

**ADMINISTRATIVE PROCEEDING  
BEFORE THE  
SECURITIES COMMISSIONER OF MARYLAND**

IN THE MATTER OF: \*

TELKONET, INC. \* File No. 2008-0407

and \*

TELKONET COMMUNICATIONS, INC. \*

\*  
Respondents

\* \* \* \* \*

**CONSENT ORDER**

WHEREAS, the Maryland Division of Securities (the “Division”), pursuant to the authority granted by Section 11-702 of the Maryland Securities Act, Title 11, Md. Code Ann., Corps. & Ass’ns (2007 Repl. Vol.) (the “Securities Act”), undertook an investigation with regard to possible violations of the Securities Act by Telkonet, Inc. and Telkonet Communications, Inc. (collectively, “Telkonet” or “Respondents”) in connection with the offer and sale of securities; and

WHEREAS, based on the information presented by the Division, the Maryland Securities Commissioner (the “Commissioner”) concluded that Respondents engaged in acts or practices constituting violations of the Securities Act; and

WHEREAS, the Commissioner has agreed to issue this Consent Order whereby Respondents consent to the Findings of Fact and Conclusions of Law, and consent to the imposition of the sanctions imposed and the terms of this Consent Order; and

WHEREAS, the Commissioner has determined that it is in the public interest to issue this Consent Order; and

WHEREAS, without the holding of a hearing in this matter, and upon consent of the parties hereto:

IT IS HEREBY AGREED AND ORDERED:

**I.  
JURISDICTION**

1. The Commissioner has jurisdiction in this proceeding and over Respondents pursuant to Section 11-701 of the Securities Act.

2. Respondents voluntarily waive any right to a hearing and appeal under the Securities Act and the rules and regulations promulgated thereunder with respect to this Consent Order.

**II.  
PARTIES**

3. Melanie Senter Lubin is the Securities Commissioner for the State of Maryland.

4. Telkonet, Inc. is a Utah corporation with a principal place of business in Maryland.

5. Telkonet Communications, Inc. is a Delaware corporation with a principal place of business in Maryland.

**III.  
FINDINGS OF FACT**

6. Respondents are in the business of providing communications equipment and services.

7. Between June 2000 and September 2006, Respondents and/or Respondents' predecessor, Comstock Coal Co., Inc., conducted more than 50 offerings of securities, including those referenced in Paragraphs 7-10 below, and except as noted below, during that time Respondents did not make any securities registration filings, or claims of exemption or qualification as federal covered securities with the Division.

8. In June 2001, Respondents conducted an offering of up to 75 investment units of common stock and warrants (minimum investment \$20,000). The offering price was more than \$150,000. Within six months, from August 2001 to October 2002, Respondents conducted an offering of 125 investment units of debentures and 20,000 warrants (\$20,000 unit amount). With respect to the latter offering, as to which Respondents recently claimed an exemption pursuant to Section 11-602(15) of the Securities Act, Respondents sold to 40 unaccredited investors.

9. Also within six months of the August 2001-October 2002 offering referenced in Paragraph 4 above, Respondents issued securities pursuant to a related December 2002 to February 2003 Series B offering. There were 29 nonaccredited investors in the Series B

offering. With respect to the Series B offering, in or about November 2002, Respondents filed a Form D with the Securities Division in reliance upon an exemption pursuant to Section 4(2) of the Securities Act of 1933, and Respondents' notice filing was accepted.

10. Between June 2002 and October 2002, there were a series of transactions involving the conversion of Telkonet warrants and options. At the time of the offerings, Respondents did not document in writing any claims that the investors were accredited or sophisticated.

11. In August 2002, Respondents issued warrants and options to purchase common stock at \$1 per share to one of its vendors. Within six months, in January 2003, Respondents issued options to purchase common stock at \$1 per share, to certain persons. At the time of the offerings, Telkonet did not document in writing any claims that the investors were accredited or sophisticated.

#### **IV. CONCLUSIONS OF LAW**

The Commissioner concludes that:

12. The Telkonet stock, warrants, options and debentures offered and sold by Respondents and as referenced above, constituted "securities" within the definition at Section 11-101(r) of the Securities Act.

13. Section 11-501 of the Securities Act provides that a person may not offer or sell a security in Maryland unless the security is registered, exempt from registration, or is a federal covered security as defined by the Securities Act.

14. Respondents violated Section 11-501 of the Securities Act by failing to file with the Securities Division for many exemptions now claimed with respect to securities offerings conducted between June 2000 and September 2006, by failing to file S-1s and S-3s with the Securities Division as filed with the SEC as to the conversion/resale of its securities that were effected from September 2003 to September 2006, and by failing to comply with the registration provisions of the Securities Act, or establishing an exemption or preemption from registration under the Securities Act, with respect to the following offerings of its securities:

(A) The June 2001 offering of up to 75 investment units of common stock and warrants, and within six months, the August 2001 to October 2002 offering of 1225 investment units of debentures and 20,000 warrants (\$20,000 unit amount).

