UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K/A

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

July 18, 2007
(Date of earliest event reported)

TELKONET, INC.
(Exact Name of Registrant as Specified in Its Charter)

Utah
(State or Other Jurisdiction of Incorporation)

001-31972	87-0627421
(Commission File No.)	(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 9.01. Financial Statements and Exhibits.

On July 18, 2007, our majority-owned subsidiary, MSTI Holdings, Inc. acquired substantially all of the assets of Newport Telecommunications Co., a New Jersey general partnership ("NTC"), relating to NTC's business of providing broadband internet and telephone services to customers at certain residential and commercial properties in the development known as Newport in Jersey City, New Jersey (the "Acquisition"). Pursuant to Item 9.01(a)(4) of Form 8-K, the following financial statements are being filed as an amendment to our Current Report on Form 8-K filed on July 24, 2007:

(a) Financial Statements of Business Acquired

The following information is attached hereto as Exhibit 99.1 and is incorporated herein by reference:

(i) Audited Financial Statements of Newport Telecommunications, Co. for the year ended December 31, 2006 and unaudited six months ended June 30, 2007 and 2006.

(b) Pro Forma Financial Information

The following information is attached hereto as Exhibit 99.2 and incorporated herein by reference:

(i) Unaudited Pro Forma Condensed Combined Financial Statements of Telkonet, Inc. giving effect to the acquisition of Newport Telecommunications, Co.

The unaudited pro forma condensed combined financial statements are not necessarily indicative of the results that actually would have been attained if the Acquisition had been in effect on the dates indicated or which may be attained in the future. Such statements should be read in conjunction with the historical financial statements of ours and of NTC.

(d) Exhibits

99.1 Audited Financial Statements of Newport Telecommunications, Co. for the year ended December 31, 2006 and unaudited six months ended June 30, 2007 and 2006

99.2 Unaudited Pro Forma Condensed Combined Financial Statements Telkonet, Inc.

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 30, 2008

By: /s/ Richard J. Leimbach

Richard J. Leimbach
Chief Financial Officer

Exhibit 99.1

Newport Telecommunications Co.

Financial Statements
Year ended December 31, 2006 (audited) and
Six Months ended June 30, 2007 and 2006 (Unaudited)

Newport Telecommunications Co.

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RBSM LLP
Certified Public Accountants

REPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM

The Partners
Newport Telecommunications Co.
Jersey City, New Jersey

We have audited the accompanying balance sheet of Newport Telecommunications Co. (the "Company") as of December 31, 2006 and the related statement of operations, partners' capital, and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based upon our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ RBSM LLP
Certified Public Accountants

New York, New York
September 14, 2007

Newport Telecommunications Co.

Balance Sheets

		June 30, 2007 (unaudited)		**December 31, 2006 (audited)**
Assets:				
Cash	$	109,962	**$**	**166,585**
Accounts receivable		230,441		**214,010**
Building improvements and equipment, net		635,849		**372,820**
Due from affiliates		239,855		**223,567**
Total assets	$	1,216,107	**$**	**976,982**
Liabilities and partners' capital				
Liabilities:				
Accounts payable	$	5,375	**$**	**11,964**
Accrued expenses		321,300		**427,287**
Due to affiliates		369,561		**40,615**
Total liabilities		696,236		**479,866**
Partners' capital		519,871		**497,116**
Total liabilities and partners' capital	$	1,216,107	**$**	**976,982**

See accompanying notes to financial statements

Newport Telecommunications Co.

Statements of Operations

	Six Months ended June 30, 2007 (unaudited)	Six Months ended June 30, 2006 (unaudited)	Year ended December 31, 2006
Revenues	$ 780,190	$ 903,376	**$ 1,577,571**
Revenues - related parties	321,838	138,858	**273,564**
Total revenues	1,102,028	1,042,234	**1,851,135**
Expenses:			
Operating expenses:			
Direct cost of services	245,461	272,272	**416,067**
Salaries and other employee expenses	290,378	293,915	**573,862**
General and administrative expenses	494,876	413,597	**697,465**
Depreciation and amortization	48,558	42,786	**97,738**
Total expenses	1,079,273	1,022,570	**1,785,132**
Net income	$ 22,755	$ 19,664	**$ 66,003**

See accompanying notes to financial statements.

Newport Telecommunications Co.

