on the principle that an entity should recognize revenue based on when it satisfies its performance obligations by transferring control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for said goods or services, as follows:

i) Identify the customer contracts

The Company accounts for a customer contract under ASC 606 when the contract is legally enforceable. A contract is legally enforceable when all of the following criteria are met: (1) the contract has been approved by the Company and the customer and both parties are committed to perform their respective obligations, (2) the Company can identify each party’s rights regarding goods or services transferred, (3) the Company can identify payment terms for goods or services transferred, (4) the contract has commercial substance, and (5) collectability of all the consideration to which the Company is entitled in exchange for the goods or services transferred is probable.

A contract does not exist if each party to the contract has the unilateral right to terminate a wholly unperformed contract without compensating the other party (or parties). Nearly all of the Company’s contracts do not contain such mutual termination rights for convenience. All contracts are in written form.

ii) Identify the performance obligations

The Company will enter into product only contracts that contain a single performance obligation related to the transfer of products to a customer.

The Company will also enter into certain customer contracts that encompass product and installation services, referred to as “turnkey” solutions. These contracts ultimately provide the customer with a solution that enhances the functionality of the customer’s existing equipment. For this reason, the Company has determined that the product and installation services are not separately identifiable performance obligations, but in essence represent one, combined performance obligation.

The Company also offers post-installation support services to customers. Support services are considered a separate performance obligation.

iii) Determine the transaction price

The Company generally enters into contracts containing fixed prices. It is not customary for the Company to include contract terms that would result in variable consideration. In the rare situation that a contract does include this type of provision, it is not expected to result in a material adjustment to the transaction price. The Company regularly extends pricing discounts; however, they are negotiated up front and adjust the fixed transaction price set out in the contract.

Customer contracts will typically contain upfront deposits that will be applied against future invoices, as well as customer retainage. The intent of any required deposit or retainage is to ensure that the obligations of either party are honored and follow customary industry practices. In addition, the Company will typically be paid in advance at the beginning of any support contracts, consistent with industry practices. None of these payment provisions are intended to represent significant implicit financing. The Company’s standard payment terms are thirty days from invoice date. Products are fully refundable when returned in their original packaging without damage or defacing less a restocking fee. Historical returns have shown to be immaterial. The Company offers a standard one-year assurance warranty. However customers can purchase an extended warranty. Under the revenue standard, extended warranties are accounted for as a service warranty, requiring the revenue to be

recognized over the extended service periods. Contracts involving an extended warranty are immaterial and will continue to be combined with support revenue and recognized on a straight-line basis over the support revenue term.

iv) Allocate the transaction price to the performance obligations

Revenues from customer contracts are allocated to the separate performance obligations based on their relative stand-alone selling price (“SSP”) at contract inception. The SSP is the price at which the Company would sell a promised good or service separately. The best evidence of an SSP is the observable price of a good or service when the entity sells that good or service separately in similar circumstances and to similar customers. However, turnkey solutions are sold for a broad range of amounts resulting from, but not limited to, tiered discounting for value added resellers based upon committed volumes and other economic factors. Due to the high variability of our pricing, the Company cannot establish a reliable SSP using observable data. Accordingly, the Company uses the residual approach to allocate the transaction price to performance obligations related to its turnkey solutions. When support services are not included within the turnkey solution, the residual method is not utilized and no allocation of the transaction price to the performance obligation is necessary.

All support service agreements, whether single or multi-year terms, automatically renew for one-year terms at a suggested retail price (“SRP”), unless terminated by either party. Support service renewals are consistently priced and therefore would support the use of SRP as the best estimate of an SSP for such performance obligations.

v) Revenue Recognition

The Company recognizes revenues from product only sales at a point in time when control over the product has transferred to the customer. As the Company’s principal terms of sale are FOB shipping point, the Company primarily transfers control and records revenue for product only sales upon shipment.

Contract Fulfillment Cost

The Company recognizes related costs of the contract over time in relation to the revenue recognition. Costs included within the projects relate to the cost of material, direct labor and costs of outside services utilized to complete projects. These are presented as “Contract assets” in the Condensed Consolidated Balance Sheet.

Advertising

The Company follows the policy of charging the costs of advertising to expenses as incurred. The Company incurred \$0 and \$2,751 in advertising costs during the three months ended September 30, 2022 and 2021, respectively. During the nine months ended September 30, 2022 and 2021, the Company incurred \$3,402 and \$5,725 in advertising costs, respectively.

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Research and Development

The Company accounts for research and development costs in accordance with the ASC 730-10, “Research and Development”. Under ASC 730-10, all research and development costs must be charged to expense as incurred. Accordingly, internal research and development costs are expensed as incurred. Third-party research and development costs are expensed 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 expensed in the period incurred. Total expenditures on research and product development for the three months ended September 30, 2022 and 2021 were \$272,144 and \$268,917, respectively. Total expenditures on research and product development for the nine months ended September 30, 2022 and 2021 were \$798,913 and \$876,778, respectively.

Accounts Receivable

Accounts receivable are uncollateralized customer obligations due under normal trade terms. The Company records allowances for doubtful accounts based on customer-specific analysis and general matters such as current assessment of past due balances and economic conditions. The Company writes off accounts receivable when they become uncollectible. Management identifies a delinquent customer based upon the delinquent payment status of an outstanding invoice, generally greater than 30 days past due date. The delinquent account designation does not trigger an accounting transaction until such time the account is deemed uncollectible. The allowance for doubtful accounts is determined by examining the reserve history and any outstanding invoices that are over 30 days past due as of the end of the reporting period. Accounts are deemed uncollectible on a case-by-case basis, at management’s discretion based upon an examination of the communication with the delinquent customer and payment history. Typically, accounts are only escalated to “uncollectible” status after multiple attempts at collection have proven unsuccessful.

Inventory Obsolescence

Inventories consist of thermostats, sensors and controllers for Telkonet’s product platforms. These inventories are purchased for resale and do not include manufacturing labor and overhead. Inventories are stated at the lower of cost or net realizable value determined by the first in, first out (FIFO) method. The Company’s inventories are subject to technological obsolescence. Management evaluates the net realizable value of its inventories on a quarterly basis and when it is determined that the Company’s carrying cost of such excess and obsolete inventories cannot be recovered in full, a charge is taken against income for the difference between the carrying cost and the estimated realizable amount.

Guarantees and Product Warranties

The Company records a liability for potential warranty claims. The amount of the liability is based on the trend in the historical ratio of claims to sales. The products sold are generally covered by a warranty for a period of one year. In the event the Company determines that its current or future product repair and replacement costs exceed its estimates, an adjustment to these reserves would be charged to earnings in the period such determination is made.

Product warranties for the nine months ended September 30, 2022 and the year ended December 31, 2021 are as follows:

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Beginning balance	\$ 46,650	\$ 45,328
Warranty claims incurred	(5,296)	(16,075)
Provision charged (credited) to expense	(770)	17,397
Ending balance	<u>\$ 40,584</u>	<u>\$ 46,650</u>

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Income Taxes

The Company accounts for income taxes in accordance with ASC 740-10. Under this method, deferred income taxes (when required) are provided based on the difference between the financial reporting and income tax bases of assets and liabilities and net operating losses at the statutory rates enacted for future periods. The Company has a policy of establishing a valuation allowance when it is more likely than not that the Company will not realize the benefits of its deferred income tax assets in the future.

The Company follows ASC 740-10-25, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740-10-25 also provides guidance on de-recognition, classification, treatment of interest and penalties, and disclosure of such positions.

Stock Based Compensation

We account for our stock based awards in accordance with ASC 718, which requires a fair value measurement and recognition of compensation expense for all share-based payment awards made to our employees and directors, including employee stock options and restricted stock awards.

We estimate the fair value of stock options granted using the Black-Scholes valuation model. This model requires us to make estimates and assumptions including, among other things, estimates regarding the length of time an employee will retain vested stock options before exercising them and the estimated volatility of our common stock price. The fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. Changes in these estimates and assumptions can materially affect the determination of the fair value of stock-based compensation and consequently, the related amount recognized in our consolidated statements of operations.

Income (Loss) per Common Share

The Company computes earnings per share under ASC 260-10, "Earnings per Share." Basic net income (loss) per common share is computed using the weighted average shares outstanding. Diluted net income (loss) per common share is computed using the treasury stock method, which assumes that the proceeds to be received on exercise of outstanding stock options and warrants are used to repurchase shares of the Company at the average market price of the common shares for the year. Dilutive common stock equivalents consist of shares issuable upon the exercise of the Company's outstanding stock options and warrants. For the three months ended September 30, 2022, there were 105,380,666 and 2,626,847 warrants and options outstanding, respectively. Comparable amounts for September 30, 2021 were 250,000 and 3,349,793 warrants and options outstanding, respectively. These amounts are not included in dilutive income (loss) per share as the impact would be anti-dilutive.