(B) The August 2001 to October 2002 offering of up to 125 investment units

of Series A debentures and 20,000 warrants (\$20,000 unit amount) and the related December 2002 to February 2003 Series B offering.

(C) The transactions involving warrants and options exercised between June 2002 and October 2002.

(D) The warrants/options to purchase common stock at \$1 per share, in August 2002, and the options to purchase common stock at \$1 per share in January 2003.

## V. CONSENT TO SANCTIONS

15. Without admitting or denying the foregoing conclusions of law, Respondents expressly agree and consent, and it is ordered that:

a. Contemporaneous with the issuance of this Order, Respondents shall pay to the Division a civil monetary penalty pursuant to Section 11-702 of the Securities Act, in the amount of \$25,000. This amount shall be paid in \$5,000 increments, with the first payment due and payable upon the issuance of this Consent Order. The successive payments of \$5,000 each shall be due and payable by Respondents on or before January 1, 2009, February 1, 2009, March 1, 2009 and April 1, 2009. Respondent shall make each payment by check payable to "Office of the Attorney General."

b. Respondents shall work with the Division in resolving any complaints that have arisen or that may arise in connection with any of the offerings of Telkonet securities that occurred between June 2000 and September 2006.

c. Respondents shall in all future cases rely upon competent securities counsel in ensuring compliance with the Act in connection with the offer and sale of its securities in or from Maryland.

d. Respondents shall cease and desist from offering or selling securities in violation of Section 11-501 of the Securities Act.

e. Respondents shall in all future activities in Maryland comply with the Securities Act.

f. Respondents admit the jurisdiction of the Division as to the party and subject matter and hereby consents to the substance and entry of this Consent Order.

**VI.**  
**JURISDICTION RETAINED**

16. Jurisdiction shall be retained by the Commissioner for such further orders and directions as may be necessary or appropriate for the construction or enforcement of the Consent Order.

17. If Respondents fail to materially comply with any term of this Consent Order, the Commissioner may institute administrative or judicial proceedings against Respondents to seek to enforce this Consent Order, to sanction Respondents for violating an Order of the Commissioner or for making a misrepresentation of material fact upon which this Order was based, and may take any other action authorized under the Securities Act or under any other applicable law, including the issuance of fines or penalties as provided by the Securities Act. In any such proceeding in which, after an opportunity for a hearing, the Commissioner or the court finds that Respondents have violated this Consent Order or made any material misrepresentations in their dealings with the Division, the Division may also seek other sanctions for the violations that initiated this matter. For the purpose of determining those sanctions, the Statement of Facts and violations of the Securities Act set forth in this Consent Order shall be deemed admitted, and may be introduced into evidence against Respondents.

18. In the event that judicial intervention in this matter is sought by the Commissioner or Respondents, subject matter jurisdiction will lie in the Circuit Court for Baltimore City pursuant to §11-702 of the Securities Act. Respondents agree that that Court will have personal jurisdiction over Respondents, and that venue will be properly in that Court.

19. The terms of this Consent Order constitute the complete agreement of the parties and may only be vacated or modified by a subsequent order issued by the Securities Commissioner, by agreement with Respondents except as to any non-substantive matters.

**DATE OF THIS ORDER:**

November 25, 2008

**CONSENTED TO:**

\_\_\_\_\_, 2008

**SO ORDERED:**

**Commissioner's Signature is  
on File with Original Document**

Melanie Senter Lubin  
Securities Commissioner

\_\_\_\_\_  
Telkonet, Inc.

On this \_\_\_\_\_ day of \_\_\_\_\_, 2008, personally appeared \_\_\_\_\_, signer of the foregoing Consent Order, who did duly acknowledge his/her signature to be his/her free act and deed, and that he/she was authorized to sign on behalf of Telkonet, Inc.

\_\_\_\_\_  
Telkonet Communications, Inc.

By: \_\_\_\_\_  
Please print name and title:  
\_\_\_\_\_  
\_\_\_\_\_

On this \_\_\_\_\_ day of \_\_\_\_\_, 2008, personally appeared \_\_\_\_\_, signer of the foregoing Consent Order, who did duly acknowledge his/her signature to be his/her free act and deed, and that he/she was authorized to sign on behalf of Telkonet Communications, Inc.

\_\_\_\_\_  
Notary Public  
My Commission Expires: \_\_\_\_\_  
Seal: