

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

September 9, 2008

(Date of earliest event reported)

TELKONET, INC.

(Exact Name of Registrant as Specified in Its Charter)

Utah

(State or Other Jurisdiction of Incorporation)

000-31972

(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)).
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Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

On September 9, 2008, Telkonet, Inc. (the "Company") entered into a two-year line of credit facility in the aggregate principal amount of \$1,000,000 with Thermo Credit, LLC. The outstanding principal balance bears interest at the greater of (i) the Wall Street Journal Prime Rate plus nine (9%) percent per annum, adjusted on the date of any change in such prime or base rate, or (ii) Sixteen percent (16%). Interest, computed on a 365/360 simple interest basis, and fees on the credit facility are payable monthly in arrears on the last day of each month and continuing on the last day of each month until the maturity date. The occurrence of one or more of the following will constitute an event of default under the credit facility: (i) the failure of the Company to make any payment on any loan when due, (ii) the failure of the Company to observe or perform promptly when due any covenant, agreement or obligation under the loan agreement or under any of the other loan documents or under any other obligation to Thermo Credit, (iii) a default under any of the loan documents, or (iv) the material inaccuracy at any time of any warranty, representation or statement made to Thermo Credit by the Company under the loan agreement. Upon the occurrence of an event of default, Thermo Credit, at its option, will have the right to exercise any and all of its rights and remedies under the loan documents, including, but not limited to, the right to foreclose on the assets pledged by the Company as security for the credit facility. The Company may prepay amounts outstanding under the credit facility in whole or in part at any time. In the event of such prepayment, Thermo Credit will be entitled to receive a prepayment fee of four percent (4.0%) of the highest aggregate loan commitment amount if prepayment occurs before the end of the first year and three percent (3.0%) if prepayment occurs thereafter. The credit facility is secured by the Company's inventory pursuant to Security Agreement, a copy of which is attached hereto as Exhibit 10.2. The proceeds from this line of credit will be used for the working capital requirements of the Company.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

- 4.1 Promissory Note in favor of Thermo Credit, LLC
- 10.1 Commercial Business Loan Agreement
- 10.2 Security Agreement
- 99.1 Press Release dated September 10, 2008

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: September 10, 2008

By: /s/ Richard J. Leimbach
Richard J. Leimbach
Chief Financial Officer

PROMISSORY NOTE**Borrower:**

TELKONET, INC. and Subsidiaries
20374 Seneca Meadows Parkway
Germantown, MD 20876

Lender:

THERMO CREDIT, LLC
639 Loyola Avenue
Suite 2565
New Orleans, LA 70113

Principal Amount:

U.S. \$1,000,000.00

Maturity Date of Note:

September 9, 2010

Date of Note:

September 9, 2008

PROMISE TO PAY. For value received, the undersigned makers (hereinafter referred to as "Borrower," which term means individually, collectively, and interchangeably any, each and/or all of them), promises to pay to the order of THERMO CREDIT LLC ("Lender"), or its registered assigns, in lawful money of the United States of America the sum of One Million and No/100 (\$1,000,000.00) Dollars, or such other or lesser amounts as may be reflected from time to time on the books and records of Lender as evidencing the aggregate unpaid principal balance of loan advances made to Borrower on a revolving line of credit basis as provided in the Loan Documents.

LOAN AGREEMENT. This Note is made and executed pursuant to, and is subject to, that certain Loan Agreement among the Borrower and Lender, dated as of September 9, 2008 (as amended from time to time, the "Loan Agreement"). All capitalized terms used in this Note (and not otherwise defined herein) shall have the meanings defined in the Loan Agreement.

INTEREST RATE. The aggregate outstanding principal shall bear interest at the greater of (i) the Wall Street Journal Prime Rate plus nine (9%) percent per annum, adjusted on the date of any change in such prime or base rate or (ii) Sixteen percent (16%). The term "Wall Street Journal Prime Rate" is and shall mean the variable rate of interest, on a per annum basis, which is announced and/or published in the Money Rates Section of The Wall Street Journal from time to time. All payments of interest shall be computed on the per annum basis of a year of 360 days for the actual number of days (including the first day, but excluding the last day) elapsed. Interest shall accrue from date of advance.