Net income / (loss) attributable to common shareholders:

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2022	2021	2022	2021
Net Income / (Loss)	\$ (697,572)	\$ 17,240	\$ (1,206,654)	\$ (55,616)
Less cumulative dividends earned on Preferred stock	(23,505)	(23,505)	(69,743)	(69,743)
Net loss attributable to common shareholders	<u>\$ (721,077)</u>	<u>\$ (6,265)</u>	<u>\$ (1,276,397)</u>	<u>\$ (125,359)</u>

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Shares used in the calculation of diluted EPS are summarized below:

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2022	2021	2022	2021
Weighted average common shares outstanding - basic	\$ 299,212,282	\$ 136,311,335	\$ 295,592,261	\$ 136,311,335
Dilutive effect of stock options	-	-	-	-
Weighted average common shares outstanding - diluted	<u>\$ 299,212,282</u>	<u>\$ 136,311,335</u>	<u>\$ 295,592,261</u>	<u>\$ 136,311,335</u>

Recovery of Long-Lived Assets

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with ASC 360-10. Recoverability is measured by comparison of the carrying amount to the future net undiscounted cash flows which the assets are expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds its fair value.

Sales Tax

Unless provided with a resale or tax exemption certificate, the Company assesses and collects sales tax on sales transactions and records the amount as a liability. It is recognized as a liability until remitted to the applicable state. Total revenues do not include sales tax as the Company is considered a pass through conduit for collecting and remitting sales taxes.

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 quality credit institutions. At times, such investments may be in excess of the FDIC insurance limit. The Company has never experienced any losses related to these balances. With respect to trade receivables, the Company performs ongoing credit evaluations of its customers' financial conditions and limits the amount of credit extended when deemed necessary. The Company provides credit to its customers primarily in the United States in the normal course of business. The Company routinely assesses the financial strength of its customers and, as a consequence, believes its trade receivables credit risk exposure is limited.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash equivalents.

Fair Value of Financial Instruments

The Company accounts for the fair value of financial instruments in accordance with ASC 820, which defines fair value for accounting purposes, established a framework for measuring fair value and expanded disclosure requirements regarding fair value measurements. Fair value is defined as an exit price, which is the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date. The degree of judgment utilized in measuring the fair value of assets and liabilities generally correlates to the level of pricing observability. Financial assets and liabilities with readily available, actively quoted prices or for which fair value can be measured from actively quoted prices in active markets generally have more pricing observability and require less judgment in measuring fair value. Conversely, financial assets and liabilities that are rarely traded or not quoted have less price observability and are generally measured at fair value using valuation models that require more judgment. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency of the asset, liability or market and the nature of the asset or liability. The Company categorizes financial assets and liabilities that are recurring, at fair value into a three-level hierarchy in accordance with these provisions:

- Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; or
- Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and are unobservable.

The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable, and certain accrued liabilities. The carrying amounts of these assets and liabilities approximate fair value due to the short maturity of these instruments (Level 1 instruments), except for the line of credit. The carrying amount of the line of credit approximates fair value due to the interest rate and terms approximating those available to the Company for similar obligations (Level 2 instruments).

Leases

The Company determines if an arrangement is a lease at inception. This determination generally depends on whether the arrangement conveys to the Company the right to control the use of an explicitly or implicitly identified fixed asset for a period of time in exchange for consideration. Control of an underlying asset is conveyed to the Company if the Company obtains the rights to direct the use of and to obtain substantially all of the economic benefits from using the underlying asset. The Company does not separate non-lease components from lease components to which they relate and accounts for the combined lease and non-lease components as a single lease component.

Operating leases are included in our Condensed Consolidated Balance Sheets as operating lease right-of-use assets, lease liabilities – current and lease liabilities – long-term. We do not recognize a right-of-use asset and lease liability for leases with a term of 12 months or less. Our current operating leases are for facilities. Our leases may contain renewal options; however, we do not recognize right-of-use assets or lease liabilities for renewal periods unless it is determined that we are reasonably certain of renewing the lease at inception or when a triggering event occurs. Some of our lease agreements may contain rent escalation clauses, rent holidays, capital improvement funding, or other lease concessions.

In determining our right-of-use assets and lease liabilities, we apply a discount rate to the minimum lease payments within each lease agreement. ASC 842 requires us to use the rate of interest that a lessee would have to pay to borrow on a collateralized basis over a similar term, an amount equal to the lease payments in a similar economic environment. When we cannot readily determine the discount rate implicit in the lease agreement, we utilize our current borrowing rate on our outstanding line of credit. The Company's line of credit utilizes market rates to assess an interest rate. Refer to Note G for further discussion.

We recognize our minimum rental expense on a straight-line basis based on the fixed components of a lease arrangement. Payments are set on a pre-determined schedule within each lease agreement. We amortize this expense over the term of the lease beginning with the date of the standard adoption for current leases and beginning with the date of initial possession, which is the date we enter the leased space and begin to make improvements in the preparation for its intended use. Variable lease components represent amounts that are not fixed in nature and are not tied to an index or rate and are recognized as incurred. Variable lease components consist primarily of the Company's proportionate share of common area maintenance, utilities, taxes and insurance and are presented as operating expenses in the Company's statements of operations in the same line item as expense arising from fixed lease payments.

Impact of COVID-19 Pandemic

The Company's operations and financial results continue to be negatively impacted by the COVID-19 pandemic and its successive variants. Depending on the length and severity of the COVID-19 pandemic, the demand for our products, our customers' ability to meet payment obligations to the Company, our supply chain and production capabilities, and our workforce's ability to deliver our products and services could well be impacted. Management continues to monitor the impact of the global situation on the Company's financial condition, liquidity, operations, suppliers, industry, and workforce. We expect this disruption to continue to have a material adverse impact on our results of operations, financial condition, cash flows, and liquidity.

Capital markets and economies worldwide have also been negatively impacted by the COVID-19 pandemic, and it is possible that the COVID-19 pandemic could cause a local, national and/or global economic recession. Policymakers around the globe have responded with fiscal policy actions to support the economy as a whole, but it is presently unknown whether and to what extent further fiscal actions will continue. The magnitude and overall effectiveness of these actions remain uncertain.

The hospitality industry, our largest market that generally accounts for a majority of our revenue, has suffered as much as any since the onset of the pandemic. While the industry is trending toward recovery, the situation remains fragile. The effects of supply-chain issues, inflation, labor shortages, and subsequent rising wages, all present some level of pandemic uncertainty for the foreseeable future. STR and Tourism Economics expect leisure travel to pace the recovery while commercial demand, the dominant segment, will remain significantly below pre-pandemic levels until there is a significant increase in the quantity of large group events, as well as the return of business travel¹. Despite STR and Tourism Economics' upgraded recovery timeline for domestic hospitality's revenue per available room (RevPAR), when adjusted for inflation, RevPAR will still likely remain below 2019 levels until at least 2024. Though topline continues to improve, labor will be the biggest challenge for hoteliers' profitability moving forward².

¹ O'Conner, Stefani C. "Industry's recovery heats up-slowly." Hotelbusiness.com January 2022:8A

² Fox, Jena Tesse "STR, TE expect full U.S. RevPAR recovery to occur in 2022." Hotelbusiness.com July 2022:11

NOTE B – NEW ACCOUNTING PRONOUNCEMENTS

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 provides guidance for estimating credit losses on certain types of financial instruments, including trade receivables, by introducing an approach based on expected losses. The expected loss approach will require entities to incorporate considerations of historical information, current information and reasonable and supportable forecasts. ASU 2016-13 also amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The guidance requires a modified retrospective transition method and early adoption is permitted. In November 2019, FASB issued ASU No. 2019-10, Financial Instruments – Credit Losses, Derivatives and Hedging, and Leases ("ASU 2019-10"), which defers the adoption of ASU 2016-13 for smaller reporting companies until January 1, 2023. The Company will continue to evaluate the impact of ASU 2016-13 on its consolidated financial statements.

Management has evaluated other recently issued accounting pronouncements and does not believe any will have a significant impact on our consolidated financial statements and related disclosures.

NOTE C – REVENUE

The following table presents the Company's product and recurring revenues disaggregated by industry for the three months ended September 30, 2022.

	<u>Hospitality</u>	<u>Education</u>	<u>Multiple Dwelling Units</u>	<u>Government</u>	<u>Healthcare</u>	<u>Total</u>
Product Revenue	\$ 1,441,286	\$ 319,115	\$ 98	\$ 68,455	\$ 0	\$ 1,828,954

Recurring Revenue	165,540	22,840	0	0	0	188,380
	<u>\$ 1,606,826</u>	<u>\$ 341,955</u>	<u>\$ 98</u>	<u>\$ 68,455</u>	<u>\$ 0</u>	<u>\$ 2,017,334</u>
% of Total	80%	17%	0%	3%	0%	100%

The following table presents the Company's product and recurring revenues disaggregated by industry for the nine months ended September 30, 2022.