Statements of Changes in Partners' Capital

	Partners' Capital
Balance at January 1, 2006	$ 431,113
Net income	66,003
Balance at December 31, 2006	497,116
Net income (unaudited)	22,755
Balance at June 30, 2007 (unaudited)	$ 519,871

See accompanying notes to financial statements

Newport Telecommunications Co.

Statements of Cash Flows

	Six Months ended June 30, 2007 (unaudited)	Six Months ended June 30, 2006 (unaudited)	**Year ended December 31, 2006**
Cash flows from operating activities:			
Net income	$ 22,755	$ 19,664	**$ 66,003**
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	48,558	42,786	**97,738**
Changes in assets and liabilities:			
(Decrease) increase in accounts receivable	(16,431)	17,840	**121,625**
Increase (decrease) in accounts payable	(6,589)	127,155	**(11,610)**
Decrease in accrued expenses	(105,987)	(72,753)	**(74,324)**
(Increase) Decrease in due from affiliates	-	(100,000)	**(222,801)**
Net cash provided by (used in) operating activities	(57,694)	34,693	**(23,369)**
Cash flows from investing activities:			
Additions to building improvements and equipment	-	(18,381)	**(34,744)**
Proceeds from sale of equipment	1,071	-	**-**
Advances from affiliates	-	-	**40,615**
Net cash provided by (used in) investing activities	1,071	(18,381)	**5,871**
Net increase (decrease) in cash and cash equivalents	(56,623)	16,311	**(17,498)**
Cash and cash equivalents, beginning of period	166,585	184,083	**184,083**
Cash and cash equivalents, end of period	$ 109,962	$ 200,394	**$ 166,585**
Cash paid for interest and taxes:			
Interest	-	**-**	**-**
Taxes	-	**-**	**-**
Supplemental non-cash transactions:			
Fixed assets transferred from affiliates	$ (312,658)	**-**	**$ (122,801)**
Fixed assets transferred to affiliates	-	**-**	**$ 123,567**

See accompanying notes to financial statements.

Notes to Financial Statements

(Information Subsequent To December 31, 2006 and For Six Months Ended June 30, 2006 Is Unaudited)

1. Organization and Nature of Business

Newport Telecommunications Co. (the "Company"), is a general partnership formed on January 15, 1986 owned by Newport Associates Development Co. ("Newport Assoc.") and Newport Telecommunications, Inc. ("Telecommunications, Inc.") organized in the state of New Jersey. Both Newport Assoc. and Telecommunications, Inc. are owned through various entities by Newport Associates Development Company ("NADC").

The Company provides telephone and internet services primarily to residential and small business customers located in section of Jersey City, New Jersey known as Newport.

2. Summary of Significant Accounting Policies

Revenue Recognition

Revenues consist of telephone and internet service revenues and customer equipment revenues. Revenues are derived from tenants of buildings controlled by affiliates of the Company or other affiliated entities.

The Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, *Revenue Recognition* ("SAB104"), which superceded Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements* ("SAB101"). SAB 101 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectibility is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectibility of those amounts.

The Company accounts for revenue, costs and expense related to residential cable services (including video, voice, data and other services) as the related services are performed in accordance with SFAS No. 51, "Financial Reporting by Cable Television Companies." Installation revenue for residential cable services is recognized to the extent of direct selling costs incurred. Credit risk is managed by disconnecting services to customers who are delinquent.

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 credit quality institutions. At times, such investments may be in excess of the FDIC insurance limit. The Company's accounts receivable potentially subject the Company to credit risk, as collateral is generally not required. The Company's risk of loss is limited due to advance billings to customers for services and the ability to terminate access on delinquent accounts. The potential for material credit loss is mitigated by the number of customers with relatively small receivable balances. The carrying amounts of the Company's receivables approximate their fair values.

Partners' Compensation/Distributions

Partners received no distributions, guaranteed payments or other salaries or compensation during the year ended December 31, 2006 and for the six months ended June 30, 2007.

Depreciation

Depreciation is provided by the straight-line method over the estimated useful lives of the assets, principally five to seven years for building improvements and five to ten years for equipment.

Long-Lived Assets

Pursuant to SFAS No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets,"* the recoverability of real estate investments are evaluated whenever events or changes in circumstances indicate that the carrying value of the equipment may not be recoverable. When such conditions exist, management performs an analysis to determine if the estimated undiscounted future cash flows from operations and the proceeds from the ultimate disposition of a property exceed its carrying value. If the estimated undiscounted future cash flows are less than the carrying amount of a property, an adjustment to reduce the carrying amount to the property's estimated fair market value is recorded and an impairment loss is recognized. Through June 30, 2007, no impairment losses have been recorded.