MAXIMUM INTEREST RATE. Anything to the contrary contained herein notwithstanding, no provision of this Note shall require the payment or permit the collection of interest in excess of the maximum permitted by applicable law ("the MAXIMUM RATE"). If interest in excess of the Maximum Rate is provided for in this Note or otherwise in connection with the loan transaction represented by this Note, or is adjudicated to be so provided, the provisions of this paragraph shall govern and prevail, and no Borrower or any guarantor shall be obligated to pay the excess amount of such interest or any other excess sum paid for the use, forbearance, or detention of advances made under the Loan Agreement. In the event Lender ever receives, collects or applies, as interest due and payable under this Note, any sum in excess of the Maximum Rate, the amount of the excess shall be applied as a payment and reduction of the principal of the indebtedness represented by this Note; and if the principal of the indebtedness represented by this Note has been fully paid, any remaining excess shall forthwith be paid to Borrowers. In determining whether or not interest paid or payable exceeds the Maximum Rate, Borrower and Lender shall, to the extent permitted by applicable law, (a) characterize any non-principal payment as an expense, fee or premium rather than as interest, (b) exclude voluntary prepayments and the effects thereof, and (c) amortize, prorate, allocate and spread, in equal or unequal parts, the total amount of interest throughout the entire contemplated term of the indebtedness represented by this Note so that interest for the entire term does not exceed the Maximum Rate.

MONITORING FEE. Borrower will pay a monitoring fee on the amount of the Credit Facility for the period from and including the date of this Agreement to and including the Maturity Date, at the rate of ONE TWENTIETH OF ONE PERCENT (0.05%) of the Principal Amount per week or portion thereof.

ADVANCES. This Note is a revolving commercial line of credit "master note." Advances under this Note may be requested only as provided in the Loan Agreement. Borrower agrees to be liable for all sums, on the instructions of an authorized person, either advanced or credited to any deposit account of Borrower. The following party or parties are authorized to request advances under the line of credit until Lender receives from Borrower written notice of revocation of their authority:

<u>Name</u>	<u>Office/Position</u>
Rick Leimbach	Chief Financial Officer

The unpaid principal balance owing on this Note at any time may be evidenced by endorsements on this Note or by Lender's internal records, including daily computer print-outs. Lender will have no obligation to advance funds under this Note if: (a) a Default has occurred and is continuing; (b) Borrower or Guarantor cease doing business or are insolvent; (c) Guarantor seeks, claims or otherwise attempts to limit, modify or revoke Guarantor's guarantee of this Note or any other loan with Lender; or (d) Borrower has applied funds provided pursuant to this Note for purposes other than those permitted by the Loan Agreement.

PAYMENT SCHEDULE. Interest, computed on a 365/360 simple interest basis, and fees on this Note shall be payable monthly in arrears on the last day of each month, beginning August, 2008 and continuing on the last day of each month until the maturity date. The balance of all outstanding principal and accrued but unpaid interest and fees shall be due and payable on the Maturity Date. If any payment on this Note shall become due on a day other than a Business Day (defined as a day when financial markets are open for trading), such payment shall be made on the next succeeding Business Day and such extension of time shall in such case be included in computing interest in connection with such payment. Payments are to be made via wire transfer to an account specified by Lender, or by having such amounts deducted from amounts due to under that certain Factoring and Security Agreement dated as of January 25, 2008 between Telkonet, Inc. and Thermo Credit, LLC.

PREPAYMENT. Borrower may prepay this Note as may be provided for and on such terms and conditions as set forth in the Loan Agreement.