	Hospitality	Education	Multiple Dwelling Units	Government	Healthcare	Total
Product Revenue	\$ 3,921,615	\$ 1,233,998	\$ 73,552	\$ 341,247	\$ 363	\$ 5,570,775
Recurring Revenue	460,037	75,597	0	0	0	535,634
	<u>\$ 4,381,652</u>	<u>\$ 1,309,595</u>	<u>\$ 73,552</u>	<u>\$ 341,247</u>	<u>\$ 363</u>	<u>\$ 6,106,409</u>
% of Total	72%	21%	1%	6%	0%	100%

The following table presents the Company's product and recurring revenues disaggregated by industry for the three months ended September 30, 2021.

	Hospitality	Education	Multiple Dwelling Units	Government	Healthcare	Total
Product Revenue	\$ 1,195,394	\$ 39,577	\$ 33,728	\$ 21,690	\$ 0	\$ 1,290,389
Recurring Revenue	96,211	67,468	–	–	–	163,679
	<u>\$ 1,291,605</u>	<u>\$ 107,045</u>	<u>\$ 33,728</u>	<u>\$ 21,690</u>	<u>\$ 0</u>	<u>\$ 1,454,068</u>
% of Total	89%	8%	2%	1%	0%	100%

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The following table presents the Company's product and recurring revenues disaggregated by industry for the nine months ended September 30, 2021.

	Hospitality	Education	Multiple Dwelling Units	Government	Healthcare	Total
Product Revenue	\$ 3,463,056	\$ 123,975	\$ 290,936	\$ 144,997	\$ 48,195	\$ 4,071,159
Recurring Revenue	408,604	97,542	26,461	0	0	532,607
	<u>\$ 3,871,660</u>	<u>\$ 221,517</u>	<u>\$ 317,397</u>	<u>\$ 144,997</u>	<u>\$ 48,195</u>	<u>\$ 4,603,766</u>
% of Total	84%	5%	7%	3%	1%	100%

Sales taxes and other usage-based taxes are excluded from revenues.

Remaining performance obligations

As of September 30, 2022, the aggregate amount of the transaction price allocated to remaining performance obligations was approximately \$0.7 million. Except for support services, the Company expects to recognize 100% of the remaining performance obligations over the next six months.

Contract assets and liabilities

	September 30, 2022	December 31, 2021
Contract assets	\$ 27,579	\$ 266,014
Contract liabilities - current	940,056	800,965

Contracts are billed in accordance with the terms and conditions, either at periodic intervals or upon substantial completion. This can result in billings occurring subsequent to revenue recognition, resulting in contract assets. Contract assets are presented as current assets in the Condensed Consolidated Balance Sheet.

Often, the Company will require customers to pay a deposit upon contract signing that will be applied against work performed or products shipped. In addition, the Company will often invoice the full term of support at the start of the support period. Billings that occur prior to revenue recognition result in contract liabilities. The change in the contract liability balance during the three-month period ended September 30, 2022 is the result of cash payments received and billing in advance of satisfying performance obligations.

Contract costs

Costs to complete a turnkey contract primarily relate to the materials cost and direct labor and are recognized proportionately as the performance obligation is satisfied. The Company will defer costs to complete a contract when materials have shipped (and control over the materials has transferred to the customer), but an insignificant amount of rooms have been installed. The Company will recognize any deferred costs in proportion to revenues recognized from the related turnkey contract. The Company does not expect deferred contract costs to be long-lived since a typical turnkey project takes approximately 60 days to complete. Deferred contract costs are generally presented as other current assets in the Condensed Consolidated Balance Sheets.

The Company incurs incremental costs to obtain a contract in the form of sales commissions. These costs, whether related to performance obligations that extend beyond 12 months or not, are immaterial and will continue to be recognized in the period incurred within selling, general and administrative expenses.

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Components of accounts receivable as of September 30, 2022 and December 31, 2021 are as follows:

	September 30, 2022	December 31, 2021
Accounts receivable	\$ 2,001,844	\$ 1,016,117
Allowance for doubtful account	(62,168)	(5,563)
Accounts receivable, net	<u>\$ 1,939,676</u>	<u>\$ 1,010,554</u>

NOTE E – INVENTORIES

Components of inventories as of September 30, 2022 and December 31, 2021 are as follows:

	September 30, 2022	December 31, 2021
Product purchased for resale	\$ 1,551,676	\$ 1,269,056
Inventory - In Transit	235,000	–
Inventory - Obsolescence Reserve	(378,234)	(443,497)
Inventory, net	<u>\$ 1,408,442</u>	<u>\$ 825,559</u>

NOTE F – CURRENT ACCRUED LIABILITIES

Current accrued liabilities at September 30, 2022 and December 31, 2021 are as follows:

	September 30, 2022	December 31, 2021
Accrued payroll and payroll taxes	\$ 244,255	\$ 242,131
Accrued inventory in transit	157,263	–
Accrued professional fees	118,453	136,584
Accrued sales taxes, penalties and interest	35,087	16,634
Product warranties	40,584	46,650
Other accrued liabilities	302,896	276,722
Total current accrued liabilities	<u>\$ 898,538</u>	<u>\$ 718,721</u>

NOTE G – DEBT

Revolving Credit Facility

On September 30, 2014, the Company entered into a loan and security agreement (the “Heritage Bank Loan Agreement”), with Heritage Bank of Commerce, a California state chartered bank (“Heritage Bank”), governing a revolving credit facility in a principal amount not to exceed \$2,000,000 (subsequently reduced to \$1,000,000 on December 13, 2021), (the “Credit Facility”). Availability of borrowings under the Credit Facility is subject to a borrowing base calculation based on the Company’s eligible accounts receivable and eligible inventory each multiplied by an applicable advance rate, with an overall limitation tied to the Company’s eligible accounts receivable. The Credit Facility is secured by all of the Company’s assets. The Credit Facility is available for working capital and other general business purposes.

The outstanding principal balance of the Credit Facility bears interest at the Prime Rate plus 3.00%, which was 9.25% on September 30, 2022 and 6.25% on December 31, 2021. On October 9, 2014, as part of the Heritage Bank Loan Agreement, Heritage Bank was granted a warrant to purchase 250,000 shares of Telkonet common stock. The warrant had an exercise price of \$0.20 and expired October 9, 2021. On November 6, 2019, the Company entered into an eleventh amendment to the Heritage Bank Loan Agreement to extend the revolving maturity date to September 30, 2021, unless earlier accelerated under the terms of the Heritage Bank Loan Agreement, and eliminate the maximum EBITDA loss covenant. The Eleventh Amendment was effective as of September 30, 2019.

On September 30, 2021, the Company entered into a twelfth amendment to the Heritage Bank Loan Agreement (the “Twelfth Amendment”) to extend the revolving maturity date to December 31, 2021, unless earlier accelerated under the terms of the Heritage Bank Loan Agreement. In addition, subject to certain conditions as specified in the Twelfth Amendment, Heritage Bank consented to the VDA Transaction (as described above in Note A – Basis of Presentation and Significant Accounting Policies - Business) between the Company and VDA, and acknowledged and agreed that certain events occurring in connection with the VDA Transaction, including the change of control of the Company resulting from the VDA Transaction, do not constitute Events of Default as defined in the Heritage Bank Loan Agreement.

On December 13, 2021, the Company entered into a thirteenth amendment to the Heritage Bank Loan Agreement (the “Thirteenth Amendment”) to extend the revolving maturity date to March 31, 2022, unless earlier accelerated under the terms of the Heritage Bank Loan Agreement. In addition, the Thirteenth Amendment reduced the credit extension amount to \$1,000,000 and reduced unrestricted cash maintained in the Company’s accounts at Heritage Bank to be at least \$1,000,000, rather than \$3,000,000.

On March 10, 2022, the Company entered into a fourteenth amendment to the Heritage Bank Loan Agreement to extend the revolving maturity date to June 30, 2023, unless earlier accelerated under the terms of the Heritage Bank Loan Agreement.

The Heritage Bank Loan Agreement contains covenants that place restrictions on, among other things, the incurrence of debt, granting of liens and sale of assets. The Heritage Bank Loan Agreement also contains financial covenants. As discussed above, the EBITDA loss covenant was eliminated in the Eleventh Amendment. The sole financial covenants are a minimum asset coverage ratio and a minimum unrestricted cash balance of \$1 million, both of which are measured at the end of each month. A violation of either of these covenants could result in an event of default under the Heritage Bank Loan Agreement. Upon the occurrence of such an event of default or certain other customary events of defaults, payment of any outstanding amounts under the Credit Facility may be accelerated and Heritage Bank’s commitment to extend credit under the Heritage Bank Loan Agreement may be terminated. The Heritage Bank Loan Agreement contains other representations and warranties, covenants, and other provisions customary to transactions of this nature.