Income Tax

No income tax provision has been included in the financial statements since income or loss of the Partnership is required to be reported by the respective partners on their income tax returns.

Cash Equivalents

The Company considers all highly liquid investments with a maturity of Six Months or less when purchased to be cash equivalents.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Building Improvements and Equipment

Building improvements and equipment at June 30, 2007 and December 31, 2006 consists of the following:

	2007	**2006**
	(unaudited)	
Building improvements	$ 37,190	**$ 37,190**
Equipment	1,012,073	**715,154**
	1,049,263	752,344
Less: accumulated depreciation	(413,414)	**(379,524)**
	$ 635,849	**$ 372,820**

4 License and Right of Entry Agreement

Effective January 1, 2007, the Company entered into a license and right of entry agreement with a related party for the right use a certain Conduit. In accordance with the agreement, the Company shall pay the related party licensor a one time access fee of $180,000. The initial term of this agreement shall expire on December 31, 2016 with the option to renew and extend the term for two additional five year periods. The term of the agreement is coterminous with the Master Communication Access and Service Agreement.

On January 1, 2007, the Company has an agreement with a related party for use of the conduit line access at the rate of $30,000 per year which expires in 2016. Effective July 16, 2007, this agreement was assigned to Microwave Satellite Technologies, see Note 7

5. Related Party Transactions

The Company earns revenues from certain affiliated entities. Revenues earned from related parties were $273,564, $321,838 and $138,858 for the year ended December 31, 2006 and the Six Months ended June 30, 2007 and 2006, respectively.

The Company rents office space from NADC. Rent expense amounted to $46,923, $27,180 and $21,000 for the year ended December 31, 2006 and the Six Months ended June 30, 2007 and 2006, respectively.

As of June 30, 2007 and December 31, 2006, the Company had paid for certain tenant improvements and wiring totaling $123,567 on behalf of related parties which were included in Due from Affiliates.

As of December 31, 2006, the Company had prepaid $100,000 related to the one-time access fee related to the Conduit license and right of entry agreement with a related party.

As of June 30, 2007 and December 31, 2006, the Company had a related party non-interest bearing related party loan payable of $40,615 related to the purchase of tenant improvements which was included in Due to Affiliates.

6. Commitments and Contingencies

Commitments:

Effective January 1, 2007, the Company entered into a license and right of entry agreement with a related party for the right use a certain Conduit. In accordance with the agreement, the Company shall pay annual license fees of $30,000 for the initial term of the agreement. The intial term of this agreement shall expire on December 31, 2016 with the option to renew and extend the term for two additional five year periods.

The Company leases telecommunication lines and equipment under noncancelable leases. The leases generally require fixed monthly payments plus variable amounts based on usage. Future minimum payments on noncancelable leases and license agreements with a term of one year or more at June 30, 2007 are as follows:

2008	$	240,186
2009		53,456
2010		44,970
2011		30,097
2012		30,000
Thereafter		120,000
Total	**$**	**518,709**

Contingencies:

Comcast of Jersey City LLC has petitioned the City of Jersey City Board of Public Utilities ("BPU") for access to certain buildings that currently receive telephone and internet services from the Company. In prior years, BPU has adopted decisions granting such access to various buildings served by the Company. NADC has appealed these decisions, however, Comcast has been a second supplier of internet service in certain buildings since 2003. In March 2007, BPU in two separate decisions, granted Comast access to two additional buildings know as Pacific and Abraham Lincoln.

The owners of other buildings served by the Company have received written requests from Comcast for access to said buildings to construct and install facilities to serve the residents therein.
The Company is subject of other litigation in the normal course of business. Management does not believe these matters will have a material effect on the financial position or results of operations.

7. Subsequent Events

On July 18, 2007, the Company sold the operations and substantially all of the assets of the Company for $2,550,000 to Microwave Satellite Technologies, Inc. The total consideration paid in the Acquisition was $2,550,000, consisting of (i) 866,856 unregistered shares of Telkonet, Inc. (a Parent Company of Microwave Satellite Technologies, Inc.), equal to $1,530,000 (based on the average closing prices for Telkonet Common Stock for the ten trading days immediately prior to the closing date), and (ii) $1,020,000 in cash, subject to adjustments. The total consideration will be increased or decreased depending on the number of subscriber accounts acquired in the Acquisition that were in good standing at that time. The number will be determined within 120 days of the closing of the Acquisition. The stock certificates representing the Telkonet Common Stock, and $510,000 of the cash consideration were paid to U.S. Bank National Association, as escrow agent, to be released after the final determination of the number of subscriber accounts in good standing acquired in the Acquisition.