LATE CHARGE. The Borrower agrees to pay Lender, on demand, a late charge equal to 5% of any installment that is not paid within 10 days after it is due and 5% of the interest portion of the payment due upon the final maturity date of this Note if that payment is not paid within 10 days after it is due. This late charge will never be less than \$50.00. This provision shall not be deemed to excuse a late payment or be deemed a waiver of any other right Lender may have, including, without limitation, the right to declare the entire unpaid principal and interest immediately due and payable.

ADDITIONAL INTEREST. If Borrower defaults under this Note or the Loan Agreement, Lender shall have the right to prospectively increase the interest rate under this Note by 3% per annum during the continuance of such default.

LENDER'S RIGHTS UPON DEFAULT. Upon the occurrence of and during the continuation of any Event of Default, Lender shall have all of the rights and remedies provided in the Loan Agreement.

COLLATERAL. This Note is secured by the Collateral (as defined in the Loan Agreement).

ATTORNEYS' FEES. If Lender refers this Note to an attorney for collection, or files suit against Borrower to collect this Note, or if Borrower files for bankruptcy or other relief from creditors, Borrower agrees to pay Lender's reasonable attorneys' fees.

NSF CHECK CHARGES. In the event that Borrower makes any payment under this Note by check and Borrower's check is returned to Lender unpaid due to nonsufficient funds in Borrower's deposit account, Borrower agrees to pay Lender an additional NSF check charge in the amount of \$30.

GOVERNING LAW. Borrower agrees that this Note and the loan evidenced hereby shall be governed under the laws of the State of Louisiana. Specifically, this business or commercial Note is subject to La. R.S. 9:3509, *et seq.*

WAIVERS. Borrower and each guarantor (if any) of this Note hereby waive presentment for payment, protest, notice of protest and notice of nonpayment, and all pleas of division and discussion, and severally agree that their obligations and liabilities to Lender hereunder shall be on a “solidary” or “joint and several” basis. Borrower and each guarantor further severally agree that discharge or release of any party who is or may be liable to Lender for the indebtedness represented hereby, or the release of any collateral directly or indirectly securing repayment hereof, shall not have the effect of releasing an other party or parties, who shall remain liable to Lender, or of releasing any other collateral that is not expressly released by Lender. Borrower and each guarantor additionally agree that Lender’s acceptance of payment other than in accordance with the terms of this Note, or Lender’s subsequent agreement to extend or modify such repayment terms, or Lender’s failure or delay in exercising any rights or remedies granted to Lender, shall likewise not have the effect of releasing Borrower or any other party or parties from their respective obligations to Lender, or of releasing any collateral that directly or indirectly secures repayment hereof. In addition, any failure or delay on the part of Lender to exercise any of the rights and remedies granted to Lender shall not have the effect of waiving any of Lender’s rights and remedies. Any partial exercise of any rights and/or remedies granted to Lender shall furthermore not be construed as a waiver of any other rights and remedies; it being Borrower’s intent and agreement that Lender’s rights and remedies shall be cumulative in nature. Borrower and each guarantor further agree that, should any event of default occur or exist under this Note, any waiver or forbearance on the part of Lender to pursue the rights and remedies available to Lender, shall be binding upon Lender only to the extent that Lender specifically agrees to any such waiver or forbearance in writing. A waiver or forbearance on the part of Lender as to one event of default shall not be construed as a waiver or forbearance as to any other default. Borrower and each guarantor of this Note further agree that any late charges provided for under this Note will not be charges for deferral of time for payment and will not and are not intended to compensate Lender for a grace or cure period, and no such deferral, grace or cure period has been or will be granted to Borrower in return for the imposition of any late charge. Borrower recognizes that Borrower’s failure to make timely payment of amounts due under this Note will result in damages to Lender, including but not limited to Lender’s loss of the use of amounts due, and Borrower agrees that any late charges imposed by Lender hereunder will represent reasonable compensation to Lender for such damages. Failure to pay in full any installment or payment timely when due under this Note, whether or not a late charge is assessed, will remain and shall constitute an Event of Default hereunder.

