

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT PURSUANT
TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

January 31, 2006

(Date of earliest event reported)

TELKONET, INC.

(Exact Name of Registrant as Specified in Its Charter)

Utah

(State or Other Jurisdiction of Incorporation)

000-27305

(Commission File No.)

87-0627421

(I.R.S. Employer Identification No.)

20374 Seneca Meadows Parkway, Germantown, Maryland 20876

(Address of Principal Executive Offices)

(240)-912-1800

(Registrant's Telephone Number)

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425).

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12).

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b)).

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c)).

ITEM 2.01. COMPLETION OF ACQUISITION

On January 31, 2006, Telkonet, Inc. (Amex: TKO), acquired a 90% interest in Microwave Satellite Technologies, Inc. (MST) from Frank Matarazzo, the sole stockholder of MST. MST is a communications technology company that offers complete sales, installation, and service of VSAT and business television networks, and is a full-service national Internet Service Provider (ISP). The \$10 million cash and stock transaction will enable Telkonet to provide a complete "triple-play" solution to subscribers of HDTV, VoIP telephony and NuVision Broadband Internet access, to commercial multi-dwelling units and hotels.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS.

(a) Financial statements of Business Acquired:

Financial statements required by this Item shall be filed by amendment to this Form 8-K not later than 71 calendar days following the date that this Form 8-K was required to be filed.

(b) Pro forma financial information:

The pro forma financial information required by this Item shall be filed by amendment to this Form 8-K not later than 71 calendar days following the date that this Form 8-K was required to be filed.

(c) Exhibits:

2.1 Stock Purchase Agreement by and among Telkonet and the sole shareholder of MST

99 Press release dated January 31, 2006 announcing closing of stock purchase.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

TELKONET, INC.

Date: January 31, 2006

By: /s/ Ronald W. Pickett

Ronald W. Pickett
Chief Executive Officer

EXECUTION COPY

AMENDMENT TO STOCK PURCHASE AGREEMENT

This Amendment to the Stock Purchase Agreement (this "Amendment") is made and entered into as of this 31st day of January, 2006, by and between Telkonet Inc., a Utah corporation ("Purchaser") and Frank T. Matarazzo, an individual and resident of the state of New Jersey ("Seller"). Capitalized terms used herein and not otherwise defined shall have the meanings given to such terms in the Stock Purchase Agreement (as hereinafter defined).

RECITALS

WHEREAS, Purchaser and Seller have entered into a December 5, 2005 Stock Purchase Agreement (the "Stock Purchase Agreement") with respect to the sale by Seller to Purchaser of 125 shares of common stock without par value of Microwave Satellite Technologies Inc. (the "Company"); and

WHEREAS, Purchaser and Seller now desire to amend the terms of the Stock Purchase Agreement as hereinafter set forth.

NOW THEREFORE, in consideration of the mutual covenants and provisions set forth in this Agreement, Seller and Purchaser agree as follows:

1. Section 8.2 Indemnification by Seller of the Stock Purchase Agreement is hereby amended to add the following subsection (c):

(c) notwithstanding the breach or inaccuracy of any representation or warranty made by Seller in this Agreement or the breach by the Company or Seller to perform any covenant or obligation by Seller or the Company contained in this Agreement, any disallowance or recharacterization of any deductions taken by the Company on any Tax Returns by the Internal Revenue Service or other relevant Governmental Entity.

2. Section 8.4 of the Stock Purchase Agreement is hereby amended, replaced and superseded in its entirety as follows:

Limitations on Liability of Seller. Notwithstanding any other provision of this Agreement or any right or remedy available under any law, from and after the Closing;

(a) The Purchaser Indemnified Parties shall have the right to payment by the Seller under Section 8.2 only if, and only to the extent that, the Purchaser Indemnified Parties shall have incurred an aggregate indemnifiable Loss in excess of \$400,000.00 and then only for the amount by which such aggregate indemnifiable Loss exceeds \$400,000.00.

(b) Purchaser's recourse against Seller for any claims under this Agreement shall be limited to recovery by Purchaser of not more than 600,000 shares of the Stock Consideration except as hereinafter expressly set forth; provided that with respect to the indemnification obligation of Seller pursuant to Section 8.2(c), Seller shall pay to Purchaser the amount of any refund, offset or credit, received by Seller, or to which Seller becomes entitled with respect to his personal federal and state taxes as the result of any liability (after taking into account the limitations on Seller liability pursuant to Section 8.4(a)) to which the Company becomes subject that is indemnifiable pursuant to Section 8.2(c) and that Purchaser shall be entitled to recourse against Seller with respect to the 600,000 shares of Stock Consideration with regard to the indemnification obligation of Seller pursuant to Section 8.2(c) only if, and to the extent that, such personal tax refund, offset or credit is insufficient to fully indemnify Purchaser; and provided further that there shall be no limit on the amount or nature of the liability of Seller for intentional fraud by Seller.

3. Except as otherwise expressly set forth in this Amendment, all terms and provisions of the Stock Purchase Agreement shall remain in full force and affect.

4. This Amendment shall be deemed to be made in and in all respects shall be interpreted, construed and governed by and in accordance with the laws of the State of New Jersey without regard to the conflict of law principles thereof. The parties hereby irrevocably submit to the exclusive jurisdiction of the Federal courts of the United States of America located in the State of New Jersey solely in respect of the interpretation and enforcement of the provisions of this Amendment, and hereby waive, and agree not to assert, as a defense in any action, suit or proceeding for the interpretation or enforcement hereof that it is not subject thereto or that such action, suit or proceeding may not be brought or is not maintainable in said courts or that the venue thereof may not be appropriate or that this Amendment may not be enforced in or by such courts, and the parties hereto irrevocably agree that all claims with respect to such action or proceeding shall be heard and determined in such Federal court. The parties hereby consent to and grant any such Federal court jurisdiction over the person of such parties and over the subject matter of such dispute and agree that mailing of process or other papers in connection with any such action or proceeding in the manner provided in Section 12.1 of the Stock Purchase Agreement or in such other manner as may be permitted by law, shall be valid and sufficient service thereof.

5. No waiver by any party of any provision hereof shall be deemed a waiver of any other provision hereof or of any subsequent breach by any party of the same or any other provision. This Amendment may be amended only by a writing executed by each of the Parties hereto.

6. This Amendment may be executed simultaneously in any number of counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the day and year first written above.

/s/ Frank T. Matarazzo

Frank T. Matarazzo

Telkonet Inc.

By: /s/ E. Barry Smith

E. Barry Smith

Chief Financial Officer



Contact:
Michael Porter
President
Porter, LeVay & Rose, Inc.
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For Immediate Release: February 1, 2006

NEWS RELEASE

Telkonet Concludes Acquisition of Microwave Satellite Technologies, Inc.

Germantown, MD, Telkonet, Inc. (Amex: TKO), the leader in providing powerline carrier (PLC) networking solutions using existing electrical wiring, today announced the conclusion of the acquisition of a 90% controlling interest in Microwave Satellite Technologies (MST), a communications technology company that offers complete sales, installation, and service of VSAT and business television networks, and is a full-service national Internet Service Provider (ISP). The \$9 million cash and stock transaction will allow Telkonet to provide a complete “triple-play” solution to subscribers of HDTV as well as VoIP telephony and NuVision broadband Internet access to commercial multi-dwelling units and hotels. Telkonet previously announced that the two parties had entered into a definitive agreement for this transaction in December of 2005 and now the formal closing of the transaction has occurred pursuant to the terms of the definitive agreement.

E. Barry Smith, CFO of Telkonet said, “With the MST acquisition, the combination of Telkonet’s iWire System™ and MST’s ‘triple play’ solution will generate a recurring revenue stream from its subscriber base while creating significant value for our shareholders.”

Frank Matarazzo, President and Founder of MST said, “Having worked in the private cable and satellite communications industry for the past 25 years and having been exposed to the introduction and obsolescence of platforms, rarely do you see the convergence of so many technologies that make the introduction of the Telkonet iWire System™ ideal for rapid deployment in so many areas of opportunity. The world is going IP and we will capitalize on that movement by providing IP-based services over the Telkonet iWire System™ to commercial office buildings, residential buildings, hotels and more. In-building broadband over powerline technology, specifically the Telkonet PLC solution, is a revolution in the technological world we live in, only rivaled by the introduction of the PC in the mid-to-late 1970’s. This partnership with Telkonet will enable MST to realize its vision of a total IP platform at a fraction of the cost as compared to traditional means.”

About Microwave Satellite Technologies (MST)

Microwave Satellite Technologies, Inc. (MST) is a communications technology company that specializes in video to the desktop, video conferencing, distance learning, two-way data, and Internet access services. MST offers complete sales, installation, and service of VSAT and

(more)

business television networks, and is a full-service national Internet Service Provider (ISP), offering the latest in web hosting and design. MST's NuVisions Broadband services offer cable television, cable modem high-speed Internet, and telephone services to multi-family residences, commercial buildings, and institutional owners. MST delivers its services using microwave and fiber optic technology for superior performance, and now offers over 40 channels of high definition television (HDTV). MST has recently begun deployment of its new Interactive Wi-Fi, hot-zone system that will offer wireless Internet service in large geographic areas of New York City, and is introducing the newest Powerline Carrier (PLC) technology to high-speed Internet users in apartment buildings, hotels, and business environments. For more information, visit our websites at www.mst-online.com and www.nuvisionsbroadband.com.

About Telkonet

Telkonet develops and markets technology for the transmission of high-speed voice, video and data communications over the existing electrical wiring within a building. The revolutionary Telkonet iWire System™ utilizes proven powerline communications (PLC) technology, which enables the delivery of commercial high-speed broadband access from an IP “platform” that is easy to deploy, reliable and cost-effective by leveraging a buildings existing electrical infrastructure.

The building's existing electrical wiring becomes the backbone of the local area network, which converts virtually every electrical outlet into a high-speed data port, without the costly installation of additional wiring or major disruption of business activity.

The Telkonet iWire System can be installed rapidly and offers a viable and cost-effective alternative to the challenges of hardwiring and wireless local area networks (LANs). Telkonet's products are designed for use in commercial and residential applications, including multi-dwelling units and the hospitality and government markets. Applications supported by the Telkonet “platform” include but are not limited to: VoIP telephones, Internet connectivity, local area networking, video conferencing, closed circuit security surveillance and a host of other information services. For more information, please visit www.telkonet.com.

Statements included in this release may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements involve a number of risks and uncertainties such as competitive factors, technological development, market demand and the Company's ability to obtain new contracts and accurately estimate net revenues due to variability in size, scope and duration of projects, and internal issues in the sponsoring client. Further information on potential factors that could affect the Company's financial results, can be found in the Company's Registration Statement and in its Reports on Forms 8-K filed with the Securities and Exchange Commission (SEC).