On July 16, 2007, the Company entered into a Master Communications Access and Service Agreement relating to the buildings controlled by affiliates of the Company or other affiliated entities which expires or is otherwise terminated in accordance with the terms of Conduit License and Right to Entry Agreement dated January 1, 2007.

Exhibit 99.2

TELKONET, INC.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The following unaudited pro forma condensed combined financial statements are based on the historical financial statements of Telkonet, Inc. (“Telkonet”) and Newport Telecommunication Co. (“NTC”) after giving effect to our Asset Purchase Agreement and the assumptions and adjustments described in the accompanying notes to the unaudited pro forma condensed combined financial statements. Telkonet acquired the operations and substantially all of the assets of NTC on July 18, 2007. The pro forma balance sheet was prepared as if the acquisition occurred on June 30, 2007 and the statements of operations were prepared as if the acquisition had occurred on the first day of each period presented.

The pro forma data is for informational purposes only and may not necessarily reflect future results of operations or financial position or what the results of operations or financial position would have been had Telkonet and NTC been operating as combined entities for the periods presented. The unaudited pro forma condensed combined financial statements should be read in conjunction with the historical financial statements, including the notes thereto, of Telkonet included in our Form 10-K for the year ended December 31, 2006, and the historical financial statements included elsewhere in this Form 8-K/A.

Telkonet, Inc.
Unaudited Pro Forma Condensed Combined Balance Sheet
As of June 30, 2007

	Historical			Pro Forma		
	Telkonet (unaudited)	Newport Telecommunication (unaudited)	Combined Total	Adjustments		Combined
ASSETS						
Current Assets:						
Cash and cash equivalents	$ 6,023,299	$ 109,962	$ 6,133,261	$ (109,962)	**(1)**	$ 5,003,299
				(1,020,000)	**(1)**	
Accounts Receivable	1,902,060	230,441	2,132,501	(230,441)	**(1)**	1,902,060
Inventory	2,289,759	-	2,289,759	-		2,289,759
Income tax receivable	291,000	-	291,000	-		291,000
Note receivable	27,408	-	27,408	-		27,408
Other current assets	366,461	-	366,461	-		366,461
Total current assets	10,899,987	340,403	11,240,390	(1,360,403)		9,879,987
Property and cable equipment, installation and other, net	4,625,081	635,849	5,260,930	32,258		5,293,188
Other Assets:						
Long-term investments	193,847	-	193,847	-		193,847
Intangible assets, net	4,857,120	-	4,857,120	1,981,893	**(1)**	6,839,013
Financing costs, net	841,764	-	841,764	-		841,764
Due from affiliates	-	239,855	239,855	(239,855)	**(1)**	-
Goodwill	17,074,690	-	17,074,690			17,074,690
Note receivable	17,974	-	17,974	-		17,974
Deposits and other	160,137	-	160,137	-		160,137
Total other assets	23,145,532	239,855	23,385,387	1,742,038		25,127,425
TOTAL ASSETS	$ 38,670,600	$ 1,216,107	$ 39,886,707	$ 413,893		$ 40,300,600

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:										
Accounts payable and accrued liabilities	$	4,556,434	$	326,675	$	4,883,109	$	(326,675)	**(1)**	$ 4,656,434
								100,000	**(1)**	
Due to affiliates		-		369,561		369,561		(369,561)	**(1)**	-
Notes payable – officer		80,444		-		80,444		-		80,444
Income tax refund due		291,000		-		291,000		-		291,000
Deferred revenue		225,502		-		225,502		-		225,502
Customer deposits and other		36,150		-		36,150		-		36,150
Total current liabilities		5,189,530		696,236		5,885,766		(596,236)		5,289,530
Long Term Liabilities:										
Deferred revenue		20,903		-		20,903		-		20,903
Deferred lease liability		63,397		-		63,397		-		63,397
Long-term debt		4,377,611		-		4,377,611		-		4,377,611
Total long term liabilities		4,461,911		-		4,461,911		-		4,461,911
Commitments and Contingencies		-		-		-		-		-
Minorty Interest		4,388,300		-		4,388,300		-		4,388,300
Stockholders' Equity :										
Preferred stock, par value $0.001		-		-		-		-		-
Common stock, par value $0.001		66,807		-		66,807		867	**(1)**	67,674
Partners Capital		-		519,871		519,871		(519,871)	**(1)**	-
Additional paid-in capital		104,975,067		-		104,975,067		1,529,133	**(1)**	106,504,200
(Accumulated deficit) retained earnings		(80,411,015)		-		(80,411,015)		-		(80,411,015)
Stockholders' equity		24,630,859		519,871		25,150,730		1,010,129		26,160,859
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	38,670,600	$	1,216,107	$	39,886,707	$	413,893		$ 40,300,600