SUCCESSORS AND ASSIGNS LIABLE. Borrower's obligations and agreements under this Note shall be binding upon Borrower's successors, heirs, legatees, devisees, administrators, executors and assigns. The rights and remedies granted to Lender under this Note shall inure to the benefit of Lender's successors and assigns, as well as to any subsequent holder or holders of this Note.

CAPTION HEADINGS. Caption headings of the sections of this Note are for convenience purposes only and are not to be used to interpret or to define their provisions. In this Note, whenever the context so requires, the singular includes the plural and the plural also includes the singular.

SEVERABILITY. If any provision of this Note is held to be invalid, illegal or unenforceable by any court, that provision shall be deleted from this Note and the balance of this Note shall be interpreted as if the deleted provision never existed.

ENTIRE AGREEMENT. The Loan Documents set forth the entire agreement of the parties with respect to the subject matter hereof and supersede all prior written understandings between the Borrower and Lender.

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE. BORROWER AGREES TO THE TERMS OF THE NOTE AND ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THE NOTE.

BORROWER:
TELKONET, INC.

By: _____
Title: _____

**Commercial Business Loan Agreement for
Telkonet Inc. Line of Credit**

This Agreement is dated September 9, 2008 and is between Thermo Credit, LLC ("Thermo") and Telkonet, Inc. and subsidiaries (hereinafter referred to as "Borrower").

A. THE LOAN OR LOANS. Subject to the terms and conditions of this Agreement and provided Obligor timely and completely performs all obligations in favor of Thermo contained in this Agreement and in any other agreement, whether now existing or hereafter arising, Thermo will make or has made:

LINE OF CREDIT LOAN to Borrower aggregating ONE MILLION AND NO/100 (\$1,000,000.00) Dollars in principal amount, which loan shall be evidenced by and payable according to Thermo's form of promissory note, a copy of which is attached as Exhibit A ("Note").

B. EFFECT OF AGREEMENT AND DEFINITIONS. The Note is herein incorporated by reference. Such note and any renewals, modifications or replacements for such note are subject to the terms of this Agreement. "Loan" shall collectively mean any and all loans made available to Borrower under Section A of this Agreement. "Loan Documents" shall mean this Agreement, any other loan agreement(s), the Note evidencing the Loan, any security document(s) provided for in this Agreement and any and all other documents evidencing or securing the obligations of Borrower to Thermo, direct or contingent, due or to become due, now existing or hereafter arising. The Loan and all other obligations of Borrower to Thermo, direct or contingent, due or to become due, now existing or hereafter arising, shall be secured by any security documents provided for in this Agreement, any collateral set forth in any promissory note executed by Borrower, and any other Loan Documents.

C. USE OF PROCEEDS. The proceeds from the Loan will be used for the following purpose(s):

Proceeds will be used for the working capital requirements of the Borrower.

D. REPRESENTATIONS, WARRANTIES AND COVENANTS. Borrower represents, warrants and covenants to Thermo that:

- (1) Organization and Authorization.** Borrower is an entity which is duly organized, validly existing and, if a corporation, in good standing under applicable laws. Borrower's execution, delivery and performance of this Agreement and all other documents delivered to Thermo has been duly authorized and does not violate Borrower's articles of incorporation (or other governing documents), material contracts or any applicable law or regulations. All documents delivered to Thermo are legal and binding obligations of Borrower who executed same.
- (2) Compliance with Tax and other Laws.** Borrower shall comply (to the extent necessary so that any failure to do so will not materially and adversely affect the business or property of Borrower) with all laws that are applicable to Borrower's business activities, including, without limitation, all law regarding (i) the collection, payment and deposit of employees' income, unemployment, Social Security, sales and excise taxes; (ii) the filing of returns and payment of taxes; (iii) pension liabilities including ERISA requirements; (iv) environmental protection; and (v) occupational safety and health.

(3) Borrower shall keep its fixed property and equipment in good working order and condition, and maintain property and liability insurance coverage relating thereto in form and coverage acceptable to Thermo.

(4) Financial Information.

(a) Borrower shall furnish to Thermo:

- i) within 90 days after the close of Borrower's fiscal year, a copy of the annual audited financial statements of Borrower, prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year, and certified by an executive officer of Borrower, consisting of a balance sheet, a statement of earnings and surplus, and a statement of cash flow; and
- ii) within 30 days after the close of each month unaudited financial statements as of the end of such month consisting of a balance sheet as of the end of such month, a statement of earnings and surplus for such month and a statement of cash flow for such month, all certified by an appropriate executive officer of Borrower, together with year-to-date financial statements. Thermo will be notified promptly of any material adjustments to the aforementioned financial statements.

(b) Borrower shall furnish to Thermo such additional information that Thermo may reasonably require.

(5) **Mergers, etc.** Without the prior notice to Thermo and payment in full of all amounts owed to Thermo, including but not limited to principal, interest, prepayment fees, commitment fees or any other fee due to Thermo, Borrower shall not (a) consummate a merger or consolidation, (b) acquire all or substantially all of the assets of another entity, or (c) sell, lease or transfer all, or substantially all, of Borrower's assets. Borrower will notify Thermo within ten (10) business days of the execution of a letter of intent relating to activities limited by this Section. Borrower shall not permit any material change to be made in the character of Borrower's business as carried on at the original date of this Agreement.

(6) **Indebtedness and Liens.** Other than obligations disclosed in Exhibit B—Permitted Liens (as defined in the Security Agreement) or incurred in the ordinary course of business, including but not limited to, the purchase or lease of equipment, Borrower shall not create any additional obligations for borrowed money, without the written consent of Thermo which will not be unreasonably withheld and Borrower shall not mortgage or encumber any of Borrower's assets or suffer any liens to exist on any of Borrower's assets without the prior written consent of Thermo.

(7) **Other Liabilities.** (a) Borrower shall not lend to or guarantee, endorse or otherwise become contingently liable in connection with the obligations, stock or dividends of any person, firm or corporation, except as currently exists and as reflected in the financial statements of Borrower as previously submitted to Thermo; (b) Borrower shall not default in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any indenture, agreement or other instrument to which Borrower is a party (the effect of which would materially adversely affect the business or properties of Borrower); and (c) except as disclosed or referred to in the financial statements furnished to Thermo, there is no litigation, legal or administrative proceeding, investigation or other action of any nature pending or, to the knowledge of Borrower, threatened against or affecting Borrower which involves the possibility of any judgment or liability not fully covered by insurance, and which may materially and adversely affect the business or assets of Borrower or Borrower's ability to carry on business as now conducted.

- (8) **Documentation.** The Loan Documents include, this Loan Agreement, the Promissory Note and Security Agreement and all other documents necessary to effect the purposes of this Agreement as reasonably required by Thermo. Upon the written request of Thermo, Borrower shall promptly and duly execute and deliver all such further instruments and documents and take such further action as Thermo may reasonably deem necessary to obtain the full benefits of the Loan Documents.
- (9) Thermo shall make advances to the Borrower (each an "Advance") from time to time during the term hereof and ending on the Maturity Date (as such term is defined in the Note) (or such earlier time specified herein in such amounts as may be requested by the Borrower in accordance with the provisions hereof. All requests for Advances shall be made by the Borrower to the Lender in writing (in such form as is reasonably satisfactory to the Lender) or by telephone request (which shall be promptly confirmed in writing) which specifies the amount of the Advance to be made and the date the proceeds of the Advance are requested to be made available to the Borrower (a "Loan Request"). Advances under the Line of Credit shall be made by direct wire transfer of funds from the Lender to an account designated by Borrower in writing to Lender.
- (10) **Financial Covenants and Ratios.** Borrower shall comply with the following covenants and ratios:
- A. **Minimum Cash Flow to Debt Service Ratio.** For each monthly period subsequent to March 31, 2009, Borrower will maintain a ratio of cash flow to scheduled principal payments plus all accrued interest and related fee on funded debt of not less than 1.00 to 1.00 as of the end of each fiscal quarter. For the purposes of this section "cash flow" shall mean the sum of net income after taxes, plus depreciation and amortization expenses for the period. "Funded debt" shall mean all indebtedness for borrowed money.
- B. **Minimum Tangible Net Worth.** Borrower will maintain a tangible net worth of not less than \$14,400,000 as of the last day of each fiscal quarter. For the purposes of this section, "tangible net worth" shall mean the sum of common stock, preferred stock, capital surplus and retained earnings less treasury stock and the sum of all intangible assets (including, without limitation, good will, franchises, licenses, patents, trademarks, trade names, copyrights, service marks and brand names).
- (11) **Collateral.** As security for payment and performance of the Loan and any and all other obligations of Borrower to Thermo, direct or contingent, due or to become due, now existing or hereafter arising, Borrower shall execute and deliver to Thermo, or cause others to execute and deliver to Thermo, the following described security documents:

A security agreement and financing statement by Borrower granting Thermo a first lien and security interest in all of Borrower's inventory (the "Collateral") and all rights and proceeds therefrom. Except as disclosed or otherwise permitted pursuant to Section D (6) hereof or by the Security Agreement, Borrower agrees to maintain the Collateral free and clear and subject to no other lien or encumbrance, whether voluntary or involuntary. Borrower shall inform Thermo of the existence of any involuntary lien, within two (2) business days of Borrower's first knowledge of any involuntary lien or encumbrance affecting the Collateral and take action to remove any involuntary lien or encumbrance within fifteen (15) days of Borrower's first knowledge. Borrower's failure to remove, pay, satisfy or otherwise clear any involuntary lien within sixty (60) days of Borrower's first knowledge thereof will result in a default. In the event of such involuntary lien, Thermo reserves the right to suspend additional fundings, if any, until such involuntary lien is released.

E. CONDITIONS PRECEDENT TO LOANS. Thermo shall be obligated to make the Loan only so long as: (i) all of the Loan Documents required by this Agreement have been delivered to Thermo, (ii) Borrower is current in the performance of all of the other obligations of Borrower contained in the Loan Documents, (iii) no Default has occurred, and (iv) no adverse material change in the financial condition of Borrower has occurred. Thermo is not obligated to advance funds against this Line of Credit more frequently than weekly, and Borrower must provide a minimum of 24 hours advance notice for funding. With each funding request, Borrower must submit a borrowing base calculation supporting such request, in the format attached as Exhibit C. Schedules supporting inventory amounts must also be included.

F. DEFAULT. The occurrence of (i) the failure of Borrower to make any payment on any Loan when due, (ii) the failure of Borrower to observe or perform promptly when due any covenant, agreement or obligation under this Agreement or under any of the other Loan Documents or under any other obligation to Thermo, (iii) a default under any of the Loan Documents or (iv) the material inaccuracy at any time of any warranty, representation or statement made to Thermo by Borrower under this Agreement or otherwise, shall constitute a default (Default) under this Agreement. In the event of a Default, Thermo, at its option, shall have the right to exercise any and all of its rights and remedies under the Loan Documents.

G. MISCELLANEOUS PROVISIONS. (1) Borrower agrees to pay all of the costs, expenses and fees incurred in connection with the Loan, including attorneys' fees and appraisal fees. This Agreement is not assignable by Borrower and no party other than Borrower is entitled to rely on this Agreement. No condition or other term of this Agreement may be waived or modified except by a writing signed by Borrower and Thermo. This Agreement shall supersede and replace any commitment letter between Thermo and Borrower relating to any Loan. If any provision of this Agreement shall be held to be legally invalid or unenforceable by any court of competent jurisdiction, all remaining provisions of this Agreement shall remain in full force and effect. This Agreement shall be governed by and construed in accordance with the laws of State of Louisiana. This Agreement may not be amended or modified except in writing signed by the parties.

