

FORM 5

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

| OMB APPROVAL | |
|--|-----------|
| OMB Number: | 3235-0362 |
| Estimated average burden hours per response... | 1.0 |

- Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).
- Form 3 Holdings Reported
- Form 4 Transactions Reported

ANNUAL STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934 or Section 30(h) of the Investment Company Act of 1940

| | | | | | | | | | |
|--|---|---|---|--|------------|---|---|---|--|
| 1. Name and Address of Reporting Person * MUSSEY WARREN V | | | 2. Issuer Name and Ticker or Trading Symbol TELKONET INC [TKO] | | | 5. Relationship of Reporting Person(s) to Issuer (Check all applicable) <input checked="" type="checkbox"/> Director <input type="checkbox"/> 10% Owner <input type="checkbox"/> Officer (give title below) <input type="checkbox"/> Other (specify below) | | | |
| (Last) | (First) | (Middle) | 3. Statement for Issuer's Fiscal Year Ended (Month/Day/Year) 12/31/2006 | | | | | | |
| 20374 SENECA MEADOWS PARKWAY | | | | | | | | | |
| (Street) | | | 4. If Amendment, Date Original Filed (Month/Day/Year) | | | 6. Individual or Joint/Group Reporting (check applicable line) <input checked="" type="checkbox"/> Form Filed by One Reporting Person <input type="checkbox"/> Form Filed by More than One Reporting Person | | | |
| GERMANTOWN, MD 20876 | | | | | | | | | |
| (City) (State) (Zip) | | | Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned | | | | | | |
| 1. Title of Security (Instr. 3) | 2. Transaction Date (Month/Day/Year) | 2A. Deemed Execution Date, if any (Month/Day/Year) | 3. Transaction Code (Instr. 8) | 4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) | | | 5. Amount of Securities Beneficially Owned at end of Issuer's Fiscal Year (Instr. 3 and 4) | 6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4) | 7. Nature of Indirect Beneficial Ownership (Instr. 4) |
| Common Stock par value \$0.001 | | | 3 | Amount | (A) or (D) | Price | 0 (1) | D | |

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly. **Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.** SEC 2270 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

| 1. Title of Derivative Security (Instr. 3) | 2. Conversion or Exercise Price of Derivative Security | 3. Transaction Date (Month/Day/Year) | 3A. Deemed Execution Date, if any (Month/Day/Year) | 4. Transaction Code (Instr. 8) | 5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5) | | 6. Date Exercisable and Expiration Date (Month/Day/Year) | | 7. Title and Amount of Underlying Securities (Instr. 3 and 4) | | 8. Price of Derivative Security (Instr. 5) | 9. Number of Derivative Securities Beneficially Owned at End of Issuer's Fiscal Year (Instr. 4) | 10. Ownership Form of Derivative Security: Direct (D) or Indirect (I) (Instr. 4) | 11. Nature of Indirect Beneficial Ownership (Instr. 4) |
|---|--|---|---|-----------------------------------|--|-----|---|-----------------|--|----------------------------|---|--|---|---|
| | | | | | (A) | (D) | Date Exercisable | Expiration Date | Title | Amount or Number of Shares | | | | |
| Option to purchase | \$ 1 | 12/18/2006(2) | | J4 (3) | 2,000,000 | | (2) | 01/18/2013 | Common | 2,000,000 | \$ 1 | 2,000,000 | I | See note (4) |

Reporting Owners

| Reporting Owner Name / Address | Relationships | | | |
|---|---------------|-----------|---------|-------|
| | Director | 10% Owner | Officer | Other |
| MUSSEY WARREN V 20374 SENECA MEADOWS PARKWAY GERMANTOWN, MD 20876 | X | | | |

Signatures

/s/ Warren V. Musser 04/26/2007
**Signature of Reporting Person Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, see Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) No shares beneficially owned as of January 30, 2003, date of election as Chairman of the Board.
- (2) Options vested ratably on a quarterly basis over a period of 12 consecutive quarters, beginning January 18, 2003 (grant date). As of January 18, 2006, all of these options have vested. In January 2003, the company entered into a consulting agreement with the Musser Group, whereby the Musser Group was issued 2,000,000 options to purchase shares of common stock at \$1.00. Warren Musser is a principal of the Musser Group, which at the time of the agreement was 95% owned by Hilary Musser, Mr. Musser's wife. As a result of certain legal proceedings between Mr. and Mrs. Musser, Mr. Musser did not have voting or dispositive control of the Telkonet securities held by the Musser Group prior to December 18, 2006. On December 18, 2006, Mrs. Musser transferred her 95% interest in the Musser Group to Mr. Musser, at which time he became the indirect beneficial owner of those securities.
- (4) Options to purchase Telkonet common stock are held by the Musser Group, LLC, of which Mr. Musser owns 100% of the issued and outstanding membership units.

Note: File three copies of this Form, one of which must be manually signed. If space provided is insufficient, see Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number.