

TELKONET INC  
Form DEF 14A  
September 29, 2010

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934

Filed by the Registrant ☐  
Filed by a Party other than the Registrant ☐

Check the appropriate box:

- ☐ Preliminary Proxy Statement
- ☐ Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2))
- ☒ Definitive Proxy Statement
- ☐ Definitive Additional Materials
- ☐ Soliciting Material Under § 240.14a-12

Telkonet, Inc.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- ☒ No fee required.
- ☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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| (1) | Title of each class of securities to which transaction applies:   |
| (2) | Aggregate number of securities to which transaction applies:  |
| (3) | Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): |
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- o Fee paid previously with preliminary materials.
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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TELKONET, INC.  
10200 Innovation Drive  
Suite 300  
Milwaukee, WI 53226  
414-223-0473

September 29, 2010

Dear Stockholder:

You are cordially invited to attend the 2010 Annual Meeting of Stockholders of Telkonet, Inc. (the "Company") to be held on November 17, 2010 at 10:00 a.m., local time, at our corporate offices, 10200 Innovation Drive, Suite 300, Milwaukee, WI 53226.

The accompanying notice of annual meeting of stockholders outlines the matters to be brought before the meeting, and the accompanying proxy statement discusses these matters in greater detail. The notice and the proxy statement have been made a part of this invitation. Please read carefully.

Whether or not you plan to attend the meeting, we urge you to complete, date and sign the enclosed proxy card and return it at your earliest convenience. No postage need be affixed if you use the enclosed envelope and it is mailed in the United States. You may also vote electronically via the Internet. If you have any questions or need assistance in completing the proxy card, please contact Investor Relations at [ir@telkonet.com](mailto:ir@telkonet.com) or call 414-223-0473.

We are mailing this proxy statement and a form of proxy on or about October 8, 2010.

Only holders of record of our common stock, par value \$0.001 per share, our Series A Preferred Stock, par value \$0.001 per share, and our Series B Preferred Stock, par value \$0.001 per share, at the close of business on September 20, 2010 are entitled to notice of, and to vote at, the meeting or any adjournment or postponement thereof.

Our proxy statement and proxy are enclosed along with our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which is being provided as our Annual Report to Stockholders. These materials are also available on our web site at <http://www.telkonet.com>.

**YOUR VOTE IS IMPORTANT.  
PLEASE SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD  
IMMEDIATELY, WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING.**

Our Board of Directors and management look forward to seeing you at the meeting.

Sincerely yours,

/s/ Jason L. Tienor.

Jason L. Tienor  
Chief Executive Officer



TELKONET, INC.  
10200 Innovation Drive  
Suite 300  
Milwaukee, WI 53226  
414-223-0473

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

September 29, 2010

Notice is hereby given that the annual meeting (the "Meeting") of stockholders of Telkonet, Inc., a Utah corporation (the "Company"), will be held on November 17, 2010 at 10:00 a.m., local time, at our corporate offices, 10200 Innovation Drive, Suite 300, Milwaukee, WI 53226 for the following purposes:

1. To elect four (4) directors, each to serve until the next annual meeting of stockholders and until his successor has been elected and qualified;
2. To approve an amendment to the Telkonet, Inc. Amended and Restated Articles of Incorporation, as amended, to increase the number of authorized shares of our common stock from 155,000,000 to 190,000,000;
3. To approve the Telkonet, Inc. 2010 Stock Option and Incentive Plan (the "2010 Plan");
4. To ratify the appointment of independent accountants for 2010; and
5. To transact such other business as may properly come before the Meeting.

Only holders of record of the Company's common stock, par value \$0.001 per share, the Company's Series A Preferred Stock, par value \$0.001 per share, and the Company's Series B Preferred Stock, par value \$0.001 per share, at the close of business on September 20, 2010, the record date, are entitled to notice of and to vote at the Meeting.