The outstanding balance on the Credit Facility was \$0 and \$403,089 at September 30, 2022 and December 31, 2021 respectively, and the remaining available borrowing capacity was approximately \$1,000,000 and \$460,000, respectively. As of September 30, 2022, the Company was in compliance with all financial covenants.

Paycheck Protection Program

The Company has received two loans under the Paycheck Protection Program (the “PPP”) administered by the United States Small Business Administration (the “SBA”) and authorized by the Keeping American Workers Employed and Paid Act, which is part of the Coronavirus Aid, Relief, and Economic Security Act, enacted on March 27, 2020.

On April 17, 2020, the Company entered into an unsecured promissory note for \$913,063 (“the First PPP Loan”). In January 2021, the Company applied for forgiveness of the amount due on the First PPP Loan. On February 16, 2021, Heritage Bank confirmed that the First PPP Loan granted to the Company, in the original principal amount of \$913,063 plus accrued interest of \$7,610 thereon, was forgiven in full.

On April 27, 2021, the Company entered into an unsecured promissory note, dated as of April 26, 2021, for a second PPP loan (“the Second PPP Loan” and together with the First PPP Loan, the “PPP Loans”), with Heritage Bank under a second draw of the PPP administered by the SBA and authorized by the Keeping American Workers Employed and Paid Act. In September 2021, the Company applied for forgiveness of the amount due on the Second PPP Loan. On September 15, 2021, Heritage Bank confirmed that the Second PPP Loan granted to the Company, in the original principal amount of \$913,063 plus accrued interest of \$3,044 thereon, was forgiven in full.

The total amount forgiven in 2021 for principal and accrued interest under the PPP Loans was \$1,836,780 and is shown as a gain on debt extinguishment.

NOTE H – CAPITAL STOCK

Series A

The Company has designated 215 shares of preferred stock as Series A Preferred Stock (“Series A”). Each share of Series A is convertible, at the option of the holder thereof, at any time, into shares of the Company’s common stock at a conversion price of \$0.363 per share. On November 16, 2009, the Company sold 215 shares of Series A with attached warrants to purchase an aggregate of 1,628,800 shares of the Company’s common stock at \$0.33 per share. The Series A shares were sold at a price per share of \$5,000 and each Series A share is convertible into approximately 13,774 shares of common stock at a conversion price of \$0.363 per share. The Company received \$1,075,000 from the sale of the Series A shares. In prior years, 30 of the preferred shares issued on November 16, 2009 were converted to shares of the Company’s common stock. In a prior year, the redemption feature available to the Series A holders expired. On March 31, 2022, four Series A shares were repurchased per the terms of a separation agreement with Jason L. Tienor, former President and Chief Executive Officer.

Series B

The Company has designated 567 shares of preferred stock as Series B Preferred Stock (“Series B”). Each share of Series B is convertible, at the option of the holder thereof, at any time, into shares of the Company’s common stock at a conversion price of \$0.13 per share. On August 4, 2010, the Company sold 267 shares of Series B with attached warrants to purchase an aggregate of 5,134,626 shares of the Company’s common stock at \$0.13 per share. The Series B shares were sold at a price per share of \$5,000 and each Series B share was convertible into approximately 38,461 shares of common stock at a conversion price of \$0.13 per share. The Company received \$1,335,000 from the sale of the Series B shares on August 4, 2010. On April 8, 2011, the Company sold 271 additional shares of Series B with attached warrants to purchase an aggregate of 5,211,542 shares of the Company’s common stock at \$0.13 per share. The Series B shares were sold at a price per share of \$5,000 and each Series B share was convertible into approximately 38,461 shares of common stock at a conversion price of \$0.13 per share. The Company received \$1,355,000 from the sale of the Series B shares on April 8, 2011. In prior years, 486 of the preferred shares issued on August 4, 2010 and April 8, 2011 were converted to shares of the Company’s common stock. In a prior year, the redemption feature available to the Series B holders expired.

Preferred stock carries certain preference rights as detailed in the Company’s Amended Articles of Incorporation related to both the payment of dividends and as to payments upon liquidation in preference to any other class or series of capital stock of the Company. As of September 30, 2022, the liquidation preference of the preferred stock is based on the following order: first, Series B with a preference value of \$513,179, which includes cumulative accrued unpaid dividends of \$253,179, and second, Series A with a preference value of \$1,837,198, which includes cumulative accrued unpaid dividends of \$932,198.

NOTE I – STOCK OPTIONS AND WARRANTS

Employee Stock Options

The Company maintains an equity incentive plan (the “2020 Plan”). The 2020 Plan was established in 2020 as an incentive plan for officers, employees, non-employee directors, prospective employees and other key persons. The 2020 Plan replaced the 2010 Amended and Restated Stock Option and Incentive Plan, as amended (the “2010 Plan”), which expired on November 17, 2020. The 2020 Plan is administered by the Board of Directors or the Compensation Committee, which is comprised of not less than two non-employee directors who are independent. A total of 10,000,000 shares of stock were reserved and available for issuance under the 2020 Plan. The exercise price per share for the stock covered by a stock option granted shall be determined by the administrator at the time of grant but shall not be less than 100 percent of the fair market value on the date of grant. The term of each stock option shall be fixed by the administrator, but no stock option shall be exercisable more than ten years after the date the stock option is granted. As of September 30, 2022, there were approximately 10,000,000 shares remaining for issuance under the 2020 Plan.

It is anticipated that providing such persons with a direct stake in the Company’s welfare will assure a better alignment of their interests with those of the Company and its stockholders.

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 the 2010 Plan as of September 30, 2022. No options have been issued under the 2020 Plan.

Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$.01-\$0.15	2,000,000	2.38	\$ 0.14	2,000,000	\$ 0.14
\$.16-\$0.20	626,847	0.98	\$ 0.18	626,847	\$ 0.18
	<u>2,626,847</u>	<u>2.05</u>	<u>\$ 0.16</u>	<u>2,626,847</u>	<u>\$ 0.16</u>

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

	Weighted Average Exercise Price			Weighted Average Exercise Price		
	Number of Shares	Weighted Average Exercise Price	Value	Number of Shares	Weighted Average Exercise Price	Value
Balance Jan 1	3,349,793	\$ 0.16	\$ 535,967	3,349,793	\$ 0.16	\$ 535,967
Granted	-	-	-	-	-	-
Cancelled, Expired	(26,241)	0.17	(4,461)	-	-	-
Exercised	-	-	-	-	-	-
Balance March 31	3,323,552	0.16	531,506	3,349,793	0.16	535,967
Granted	-	-	-	-	-	-
Cancelled, Expired	(541,149)	0.16	(86,584)	-	-	-
Exercised	-	-	-	-	-	-
Balance June 30	2,782,403	0.16	444,922	3,349,793	0.16	535,967
Granted	-	-	-	-	-	-
Cancelled, Expired	(155,556)	0.18	(28,000)	-	-	-
Exercised	-	-	-	-	-	-
Balance Sep 30	2,626,847	\$ 0.16	\$ 416,922	3,349,793	\$ 0.16	\$ 535,967

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The expected life of awards granted represents the period of time that they are expected to be outstanding. The Company determines the expected life based on historical experience with similar awards, giving consideration to the contractual terms, vesting schedules, exercise patterns and pre-vesting and post-vesting forfeitures. The Company estimates the volatility of the Company's common stock based on the calculated historical volatility of the Company's common stock using the share price data for the trailing period equal to the expected term prior to the date of the award. The Company bases the risk-free interest rate used in the Black Scholes option valuation model on the implied yield currently available on U.S. Treasury zero-coupon issues with an equivalent remaining term equal to the expected life of the award. The Company has not paid any cash dividends on the Company's common stock and does not anticipate paying any cash dividends in the foreseeable future. Consequently, the Company uses an expected dividend yield of zero in the Black-Scholes option valuation model. The Company uses historical data to estimate pre-vesting option forfeitures and records share-based compensation for those awards that are expected to vest. In accordance with ASC 718-10, the Company calculates share-based compensation for changes to the estimate of expected equity award forfeitures based on actual forfeiture experience.

During the quarter and nine months ended September 30, 2022 no options were granted or exercised and during the quarter and nine months ended September 30, 2021, no options were granted, exercised, cancelled or expired.

Total stock-based compensation expense for the quarter ended September 30, 2022 and 2021 was \$1,815 and \$1,815 respectively. Total stock-based compensation expense for the nine months ended September 30, 2022 and 2021 was \$5,445 and \$5,446 respectively.

Warrants

The following table summarizes the changes in warrants outstanding.

	Number of Shares	Weighted Average Price / Share
Outstanding at January 1, 2021	250,000	\$ 0.16
Granted	-	-
Exercised	-	-
Cancelled or Expired	(250,000)	0.16
Outstanding at December 31, 2021	-	\$ -
Granted	105,380,666	0.06
Exercised	-	-
Cancelled or Expired	-	-
Outstanding at March 31, 2022	105,380,666	\$ 0.06
Granted	-	-
Exercised	-	-
Cancelled or Expired	-	-
Outstanding at June 30, 2022	105,380,666	\$ 0.06
Granted	-	-
Exercised	-	-
Cancelled or Expired	-	-
Outstanding at September 30, 2022	105,380,666	\$ 0.06

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NOTE J – STOCK ISSUANCE TO NON-EMPLOYEE DIRECTORS

During the quarters ended September 30, 2022 and 2021, the Company issued no common stock to its non-employee directors. During the nine months ended September 30, 2022 and 2021, the Company issued common stock valued at \$0 and \$18,000 to its non-employee directors.

NOTE K – COMMITMENTS AND CONTINGENCIES

In October 2013, the Company entered into a lease agreement for 6,362 square feet of commercial office space in Waukesha, Wisconsin for its corporate headquarters. The Waukesha lease would have expired in April 2021, but was subsequently amended and extended through April 30, 2026. On April 7, 2017 the Company executed an amendment to its existing lease in Waukesha, Wisconsin to expand another 3,982 square feet, bringing the total leased space to 10,344 square feet. In addition, the lease term was extended from May 1, 2021 to April 30, 2026. The commencement date for this amendment was July 15, 2017.

In May 2017, the Company entered into a lease agreement for 5,838 square feet of floor space in Waukesha, Wisconsin for its inventory warehousing operations. This lease expires on May 31, 2024.

In November 2021, the Company entered into a lease agreement for 425 square feet of commercial office space in Gaithersburg, Maryland. This lease expires on November 30, 2022.

The components of lease expense for the three and nine months ended September 30 are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2022	2021	2022	2021
Operating lease cost - fixed	\$ 49,947	\$ 57,387	\$ 146,236	\$ 172,161
Variable lease cost	25,933	30,213	88,952	91,688
Total operating lease cost	\$ 75,880	\$ 87,600	\$ 235,188	\$ 263,849

Other information related to leases as of September 30 is as follows:

	September 30, 2022	December 31, 2021
Operating lease liability - current	\$ 153,276	\$ 195,176
Operating lease liability - long term	391,680	459,668
Operating cash flows from operating leases	109,888	242,305
Weighted-average remaining lease term of operating leases	3.2 years	4.1 years
Weighted-average discount rate of operating leases	8.5%	8.5%

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Future annual minimum operating lease payments as of September 30, 2022 were as follows:

2022 (excluding the months already reported upon)	\$ 47,771
2023	193,169
2024	172,424
2025	158,510
2026	53,185
2027 and thereafter	—
Total minimum lease payments	625,059
Less imputed interest	(80,103)
Total	\$ 544,956

Rental expenses charged to operations for the 3 months ended September 30, 2022 and 2021 were \$75,880 and \$87,600, respectively. Rental expenses charged to operations for the 9 months ended September 30, 2022 and 2021 were \$235,188, and \$263,849, respectively.

Employment and Consulting Agreements

The Company has employment agreements with certain of its key employees which include non-disclosure and confidentiality provisions for protection of the Company's proprietary information.

Under the terms of a Consulting Agreement dated January 7, 2022, Piercarlo Gramaglia will serve as Chief Executive Officer of the Company for a term of eighteen (18) months, unless earlier terminated pursuant to the terms of the Consulting Agreement. In exchange for his service as Chief Executive Officer, the Company will pay Mr. Gramaglia an annual fee of \$30,000 and will pay his reasonable expenses associated with the performance of his duties as Chief Executive Officer.

John M. Srouji, Chief Sales & Operations Officer, is employed pursuant to an employment agreement with us effective August 16, 2022 and expiring on May 31, 2026. The term of the employment agreement will automatically renew for an additional twelve months. Mr. Srouji will receive a base salary of \$300,000 per year and bonuses and benefits based on the Company's internal policies and on participation in the Company's incentive and benefit plans. Mr. Srouji will have a guaranteed 2022 bonus of \$25,000 with the potential of an additional \$20,000 should the Company achieve specified targets.

Jeffrey J. Sobieski, Chief Technology Officer, is employed pursuant to an employment agreement with us effective January 7, 2022. Mr. Sobieski's employment agreement has an initial term of one (1) year, which will automatically renew for a period of an additional twelve (12) months, and provides for a base salary of \$211,625 per year and bonuses and benefits based upon the Company's internal policies and participation in the Company's incentive and benefit plans. Per the agreement, Mr. Sobieski is eligible to receive a bonus, not to exceed 15% of his base salary, should predetermined objectives be met.

Richard E. Mushrush, Chief Financial Officer, is employed pursuant to an employment agreement with us effective January 7, 2022. Mr. Mushrush's employment agreement has an initial term of one (1) year, which will automatically renew for a period of an additional twelve (12) months, and provides for a base salary of \$122,000 per year and bonuses and benefits based upon the Company's internal policies and participation in the Company's incentive and benefit plans. Per the agreement, Mr. Mushrush is eligible to receive a bonus, not to exceed 20% of his base salary, should predetermined objectives be met.

In addition to the foregoing, stock options may be periodically granted to employees under the Company's 2020 equity incentive plan at the discretion of the Compensation Committee of the Board of Directors. Executives of the Company are eligible to receive stock option grants, based upon individual performance and the performance of the Company as a whole.

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Litigation

The Company is subject to legal proceedings and claims which arise in the ordinary course of its business. Although occasional adverse decisions or settlements may occur, other than the Sipco litigation discussed below, which has been dismissed, 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.

Sipco Litigation and License Agreement

The Company continues to fulfill its obligations under the Wireless Network Patent License Agreement (the "License Agreement") between SIPCO, LLC ("Sipco") and IPCO, LLC dba IntusIQ (collectively, the "Licensors") and the Company, dated November 30, 2020. The parties entered into the License Agreement in connection with the settlement of a lawsuit filed by Sipco as disclosed in more detail in the Company's previously filed reports.

The minimum payments required under the License Agreement have been accrued for on the Company's Condensed Consolidated Balance Sheets in accordance with GAAP, which specifies that when a liability is probable and the amount can be reasonably estimated, said liability should be recorded in the current reporting period. Per the License Agreement, the contractual minimum payments began on January 1, 2022 and continue until December 31, 2024, thus satisfying both criteria of probable and reasonably estimable. Accordingly, a long-term liability was recorded representing the sum of those contractual minimums. As of September 2022, the Company had a current liability of approximately \$196,724, which \$56,724 is included in accounts payable and \$140,000 in other accrued liabilities (See Note F – Current Accrued Liabilities for further breakdown of accrued liabilities), along with a non-current liability of \$255,000 included in accrued royalties – long-term recorded on its Condensed Consolidated Balance Sheets.

Indemnification Agreements

On March 31, 2010, the Company entered into Indemnification Agreements with executives Jason L. Tienor, then President and Chief Executive Officer, and Jeffrey J. Sobieski, then Chief Operating Officer. On April 24, 2012, the Company entered into an Indemnification Agreement with director Tim S. Ledwick. On January 1, 2017, the Company entered into an Indemnification Agreement with Chief Financial Officer Richard E. Mushrush.

The Indemnification Agreements provide that the Company will indemnify the Company's officers and directors, to the fullest extent permitted by law, relating to, resulting from or arising out of any threatened, pending or completed action, suit or proceeding, or any inquiry or investigation by reason of the fact that such officer or director (i) is or was a director, officer, employee or agent of the Company or (ii) is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. In addition, the Indemnification Agreements provide that the Company will make an advance payment of expenses to any officer or director who has entered into an Indemnification Agreement, in order to cover a claim relating to any fact or occurrence arising from or relating to events or occurrences specified in this paragraph, subject to receipt of an undertaking by or on behalf of such officer or director to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Company as authorized under the Indemnification Agreement.

Sales Tax

The following table sets forth the change in the sales tax accrual as of September 30, 2022 and December 31, 2021:

	September 30, 2022	December 31, 2021
Beginning balance	\$ 16,634	\$ 31,396
Sales tax collected	122,460	85,589
Provisions (reversals)	8,231	(7,685)
Payments	(112,238)	(92,666)
Ending balance	<u>\$ 35,087</u>	<u>\$ 16,634</u>

NOTE L – BUSINESS CONCENTRATION

For the nine months ended September 30, 2022, two customers, each representing over 15% of total net revenues, accounted for approximately 36% of total net revenues. For the nine months ended September 30, 2021, one customer accounted for approximately 21% of total net revenues.