Telkonet, Inc.
Unaudited Pro Forma Condensed Combined Statement of Operations
For the Six Months Ended June 30, 2007

	Historical		Pro Forma		
	Telkonet (unaudited)	Newport Telecommunication (unaudited)	Adjustments		Combined
Total Revenue	$ 4,912,876	$ 1,102,028	$ -		$ 6,014,904
Cost of Sales	4,312,350	245,461	-		4,557,811
Gross Profit	600,526	856,567	-		1,457,093
Costs and Expenses:					
Research and Development	1,089,808	-	-		1,089,808
Selling, General and Administrative	8,504,818	785,254	-		9,290,072
Employee Stock Options	690,067	-	-		690,067
Depreciation and Amortization	362,520	48,558	125,884	**(2)**	536,962
Total Operating Expense	10,647,213	833,812	125,884		11,606,909
Income (Loss) from Operations	(10,046,687)	22,755	(125,884)		(10,149,816)
Other Income (Expenses):					
Interest Income	72,458	-	-		72,458
Interest Expense	(200,557)	-	-		(200,557)
Total Other Income (Expenses)	(128,099)	-	-		(128,099)
Income (Loss) Before Minority Interest and Provision for Income Taxes	(10,174,786)	22,755	(125,884)		(10,277,915)
Minority Interest	188,440	-	38,158	**(3)**	226,598
Provision for Income Taxes	-	-	-		-
Net Income (Loss)	$ (9,986,346)	$ 22,755	$ 87,726		$ 10,051,317
Loss per common share (basic and dilutive)	($0.16)	-	-		($0.16)
Weighted average common shares outstanding	62,699,631	-	866,856	**(1)**	63,566,487

Telkonet, Inc.
Unaudited Pro Forma Condensed Combined Statement of Operations
For the Year ended December 31, 2006

	Historical		Pro Forma		
	Telkonet	Newport Telecommunication	Adjustments		Combined
Total Revenue	$ 5,181,328	$ 1,851,135	$ -		$ 7,032,463
Cost of Sales	4,480,659	416,067	-		4,896,726
Gross Profit	700,669	1,435,068	-		2,135,737
Costs and Expenses:					
Research and Development	1,925,746	-	-		1,925,746
Selling, General and Administrative	14,346,364	1,271,327	-		15,617,691
Impairment Write Down in Investment in Affiliate	92,000	-	-		92,000
Non-Employee Stock Compensation	277,344	-	-		277,344
Employee Stock Compensation	1,080,895	-	-		1,080,895
Depreciation and Amortization	540,906	97,738	251,469	**(2)**	890,113
Total Operating Expense	18,263,255	1,369,065	251,469		19,883,789
Income (Loss) from Operations	(17,562,586)	66,003	(251,469)		(17,748,052)
Other Income (Expenses):					
Loss on Early Extinguishment of Debt	(4,626,679)	-	-		(4,626,679)
Interest Income	327,184	-	-		327,184
Interest Expense	(5,594,604)	-	-		(5,594,604)
Total Other Income (Expenses)	(9,894,099)	-	-		(9,894,099)
Income (Loss) Before Minority Interest and Provision for Income Taxes	(27,456,685)	66,003	(251,469)		(27,642,151)
Minority interest	19,569	-	18,547	**(3)**	38,116
Provision for Income Taxes	-	-	-		-
Net Income (Loss)	$ (27,437,116)	$ 66,003	$ 232,922		$ (27,604,035)
Loss per common share (basic and dilutive)	($0.54)				($0.53)
Weighted average common shares outstanding	50,823,652		866,856	**(1)**	51,690,508

TELKONET, INC

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

1. Basis of Presentation

The following unaudited pro forma condensed combined balance sheet is derived from the balance sheets of Newport Telecommunications Co., a New Jersey general partnership ("NTC") and Telkonet at June 30, 2007. The unaudited pro forma condensed combined balance sheet reflects our purchase of the operations and substantially all the assets of NTC. The proforma balance sheet was prepared as if the acquisition occurred on June 30, 2007 and the statements of operations were prepared as if the acquisition had occurred on the first day of each period presented.