Because of a change in the New York Stock Exchange (NYSE) rules, unlike previous annual meetings, you will NOT be able to vote your shares with respect to the election of directors if you hold your shares in street name and have not provided instructions to your broker. We strongly encourage you to submit your voting instruction card and exercise your right to vote as a stockholder.

Your vote is important. Even if you plan to attend the Meeting in person, the Company requests that you sign and return the enclosed proxy, or vote over the Internet as instructed in these materials, as promptly as possible to ensure that your shares will be represented at the Meeting if you are unable to attend. If you sign, date and mail your proxy card without indicating how you wish to vote, your proxy will be counted as a vote FOR each of the nominees for director listed in "Proposal No. 1 – Election of Directors" and FOR each of Proposal Nos. 2 3 and 4. If you do attend the Meeting and wish to vote in person, you may withdraw your proxy and vote in person. Please note, however, that if your shares are held of record by a broker, bank, or other nominee and you wish to vote at the Meeting, you must obtain from the record holder a proxy issued in your name.

By order of the Board of Directors,

/s/ Richard E. Mushrush

Richard E. Mushrush

Secretary

THE BOARD OF DIRECTORS HAS DETERMINED AND BELIEVES THAT THE PROPOSALS OUTLINED ABOVE ARE ADVISABLE TO, AND IN THE BEST INTERESTS OF, THE COMPANY AND ITS STOCKHOLDERS AND HAS APPROVED SUCH PROPOSALS. THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE "FOR" EACH OF THE NOMINEES FOR DIRECTOR LISTED IN PROPOSAL NO. 1 AND "FOR" EACH OF PROPOSAL NOS. 2, 3 AND 4.

YOU CAN VOTE IN ONE OF TWO WAYS:

- (1) Visit the Web site noted on your proxy card to vote via the Internet, OR
  - (2) Sign, date and return your proxy card in the enclosed envelope to vote by mail.
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TELKONET, INC.  
10200 Innovation Drive  
Suite 300  
Milwaukee, WI 53226  
414-223-0473

## PROXY STATEMENT

This proxy statement contains information related to the annual meeting (the “Meeting”) of stockholders of Telkonet, Inc., a Utah corporation, to be held on November 17, 2010 at 10:00 a.m., local time, at our corporate offices, 10200 Innovation Drive, Suite 300, Milwaukee, WI 53226, and at any postponements or adjournments thereof. This proxy statement and the enclosed proxy card are being mailed to our stockholders on or about October 8, 2010. In this proxy statement, “Telkonet”, “Company”, “we”, “us” and “our” refer to Telkonet, Inc.

Our proxy statement and proxy are enclosed along with our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which is being provided as our Annual Report to Stockholders.

Important Notice Regarding the Availability of Proxy Materials for  
the Annual Meeting of Stockholders to Be Held on November 17, 2010.

This proxy statement and accompanying notice, proxy card and Annual Report on Form 10-K for the fiscal year ended December 31, 2009, are available on our web site at <http://www.telkonet.com>.

## VOTING AT THE ANNUAL MEETING

### Revocability of Proxies

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before it is voted. Attendance at the Meeting will not, in and of itself, revoke a proxy. Proxies may be revoked by:

Filing with the Secretary of Telkonet, at or before the taking of the vote at the Meeting, a written notice of revocation dated later than the proxy;

Executing a later dated proxy relating to the same shares of capital stock and delivering it to the Secretary of Telkonet, including by facsimile, before the taking of the vote at the Meeting; or

Attending the Meeting and voting in person.

Any written revocation or subsequent proxy should be sent so as to be delivered to Telkonet, Inc., 10200 Innovation Drive, Suite 300, Milwaukee, WI 53226, Attention: Corporate Secretary, or hand delivered to the Secretary of Telkonet or his representative at or before the taking of the vote at the Meeting.

If the Meeting is postponed or adjourned, proxies given pursuant to this solicitation will be utilized at any subsequent reconvening of the Meeting, except for any proxies that previously have been revoked or withdrawn effectively, and notwithstanding that proxies may have been effectively voted on the same or any other matter previously.

## Voting Rights

Only holders of record of our common stock, par value \$0.001 per share (“common stock”), holders of record of our Series A Preferred Stock, par value \$0.001 per share (“Series A Preferred Stock”), and holders of record of our Series B Preferred Stock, par value \$0.001 per share (“Series B Preferred Stock”) at the close of business on September 20, 2010, the record date (the “Record Date”), are entitled to notice of and to vote at the Meeting, and at any postponements or adjournments thereof. Holders of our Series A Preferred Stock and holders of our Series B Preferred Stock will each vote on an as converted basis together with holders of our common stock as a single class in connection with each of the proposals in this proxy statement. Each share of common stock is entitled to one vote on all matters to be voted upon at the Meeting; each share of Series A Preferred Stock is entitled to 13,774 votes on all matters to be voted upon at the Meeting; and each share of Series B Preferred Stock is entitled to 38,461 votes on all matters to be voted on at the meeting. At least a majority of our shares outstanding on the Record Date and entitled to vote (counting our Series A Preferred Stock and Series B Preferred Stock each on an as converted basis, representing an aggregate of 13,230,648 shares of common stock for such purposes) must be represented at the Meeting, either in person or by proxy, in order to constitute a quorum for the transaction of business. Abstentions and broker non-votes will be counted for purposes of determining the presence or absence of a quorum. Broker non-votes occur when a nominee holding shares for a beneficial owner does not have discretionary voting power on a matter and has not received instructions from the beneficial owner.

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## How to Vote; How Proxies Work

Our Board of Directors is asking for your proxy. Whether or not you plan to attend the Meeting, we urge you to vote by proxy as you can always change your vote at the Meeting. Please complete the proxy card by voting on the Internet or complete, date and sign the enclosed proxy card and return it at your earliest convenience. We will bear the costs incidental to the solicitation and obtaining of proxies, including the costs of reimbursing banks, brokers and other nominees for forwarding proxy materials to beneficial owners of our capital stock. Proxies may be solicited by our officers and employees, without extra compensation, by mail, telephone, facsimile, personal interviews and other methods of communication.

At the Meeting, and at any postponements and adjournments thereof, all shares entitled to vote and represented by properly executed proxies received prior to the Meeting and not revoked will be voted as instructed on those proxies. If no instructions are indicated on a properly executed proxy, the shares will be voted FOR each of the nominees for director listed in Proposal No. 1 and FOR each of Proposal Nos. 2, 3 and 4 and in the discretion of management on any other matter which may properly come before the Meeting.

## Questions and Answers

Q. What am I voting on?

You are voting on four proposals:

Proposal No. 1: For the election of four (4) nominees to our board of directors, each to serve until the next annual meeting of stockholders and until his successor has been elected and qualified.

Proposal No. 2: Approval of an amendment to our Amended and Restated Articles of Incorporation, as amended (the "Restated Articles"), to increase the number of authorized shares of our common stock from 155,000,000 to 190,000,000.

Proposal No. 3: Approval of the Telkonet, Inc. 2010 Stock Option and Incentive Plan (the "2010 Plan");

Proposal No.4: For ratification of the selection of RBSM, LLP, independent registered public accounting firm, as our independent auditors for the year ending December 31, 2010.

Q. Who is entitled to vote?

Only holders of record of our common stock and holders of record of our Series A Preferred Stock and Series B Preferred Stock at the close of business on September 20, 2010, the Record Date, are entitled to vote shares held by such stockholders on that date at the Meeting.

Q. How do I vote?

Vote By Internet: Visit the Web site noted on your proxy card to vote via the Internet.

Vote By Mail: Sign and date the proxy card you receive and return it in the enclosed stamped, self-addressed envelope.