As of September 30, 2022, one customer accounted for approximately 30% of the Company's net accounts receivable. As of December 31, 2021, there were five customers, each representing over 10% of the Company's net accounts receivable, accounting for 64% of the Company's net accounts receivable.

For the nine months ended September 30, 2022, purchases from two suppliers, accounted for approximately 95% of total purchases.

The amount due to one supplier, net of deposits paid, was approximately \$46,000 and \$134,000 as of September 30, 2022 and December 31, 2021, respectively.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of the Company’s financial condition and results of operations should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and related notes thereto for the three or nine months ended September 30, 2022, as applicable, as well as the Company’s consolidated financial statements and related notes thereto and management’s discussion and analysis of financial condition and results of operations in the Company’s Form 10-K for the year ended December 31, 2021, filed with the US. Securities and Exchange Commission (the “SEC”) on March 31, 2022.

Forward-Looking Statements

In accordance with the Private Securities Litigation Reform Act of 1995, the Company can obtain a “safe-harbor” for forward-looking statements by identifying those statements and by accompanying those statements with cautionary statements which identify factors that could cause actual results to differ materially from those in the forward-looking statements. Accordingly, this “Management’s Discussion and Analysis of Financial Condition and Results of Operations” may contain certain forward-looking statements regarding strategic growth initiatives, growth opportunities and management’s expectations regarding orders and financial results for the remainder of 2022 and future periods. These forward-looking statements are based on current expectations and current assumptions which management believes are reasonable. However, these statements involve risks and uncertainties that could cause actual results to differ materially from any future results encompassed within the forward-looking statements. Factors that could cause or contribute to such differences include those risks as described in the Company’s filings with the SEC, including the current reports on Form 8-K, which factors are incorporated herein by reference. The Company expressly disclaims a duty to provide updates to forward-looking statements, whether as a result of new information, future events or other occurrences.

Business

The Company, formed in 1999 and incorporated under the laws of the state of Utah, is the creator of the EcoSmart and the Rhapsody Platforms of intelligent automation solutions designed to optimize energy efficiency, comfort and analytics in support of the emerging Internet of Things (“IoT”). The platforms are deployed primarily in the hospitality, educational, governmental and other commercial markets, and is specified by engineers, HVAC professionals, building owners, and building operators. We currently operate in a single reportable business segment.

The Company’s direct sales effort targets the hospitality, education, commercial, utility and government/military markets. The Company is focusing its sales efforts in areas with available public funding and incentives, such as rebate programs offered by utilities for efficiency upgrades. Through the Company’s proprietary platforms, technology and partnerships with energy efficiency providers, the Company’s management intends to position the Company as a leading provider of energy management solutions.

Critical Accounting Policies and Estimates and New Accounting Pronouncements

Please refer to Notes A & B under Item 1 – Financial Statements.

Revenues

The table below outlines product versus recurring revenues for comparable periods:

	<u>September 30, 2022</u>		<u>September 30, 2021</u>		<u>Variance</u>	
Product	\$ 1,828,954	91%	\$ 1,290,389	89%	\$ 538,565	42%
Recurring	188,380	9%	163,679	11%	24,701	15%
Total	<u>\$ 2,017,334</u>	100%	<u>\$ 1,454,068</u>	100%	<u>\$ 563,265</u>	39%

	<u>September 30, 2022</u>		<u>September 30, 2021</u>		<u>Variance</u>	
Product	\$ 5,570,775	91%	\$ 4,071,159	88%	\$ 1,499,616	37%
Recurring	535,634	9%	532,607	12%	3,027	1%
Total	<u>\$ 6,106,409</u>	100%	<u>\$ 4,603,766</u>	100%	<u>\$ 1,502,643</u>	33%

Product Revenue

Product revenue principally arises from the sale and installation of energy management platforms. The suite of products consists of thermostats, sensors, controllers, wireless networking products, switches, outlets and a control platform.

For the three months ended September 30, 2022, product revenues increased 42% or \$0.54 million when compared to the prior year. Hospitality revenues increased 21% to \$1.44 million, educational revenues increased 706% to \$0.32 million and governmental revenues increased 216% to \$0.07 million, while MDU revenues decreased 100% to \$0.00 million and healthcare revenues were unchanged at \$0.00 million. Product revenues derived from channel partners increased 55% to \$1.43 million compared to the prior year period. The increase was primarily driven by increased volumes from three existing customers in the hospitality market, partially offset by a decrease in volume from one existing customer. International revenues increased 228% to \$0.22 million. The increase in international revenues was primarily driven by increased volumes from one existing customer in the hospitality market.

For the nine months ended September 30, 2022, product revenues increased 37% or \$1.50 million when compared to the prior year.

Hospitality revenues increased 13% to \$3.92 million, governmental revenues increased 135% to \$0.34 million and educational revenues increased 895% to \$1.23 million, while MDU revenues decreased 75% to \$0.07 million and healthcare revenues decreased 100% to \$0.00 million. Product revenues derived from channel partners increased 32% to \$4.26 million compared to the prior year period. The increase was primarily driven by increased volumes from two existing customers in the hospitality and educational markets, partially offset by volume decreases from one existing customer. International revenues increased 6% to \$0.49 million when compared to the prior year period. The increase in international revenues was not primarily driven by any specific customer.

Backlogs were approximately \$3.3 million and \$3.1 million at September 30, 2022 and 2021, respectively.

Recurring Revenue

Recurring revenue consists of Telkonet's service and support programs for its energy management platforms. The Company recognizes revenue ratably over the service period for monthly support revenues and defers revenue for annual support services over the term of the service period.

For the three and nine months ended September 30, 2022, recurring revenue increased by 15% and 1%, respectively, when compared to the prior year periods. The increase was related to increased unit sales of call center support services.

Cost of Sales

The table below outlines product versus recurring cost of sales, along with respective amounts of those costs as a percentage of revenue for the comparable periods:

	Three Months Ended					
	September 30, 2022		September 30, 2021		Variance	
Product	\$ 1,371,312	75%	\$ 851,873	66%	\$ 519,439	61%
Recurring	32,952	17%	13,646	8%	19,306	141%
Total	<u>\$ 1,404,264</u>	<u>70%</u>	<u>\$ 865,519</u>	<u>60%</u>	<u>\$ 538,745</u>	<u>62%</u>

	Nine Months Ended					
	September 30, 2022		September 30, 2021		Variance	
Product	\$ 3,049,048	55%	\$ 2,164,586	53%	\$ 884,462	41%
Recurring	94,027	18%	36,868	7%	57,159	155%
Total	<u>\$ 3,143,075</u>	<u>51%</u>	<u>\$ 2,201,454</u>	<u>48%</u>	<u>\$ 941,621</u>	<u>43%</u>

Costs of Product Revenue

Costs of product revenue include materials and installation labor related to Telkonet's platform technologies. For the three and nine months ended September 30, 2022, product costs increased 61% and 41%, respectively, compared to the prior year period.

The quarterly variance was primarily attributable to increases in material costs of \$0.31 million resulting from increased product revenues, logistical expenses of \$0.04 million, inclusive of import tariffs and a purchase price variance of \$0.19 million, resulting from global chip shortages, supply chain challenges and inflationary pressures. Material costs as a percentage of product revenues were 75%, an increase of 9%, compared to the prior year period.

The quarterly variance was primarily attributable to increases in material costs of \$0.31 million resulting from increased product revenues, logistical expenses of \$0.04 million, inclusive of import tariffs and a purchase price variance of \$0.19 million, resulting from global chip shortages, supply chain challenges and inflationary pressures. Material costs as a percentage of product revenues were 75%, an increase of 9%, compared to the prior year period.

For the nine month comparison, the variance was primarily attributable to increases in material costs of \$0.54 million resulting from increased product revenues, logistical expenses of \$0.13 million, a purchase price variance of \$0.23 million, resulting from global chip shortages, supply chain challenges and inflationary pressures, and the use of installation subcontractors of \$0.19 million, partially offset by decrease in inventory adjustments of \$0.26 million. Material costs as a percentage of product revenues were 55%, an increase of 2%, compared to the prior year period.

Costs of Recurring Revenue

Recurring revenue costs are comprised primarily of call center support labor. For both the three and nine months ended September 30, 2022, recurring revenue costs increased by 141% and 155%, respectively, when compared to the prior year period. The variance was primarily due to increases in call center staffing.