In accordance with the rules and regulations of the SEC, unaudited financial statements may omit or condense information and disclosures normally required for a complete set of financial statements prepared in accordance with generally accepted accounting principles. However, management believes that the notes to the financial statements as presented contain disclosures adequate to make the information presented not misleading.

The adjustments necessary to fairly present the unaudited pro forma condensed combined financial statements have been made based on available information and in the opinion of management are reasonable. Assumptions underlying the pro forma adjustments are described in the accompanying notes, which should be read in conjunction with these unaudited pro forma condensed combined financial statements.

The unaudited pro forma condensed combined financial data is for comparative purposes only and does not purport to represent what our financial position or results of operations would actually have been had the events noted above in fact occurred on the assumed dates or to project the financial position or results of operations for any future date or future period. The unaudited pro forma condensed combined financial data should be read in conjunction with the notes hereto.

2. Newport Telecommunications Co. Acquisition

On July 18, 2007, MSTI Holdings, Inc. ("MSTI"), Telkonet's majority-owned subsidiary, acquired substantially all of the assets of Newport Telecommunications Co. ("NTC"), a New Jersey general partnership, relating to NTC's business of providing broadband internet and telephone services to customers at certain residential and commercial properties in the development known as Newport in Jersey City, New Jersey (the "Acquisition").

The consideration paid in the Acquisition was $2,550,000 (excluding direct acquisition costs), consisting of (i) 866,856 unregistered shares of Telkonet, Inc., which owns 63% interest in MSTI, equal to $1,530,000 (based on the average closing prices for Telkonet Common Stock for the ten trading days immediately prior to the closing date), and (ii) $1,020,000 in cash, subject to adjustments. The total consideration will be increased or decreased depending on the number of subscriber accounts acquired in the Acquisition that were in good standing at that time. The number will be determined within 120 days of the closing of the Acquisition. The stock certificates representing the Telkonet Common Stock, and $510,000 of the cash consideration were paid to U.S. Bank National Association, as escrow agent, to be released after the final determination of the number of subscriber accounts in good standing acquired in the Acquisition. In connection with the Acquisition, MSTI has agreed to either (a) pay Telkonet, Inc. $1,530,000 in cash or (b) issue to Telkonet, Inc. unregistered shares of our common stock equal to $1,530,000 (based at a price per share of MSTI common stock equal to the lesser of (i) the closing price for MSTI common stock on the day of the issuance of the shares of common stock to Telkonet, Inc. and (ii) $1.00 per share) as consideration for Telkonet, Inc.'s issuance of the Telkonet Common Stock to NTC.

The acquisition of NTC was accounted for using the purchase method in accordance with SFAS 141, "Business Combinations." The results of operations for NTC have been included in the Consolidated Statements of Operations since the date of acquisition. The components of the purchase price were as follows:

	As Reported June 30, 2007
Telkonet's Common stock	$ 1,530,000
Cash	1,020,000
Direct acquisition costs	100,000
Total Purchase Price	$ 2,650,000

3. Allocation of Purchase Price:

Current assets	$	-
Property, plant and equipment		668,107
Restrictive Covenant		100,000
Subscriber List (*)		1,881,893
Total assets acquired		2,650,000
Net assets acquired	$	2,650,000

(*) As of July 18, 2007, $1,981,893 excess of fair value of the purchase price over the carrying amount of NTC's net assets has been allocated to NTC's subscriber list and a restrictive covenant. No allocation to other intangible assets has been included in the pro forma unaudited condensed consolidated balance sheet as such amount is currently believed to be immaterial. The final allocation of the purchase price is subject to adjustment upon detailed review of the net assets acquired and their fair values.

4. Pro Forma Adjustments

The following pro forma adjustments are included in the unaudited pro forma condensed combined financial statements:

(1) Reflects the $2,650,000 acquisition of the assets and operations of Newport Telecommunications Co. by MSTI comprised of $1,020,000 cash and 866,856 shares of Telkonet common stock and accrued acquisition costs.

(2) Reflects the annualized amortization expense of the Newport Telecommunications Co. intangible assets based upon an eight-year amortization.

(3) Reflects the effect of the 10% minority interest in Newport Telecommunications Co., for the year ended December 31, 2006 and 37% minority interest for the six months ended June 30, 2007, on a pro forma basis.