Vote in Person: Sign and date the proxy you receive and return it in person at the Meeting. If your shares are held in the name of a bank, broker or other holder of record (i.e., in "street name"), you will receive instructions from the holder

of record that you must follow in order for your shares to be voted. Internet voting will be offered to stockholders owning shares through most banks and brokers.

Q. How many votes do I have?

On each matter to be voted upon, each share of common stock is entitled to one vote on all matters to be voted upon at the Meeting, each share of Series A Preferred Stock is entitled to 13,774 votes on all matters to be voted upon at the Meeting, and each share of Series B Preferred Stock is entitled to 38,461 votes on all matters to be voted on at the meeting.

Q. How many shares were outstanding on the Record Date?

At the close of business on September 20, 2010, the Record Date, there were 113,320,141 shares outstanding (counting our Series A Preferred Stock and our Series B Preferred Stock on an as converted basis, representing an aggregate of 13,230,648 shares of common stock for such purposes).

Q. What is a “quorum” for purposes of the Meeting?

In order to conduct business at the Meeting, a quorum of stockholders is necessary to hold a valid meeting. Holders of our Series A Preferred Stock and holders of our Series B Preferred Stock will each vote on an as converted basis together with holders of our common stock as a single class in connection with each of the proposals contained in this proxy statement. At least a majority of our shares outstanding on the Record Date and entitled to vote (counting our Series A Preferred Stock on an as converted basis and our Series B Preferred Stock on an as converted basis, representing an aggregate of 13,230,648 shares of common stock for such purposes) must be represented at the Meeting, either in person or by proxy, in order to constitute a quorum for the transaction of business. At the close of business on the Record Date, there were 113,320,141 shares outstanding and entitled to vote (counting our Series A Preferred Stock on an as converted basis and our Series B Preferred Stock on an as converted basis, representing an aggregate of 13,230,648 shares of common stock for such purposes) and, accordingly, the presence, in person or by proxy, of at least 56,660,071 shares is necessary to meet the quorum requirement.

Your shares will be counted towards the quorum only if you submit a valid proxy (or one is submitted on your behalf by your broker, bank or other nominee) or if you vote in person at the Meeting. Abstentions and broker non-votes will be counted towards the quorum requirement. If there is no quorum, the holders of a majority of shares present at the Meeting in person or represented by proxy may adjourn the Meeting to another date.

Q. Who is paying for this proxy solicitation?

We will pay for the entire cost of soliciting proxies, including the printing and filing of this proxy statement, the proxy card and any additional information furnished to stockholders. In addition to these mailed proxy materials, our directors and employees may also solicit proxies in person, by telephone, or by other means of communication. Directors and employees will not be paid any additional compensation for soliciting proxies. We may also reimburse brokerage firms, banks and other agents for the reasonable out-of-pocket expenses they incur to forward proxy materials to beneficial owners.

Q. What if I return a proxy card but do not make specific choices?

If you return a signed and dated proxy card without marking any voting selections, your shares will be voted “for” each of the nominees for director set forth in Proposal No. 1 and “for” Proposal Nos. 2, 3 and 4 discussed in this proxy statement.

If any other matter is properly presented at the Meeting, your proxy (one of the individuals named on your proxy card) will vote your shares using his best judgment.

Q. Can I access the proxy materials electronically?

This proxy statement, the proxy card, and our Annual Report on Form 10-K for the period ended December 31, 2009 are available on our website at <http://www.telkonet.com>.

Q. Can I change my vote or revoke my proxy?

Yes. You may change your vote or revoke your proxy at any time before the proxy is exercised. Proxies may be revoked by:

Filing with the Secretary of Telkonet, at or before the taking of the vote at the Meeting, a written notice of revocation dated later than the proxy;

Executing a later dated proxy relating to the same shares of capital stock and delivering it to the Secretary of Telkonet, including by facsimile, before the taking of the vote at the Meeting; or

Attending the Meeting and voting in person.