Gross Profit

The table below outlines product versus recurring gross profit, along with respective actual gross profit percentages for the comparable periods:

	Three Months Ended					
	September 30, 2022		September 30, 2021		Variance	
Product	\$ 457,642	25%	\$ 438,516	34%	\$ 19,126	4%
Recurring	155,428	83%	150,033	92%	5,395	4%
Total	<u>\$ 613,070</u>	<u>30%</u>	<u>\$ 588,549</u>	<u>40%</u>	<u>\$ 24,521</u>	<u>4%</u>

	Nine Months Ended					
	September 30, 2022		September 30, 2021		Variance	
Product	\$ 2,521,727	45%	\$ 1,906,573	47%	\$ 615,154	32%
Recurring	441,607	82%	495,739	93%	(54,132)	-11%
Total	<u>\$ 2,963,334</u>	<u>49%</u>	<u>\$ 2,402,312</u>	<u>52%</u>	<u>\$ 561,022</u>	<u>23%</u>

Gross Profit on Product Revenue

Gross profit on product revenue is influenced by pricing, revenue volume and the composition of those revenues.

Gross profit on product revenue for the three months ended September 30, 2022 increased 4% or \$0.02 million when compared to the prior year period. The increase in gross profit was primarily attributable to an increase in revenues of \$0.54 million and a decrease in the use of installation subcontractors of \$0.06 million, partially offset by increases in logistical expenses of \$0.04 million, inclusive of import tariffs and a purchase price variance of \$0.19 million, resulting from global chip shortages, supply chain challenges and inflationary pressures. For the three months ended September 30, 2022, the actual gross profit percentage decreased by 9 points to 25% compared to the prior year period. Tariffs imposed on Chinese imports resulted in an adverse impact of approximately 5% on the actual gross profit percentage for the three months ended September 30, 2022, compared to approximately 8% for the prior year period. Tariffs will fluctuate based upon volume of goods imported, which is contingent upon expected inventory supply and demand.

Gross profit on product revenue for the nine months ended September 30, 2022 increased 32% or \$0.61 million when compared to the prior year period. The increase in gross profit was primarily attributable to an increase in revenues of \$1.50 million and a decrease in inventory adjustments of \$0.26 million, partially offset by increases in material costs of \$0.54 million resulting from increased product revenues, logistical expenses of \$0.13 million, a purchase price variance of \$0.23 million, resulting from global chip shortages, supply chain challenges and inflationary pressures and the use of installation subcontractors of \$0.19 million. For the nine months ended September 30, 2022, the actual gross profit percentage decreased by 2 points to 45% compared to the prior year period. Tariffs imposed on Chinese imports resulted in an adverse impact of approximately 4% on the actual gross profit percentage for the nine months ended September 30, 2022 and September 30, 2021.

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Gross Profit on Recurring Revenue

Gross profit on recurring revenue for the three and nine months ended September 30, 2022 increased by 4% and decreased by 11% respectively, when compared to the prior year period. Variances were primarily due to fluctuating unit sales of call center support services and increases in call center staffing.

Operating Expenses

The tables below outline operating expenses for the comparable periods, along with percentage change:

Three Months Ended				
	September 30, 2022	September 30, 2021	Variance	
	\$ 1,306,869	\$ 1,479,832	\$ (172,963)	-12%

Nine Months Ended				
	September 30, 2022	September 30, 2021	Variance	
	\$ 4,140,169	\$ 4,273,474	\$ (133,305)	-3%

The Company's operating expenses are comprised of research and development, selling, general and administrative expenses and depreciation and amortization expense. During the three and nine months ended September 30, 2022, operating expenses decreased by 12% and 3%, respectively, when compared to the prior year period for the reasons discussed below.

Research and Development

Three Months Ended				
	September 30, 2022	September 30, 2021	Variance	
	\$ 272,144	\$ 268,917	\$ 3,227	1%

Nine Months Ended				
	September 30, 2022	September 30, 2021	Variance	
	\$ 798,913	\$ 876,778	\$ (77,865)	-9%

Research and development costs are related to both present and future product development and integration and are expensed in the period incurred. During the three and nine months ended September 30, 2022, research and development costs increased 1% and decreased 9%, respectively, when compared to the prior year periods. For the three month comparison, the variance is not primarily driven by any specific expense. For the nine month comparison, the variance is primarily attributable to decreases in payroll of \$0.09 million.

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Selling, General and Administrative Expenses

Three Months Ended				
	September 30, 2022	September 30, 2021	Variance	
	\$ 1,026,023	\$ 1,200,569	\$ (174,546)	-15%

Nine Months Ended				
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	September 30, 2022	September 30, 2021	Variance	
	\$ 3,310,127	\$ 3,362,761	(52,634)	-2%

During the three and nine months ended September 30, 2022, selling, general and administrative expenses decreased 15% and 2%, respectively, over the prior year periods.

For the three month comparison, the variance is primarily attributable to decreases in a trade show expenses of \$0.09 million and legal fees of \$0.20 million, partially offset by increases in payroll taxes of \$0.10 million. The payroll tax increase was primarily the result of a non-recurring Employee Retention Credit (“ERC”) in 2021, allowed under the CARES Act, which is a refundable payroll tax credit that encouraged businesses to keep employees on the payroll during the COVID-19 pandemic.

For the nine month comparison, the variance is primarily attributable to decreases in legal fees of \$0.48 million, audit fees of \$0.10 million and consulting fees of \$0.06 million, partially offset by increases in payroll taxes of \$0.42 million, recruiting fees of \$0.10 million and staffing, payroll of \$0.08 million. The payroll tax increase was primarily the result of a non-recurring Employee Retention Credit (“ERC”) in 2021, allowed under the CARES Act, which is a refundable payroll tax credit that encouraged businesses to keep employees on the payroll during the COVID-19 pandemic.

Operating Income (Loss)

During the three and nine months ended September 30, 2022, the Company had operating losses of \$0.69 million and \$1.18 million, respectively, compared to operating losses of \$0.89 million and \$1.87 million, respectively, during the prior year periods.

The three month operating loss improvement is primarily due to the increase in gross profit and reduction in SG&A expenses. The nine month operating loss improvement is again primarily due to the increase in gross profit and a reduction in operating expenses as discussed above.

Net Income (Loss)

During the three and nine months ended September 30, 2022, the Company had net losses of \$0.70 million and \$1.21 million, respectively, compared to net income of \$0.02 million and a net loss of \$0.06 million, respectively during the prior year periods.

The three month decrease in net income is primarily due to a \$0.92 million non-cash gain on debt extinguishment in connection with the full forgiveness of the second PPP Loan in the prior year period, partially offset by an increase in gross profit and reduction in operating expenses.

The nine month increase in net losses is primarily due to a \$1.84 million non-cash gain on debt extinguishment in connection with the full forgiveness of the First and Second PPP Loans in the prior year period, partially offset by an increase in gross profit and reduction in operating expenses.

Non-GAAP Financial Measures

Management believes that certain non-GAAP financial measures may be useful to investors in certain instances to provide additional meaningful comparisons between current results and results in prior operating periods. Adjusted earnings before interest, taxes, depreciation, amortization and stock-based compensation (“Adjusted EBITDA”) is a metric used by management and frequently used by the financial community. Adjusted EBITDA provides insight into an organization’s operating trends and facilitates comparisons between peer companies, since interest, taxes, depreciation, amortization and stock-based compensation can differ greatly between organizations as a result of differing capital structures and tax strategies. Adjusted EBITDA is one of the measures used for determining our debt covenant compliance. Adjusted EBITDA excludes certain items that are unusual in nature or not comparable from period to period. While management believes that non-GAAP measurements are useful supplemental information, such adjusted results are not intended to replace our GAAP financial results. Adjusted EBITDA is not, and should not be considered, an alternative to net income (loss), operating income (loss), or any other measure for determining operating performance or liquidity, as determined under accounting principles generally accepted in the United States (GAAP). In assessing the overall health of its business for the three months ended September 30, 2022 and 2021, the Company believes it appropriate to exclude stock-based compensation given the variety of equity awards used by companies, varying methodologies for determining stock-based compensation and the assumptions and estimates involved in those determinations, the exclusion of non-cash stock-based compensation enhances the ability of management and investors to understand the impact of non-cash stock-based compensation on our operating results. Further, the Company believes that excluding stock-based compensation expense allows for a more transparent comparison of its financial results to the previous year.