Any written revocation or subsequent proxy should be sent so as to be delivered to Telkonet, Inc., 10200 Innovation Drive, Suite 300, Milwaukee, WI 53226, Attention: Corporate Secretary, or hand delivered to the Secretary of Telkonet or his representative at or before the taking of the vote at the Meeting. Attendance at the Meeting will not have the effect of revoking a proxy unless you give written notice of revocation to the Corporate Secretary before the proxy is exercised or you vote by written ballot at the Meeting.

Q. What is the process for admission to the Meeting?

If you are a record owner of your shares (i.e., your shares are held in your name), you must show government issued identification. Your name will be verified against the stockholder list. If you hold your shares through a bank, broker or trustee, you must also bring a copy of your latest bank or broker statement showing your ownership of your shares as of the Record Date.

Q. What vote is required to approve each proposal?

Proposal No. 1: The affirmative vote of a majority of the shares of our common stock, our Series A Preferred Stock and our Series B Preferred Stock, voting together as a single class on an as-converted basis, represented at the annual meeting, either in person or by proxy, is required to elect each of the four (4) nominees for director listed in this proxy statement.

Proposal No. 2: Proposal No. 2 to approve an amendment to our Restated Articles to increase the number of authorized shares of our common stock from 155,000,000 to 190,000,00 requires the affirmative vote of the holders of a majority of the outstanding stock entitled to vote thereon.

Proposal No. 3: Proposal No. 3 to approve the Telkonet, Inc. 2010 Stock Option and Incentive Plan (the “2010 Plan”) requires affirmative vote of a majority of the votes cast at the Meeting;

Proposal No. 4: Proposal No. 4 to ratify the appointment of RBSM, LLP, independent registered public accounting firm, as our independent auditors for the year ending December 31, 2010 requires the affirmative vote of the holders of a majority of the outstanding stock entitled to vote thereon.

Each of our Series A Preferred Stock and Series B Preferred Stock is entitled to vote on Proposal Nos. 1, 2, 3 and 4 on an as converted basis with our common stock as a single class. Each share of common stock is entitled to one vote; each share of Series A Preferred Stock is entitled to 13,774 votes on each of the proposals contained in this proxy statement; and each share of Series B Preferred Stock is entitled to 38,461 votes on each of the proposals contained in this proxy statement. With regard to the election of directors set forth in Proposal No. 1, votes may be cast in favor of a nominee or withheld. Because directors are elected by plurality, abstentions from voting and broker non-votes will be excluded from the vote on this proposal and will have no effect on its outcome. If a quorum is present at the meeting, the nominees receiving the greatest number of votes, up to four directors will be elected. Because approval of Proposal Nos. 2, and 4 require the affirmative vote of a majority of the outstanding stock entitled to vote thereon, abstentions and broker non-votes will have the same effect as a vote “Against” each proposal. Because approval of Proposal No. 3 requires the affirmative vote of a majority of the votes cast at the Meeting, abstentions and broker non-votes are not considered to be votes cast and will not have an effect on approval of the 2010 Plan.

Q. How will my shares held in street name be voted if I do not provide voting instructions?

If you are a beneficial owner of shares held in street name and do not provide the organization that holds your shares with specific voting instructions, under the rules of various national and regional securities exchanges, the organization that holds your shares may generally vote on routine matters but cannot vote on non-routine matters. Accordingly, if you are a street-name holder and do not provide instructions to your broker on Proposal No. 1, No. 2 or No. 3, your broker may not vote your shares on such proposals. Please note that because of a change in NYSE rules, unlike previous annual meetings, you will NOT be able to vote your shares with respect to the election of directors if you hold your shares in street name and have not provided instructions to your broker; thus we strongly encourage you to submit your voting instruction card and exercise your right to vote as a stockholder. Your broker is permitted to vote your shares on Proposal No. 4, the ratification of the appointment of the independent registered public accounting firm, even if your broker does not receive instructions from you.

Q. What effect will Proposal No. 2 have on the Company’s authorized shares of common stock?

Currently, we have 155,000,000 shares of authorized common stock. If Proposal No. 2 is approved, the number of authorized shares of common stock will be increased to 190,000,000.

Q. What are the recommendations of the Board of Directors?

The Board of Directors unanimously recommends that the stockholders vote:

FOR each of the nominees for director listed in Proposal No. 1;

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FOR the adoption of an amendment to our Restated Articles, to increase the number of authorized shares of our common stock from 155,000,000 to 190,000,000;

FOR the approval of the Telkonet, Inc. 2010 Stock Option and Incentive Plan (the “2010 Plan”); and

FOR ratification of the appointment of RBSM, LLP, independent registered public accounting firm, as our independent auditors for the year ending December 31, 2010.

With respect to any other matter that properly comes before the Meeting, the proxy holders will vote as recommended by our Board of Directors or, if no recommendation is given, in their own discretion.

## PROPOSAL NO. 1

## ELECTION OF DIRECTORS

Telkonet's bylaws establish the number of directors at not less than three members. Pursuant to the bylaws, the Board of Directors may increase or decrease the number of members of the Board of Directors. The Board of Directors has established the number of directors at four. At the annual meeting, the shares represented by properly executed proxies, unless otherwise specified, will be voted for the election of the four nominees named herein, each to serve until the next annual meeting and until his successor is duly elected and qualified. Proxies cannot be voted for more than four nominees.

If for any reason any nominee is not a candidate when the election occurs (which is not expected), the Board of Directors expects that proxies will be voted for the election of a substitute nominee designated by the Board of Directors. The following information is furnished concerning each nominee for election as a director.

The affirmative vote of a majority of the shares of Telkonet's common stock, our Series A Preferred Stock and our Series B Preferred Stock, voting together as a single class on an as-converted basis, represented at the annual meeting, either in person or by proxy, is required to elect the following nominees as Telkonet directors.

**THE BOARD OF DIRECTORS RECOMMENDS THAT  
STOCKHOLDERS VOTE FOR THE ELECTION OF EACH NOMINEE**

Nominees for Election at the Annual Meeting

| Director Name      | Age | Position With Telkonet        | Director Since |
|--------------------|-----|-------------------------------|----------------|
| Joseph D. Mahaffey | 65  | Director (1)                  | 2010           |
| Anthony J. Paoni   | 65  | Chairman of the Board (1) (2) | 2007           |
| William H. Davis   | 52  | Director (2)                  | 2010           |
| Jason L. Tienor    | 35  | Director                      | 2009           |

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

ANTHONY J. PAONI, Chairman of the Board, has served as a director since April 2007. Professor Paoni was elected Chairman of the Board following Warren V. Musser's resignation from that position in November 2009. He has been a faculty member at Northwestern University's Kellogg School of Management since 1996. Previously, he spent 28 years in the information technology industry with market leading organizations that provided computer hardware, software and consulting services. For the first 15 years of his career, Professor Paoni managed sales and marketing organizations and in the later stages of his career he moved into general management positions starting with PANSOPHIC Systems Incorporated. This Lisle, Illinois based firm was the world's fifth largest international software company prior to its acquisition by Computer Associates, Incorporated. Subsequently, he became chief operating officer of Cross Access, a venture capital funded software firm that provided industry-leading solutions to the heterogeneous database connectivity market segment. In addition, he has been president of two wholly-owned U.S. subsidiaries of Ricardo Consulting, a U.K.-based international engineering consulting firm focused on computer based automotive powertrain design. Prior to joining the Kellogg faculty, Professor Paoni was chief executive officer of Eolas, an Internet software company with patent pending Web technology that was one of the key technology drivers responsible for the rapid adoption of the Internet platform. We believe Mr. Paoni's qualifications to sit on our Board of Directors include his 15-year career managing sales and marketing organizations followed by his 28-year career in

information technology.