RECONCILIATION OF NET LOSS TO ADJUSTED EBITDA

	Three Months Ended September 30		Nine Months Ended September 30	
	2022	2021	2022	2021
Net Income (loss)	\$ (697,572)	\$ 17,240	\$ (1,206,654)	\$ (55,616)
Gain on debt extinguishment	–	(916,107)	–	(1,836,780)
Gain / (Loss on sale of asset)	70	–	526	–
Interest expense, net	2,735	7,584	21,940	19,286
Income tax provision	968	–	7,353	1,948
Depreciation and amortization	8,702	10,346	31,129	33,935
EBITDA	(685,097)	(880,937)	(1,145,706)	(1,837,227)
Adjustments:				
Stock-based compensation	1,815	1,815	5,445	5,446
Adjusted EBITDA	\$ (683,282)	\$ (879,122)	\$ (1,140,261)	\$ (1,831,781)

For the three-month period ended September 30, 2022, the Company reported a net loss of (\$697,572), had cash used in operating activities of (\$3,121,812) and ended the period with an accumulated deficit of (\$129,874,830) and total current assets in excess of current liabilities of \$4,789,402. At September 30, 2022, the Company had \$3,721,024 of cash and \$1,000,000 of availability on the Credit Facility.

Since inception through September 30, 2022, we have incurred cumulative losses of (\$129,874,830) and have never generated enough cash through operations to support our business. The Company has made significant investments in the engineering, development and marketing of its intelligent automation platforms, including but not limited to, hardware and software enhancements, support services and applications. The funding for these development efforts has contributed to, and continues to contribute to, the ongoing operating losses and use of cash.

The Company took, and continues to take, a number of actions to preserve cash. These actions included suspending the use of engineering consultants, cancelling all non-essential travel, not filling certain vacancies and for certain periods, furloughing certain employees and pay cuts for certain other employees and suspension of the Company's 401(k) match. Receipt of PPP monies helped the company reinstate some of expense reductions made.

In addition, on January 7, 2022, the Company closed on the VDA Transaction (see Note A under Item 1 – Financial Statements), resulting in additional working capital of \$5,000,000.

Loans under PPP

For a discussion of the PPP Loans the Company received under the Paycheck Protection Program, see Note G under Item 1 – Financial Statements.

Working Capital

Working capital (current assets in excess of current liabilities) from operations decreased by (\$757,483) during the three months ended September 30, 2022 from working capital of \$5,546,885 at June 30, 2022 to a working capital of \$4,789,402 at September 30, 2022.

Revolving Credit Facility

For a discussion of the terms of the Heritage Bank Loan Agreement and the Credit Facility, see Note G under Item 1 – Financial Statements.

The outstanding balance on the Credit Facility was \$0 and \$403,089 at September 30, 2022 and December 31, 2021, respectively, and the remaining available borrowing capacity was approximately \$1,000,000 and \$460,000, respectively. As of September 30, 2022, the Company was in compliance with all financial covenants.

Cash Flow Analysis

Cash used in operations was (\$3,121,812) and (\$1,310,788), during the nine months ended September 30, 2022 and 2021, respectively. As of September 30, 2022, our primary capital needs included costs incurred to increase energy management sales, inventory procurement and managing current liabilities. The working capital changes during the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 were primarily a result of increases in Account Receivable balances of (\$929,000), inventory balances of (\$583,000), a decrease in Accounts Payable balances of (\$1,237,000), partially offset by a reduction in prepaid balances of \$418,000. Accounts receivable balances fluctuate based on the negotiated billing terms with customers and collections. We purchase inventory based on forecasts and orders, and when those forecasts and orders change, the amount of inventory may also fluctuate. Accounts payable balances fluctuate with changes in inventory levels, volume of inventory purchases, and negotiated supplier and vendor terms.

Off-Balance Sheet Arrangements

The Company has no material off-balance sheet arrangements.

Acquisition or Disposition of Property and Equipment

The Company does not anticipate significant purchases of property or equipment during the next twelve months.

Item 3. Quantitative and qualitative disclosures about market risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that material information required to be disclosed in our periodic reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and to ensure that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Financial Officer each evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2022. Based on these evaluations, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures required by paragraph (b) of Rule 13a-15 and 15d-15 were not effective as of September 30, 2022 as a result of the material weaknesses discussed below.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurances regarding the reliability of financial reporting and the preparation of the financial statements of the Company in accordance with U.S. generally accepted accounting principles, or GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree or compliance with the policies or procedures may deteriorate.

With the participation of our Chief Executive Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2021 based on the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our evaluation and the material weaknesses described below, management concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2021 based on the COSO framework criteria.

Management did not properly design or maintain effective controls over certain aspects of the control environment and monitoring components of COSO. We did not have a sufficient complement of accounting and financial personnel with an appropriate level of knowledge to address technical accounting and financial reporting matters in accordance with GAAP and the Company's overall financial reporting requirements. We also lack sufficient information technology resources to address our IT general control environment requirements. The failures within the control environment and monitoring components contributed to the following control activity level material weaknesses:

- Revenues – We did not properly design or maintain effective controls over the recording of revenue recognition for contracts whose performance obligations are fulfilled over time.
- Financial Statement Close and Reporting – We did not properly design or maintain effective controls over the period end financial close and reporting process. Specifically, we lacked control over the review of account reconciliations, journal entries, identification of related party transactions, and reporting of our financial results and disclosures.
- Information Technology – We did not properly design or maintain effective controls to prevent unauthorized access to certain systems, programs and data, and provide for periodic review and monitoring of access and changes in programs, including review of security logs and analysis of segregation of duties conflicts.
- Segregation of Duties – We did not maintain adequate segregation of duties within the Company's business processes, financial applications, and IT systems. Specifically, we did not have appropriate controls in place to adequately assess the segregation of job responsibilities and system user access for initiating, authorizing, and recording transactions.

These control deficiencies could result in a misstatement of account balances resulting in a more than remote likelihood that a material misstatement to our financial statements may not be prevented or detected on a timely basis. Accordingly, we have determined that these control deficiencies as described above constitute material weaknesses.

As we continue to evaluate and work to improve our internal controls over financial reporting, our senior management may determine to take additional measures to address deficiencies or modify the remediation efforts. Until the remediation efforts that our senior management may identify as necessary, are completed, tested and determined effective, the material weaknesses described above will continue to exist. At present, the Company does not expect to hire additional personnel to remediate these control deficiencies in the near future.

In light of these material weaknesses, we performed additional analyses and procedures in order to conclude that our consolidated financial statements as of and for the year ended December 31, 2021, included in the Annual Report on Form 10-K, were fairly stated in accordance with U.S. GAAP. Notwithstanding the identified material weaknesses, our management has concluded that the audited financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2021 and the unaudited condensed consolidated financial statements included in this quarterly filing fairly represent, in all material respects, our financial position, results of operations, cash flows, and changes in stockholders' equity as of and for the periods presented in accordance with U.S. GAAP.

The Company is not required to obtain an attestation report from the Company's independent registered public accounting firm regarding internal control over financial reporting, and accordingly, such an attestation has not been obtained or included in the Annual Report on Form 10-K for the year ended December 31, 2021.

Changes in Internal Controls

Other than the material weaknesses discussed above, during the quarter ended September 30, 2022, there have been no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

None.

Item 2. Unrestricted sales of equity securities and use of proceeds

None.

Item 3. Defaults upon senior securities

None.

Item 4. Mine safety disclosures

Not applicable.

Item 5. Other information

None.

Item 6. Exhibits

Exhibit Number	Description Of Document
31.1	<u>Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Piercarlo Gramaglia</u>
31.2	<u>Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Richard E. Mushrush</u>

32.1	Certification of Piercarlo Gramaglia pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Richard E. Mushrush pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted in iXBRL, and included in exhibit 101).

SIGNATURES

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

Telkonet, Inc.
Registrant

Date: November 14, 2022

By: /s/ Piercarlo Gramaglia
Piercarlo Gramaglia
Chief Executive Officer
(principal executive officer)

Date: November 14, 2022

By: /s/ Richard E. Mushrush
Richard E. Mushrush
Chief Financial Officer
(principal financial officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
AND RULE 13A-14(A) OR 15D-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934**

I, Piercarlo Gramaglia, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Telkonet, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2022

By: /s/ Piercarlo Gramaglia
Piercarlo Gramaglia
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
AND RULE 13A-14(A) OR 15D-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Richard E. Mushrush certify that:

1. I have reviewed this quarterly report on Form 10-Q of Telkonet, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2022

By: /s/ Richard E. Mushrush
Richard E. Mushrush
Chief Financial Officer

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

In connection with the Quarterly Report of Telkonet, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Piercarlo Gramaglia, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certification is being provided pursuant to 18 U.S.C. Section 1350 and is not to be deemed a part of the Report, nor is it to be deemed to be "filed" for any purpose whatsoever.

/s/ Piercarlo Gramaglia
Piercarlo Gramaglia
Chief Executive Officer

November 14, 2022

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

In connection with the Quarterly Report of Telkonet, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard E. Mushrush, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certification is being provided pursuant to 18 U.S.C. Section 1350 and is not to be deemed a part of the Report, nor is it to be deemed to be "filed" for any purpose whatsoever.

/s/ Richard E. Mushrush
Richard E. Mushrush
Chief Financial Officer

November 14, 2022