(2) Any notices required or permitted to be given pursuant to the Loan Documents shall be in writing and shall be given by personal delivery or by mailing the same by United States certified mail return receipt requested, postage prepaid, to the address set forth below. Any such notice shall be deemed received for purposes of this Agreement upon delivery if given by delivery or refusal thereof.

Lender: Thermo Credit, LLC
639 Loyola Avenue
Suite 2565
New Orleans, LA 70113
Attn: Jack V. Eumont, Jr.

Borrower: Telkonet, Inc.
20374 Seneca Meadows Parkway
Germantown, MD 20817
Attn.: Richard J. Leimbach

copy to: Telkonet, Inc.
20374 Seneca Meadows Parkway
Germantown, MD 20817
Attn.: Howard J. Barr

If either party desires to change the address to which notices are to be sent it shall do so in writing and deliver the same to the other party in accordance with the notice provisions set forth above.

H. OTHER CONDITIONS.

(1) **Term** — Two years as more fully set forth in the Note.

(2) **Monitoring Fee** — A monitoring fee on the amount of the Loan Facility for the period from and including the date of this Agreement to and including the Maturity Date, at the rate of ONE TWENTIETH OF ONE PERCENT (0.05%) of such amount per week or portion thereof. The accrued monitoring fee shall be payable in arrears on each Payment Date and on the Maturity Date (as such terms are defined in the Note).

(3) **Interest** — Interest on the amount of the outstanding balance under this Loan Agreement at a rate of the GREATER of: (i) the Wall Street Journal Prime Rate plus NINE PERCENT (9.00%), or (ii) SIXTEEN PERCENT (16.00%). The accrued interest shall be payable in arrears on each Payment Date and on the Maturity Date (as such terms are defined in the Note).

(4) **Origination Fee** — Upon signing of the Term Sheet for this Line of Credit Agreement, Borrower paid Thermo an earned non-refundable Origination Fee of One percent (1%) of the loan amount (\$10,000.00).

(5) **Commitment Fee** — The earned non-refundable Commitment Fee shall be equal to two percent (2.0%) of the Loan Commitment, and shall be payable in two equal installments—the first being due and payable as of the date of the first draw under this Line of Credit and the second on the one year anniversary of this Agreement.

(6) **Unused Commitment Fee** — A .25% per annum fee payable quarterly in arrears will be charged on the daily unused portion of the Line of Credit. The unused portion is the amount by which the maximum dollar amount of the Line of Credit exceeds the outstanding principal balance due under the Line of Credit.

(7) **Prepayment Fee** — Borrower may prepay this Note in whole or in part at any time. If Borrower prepays this Note in full, or if Lender accelerates payment of this Note, Borrower understands that, unless otherwise required by law, any prepaid fees or charges will not be subject to rebate and will be earned by Lender at the time this Note is signed. Unless otherwise agreed to in writing, any permitted partial prepayments of this Note will be applied to installments of principal in inverse order of their maturity and will not relieve Borrower of Borrower's obligation to continue to make regularly scheduled payments under the above payment schedule.

In the event of such prepayment of the Loan by Borrower, Thermo shall receive a Prepayment Fee of four percent (4.0%) of the highest aggregate Loan Commitment Amount if prepayment occurs before the end of the first year and three percent (3.0%) if prepayment occurs after the end of the first year.

(8) Borrower will reimburse Thermo for all reasonable out-of-pocket expenses incurred in connection with Thermo's on-going review and administration of the Loan, including reasonable attorney fees incurred by Thermo.

Thermo Credit, LLC

By: _____

Name: _____

Title: _____

Telkonet, Inc.

By: _____

Name: _____

Title: _____

Ethostream, Inc.

By: _____

Name: _____

Title: _____

Exhibit B

Security Agreement by and between Borrower and YA Global Investments, L.P. ("YA") dated as of May 30, 2008 pursuant to which YA was granted a security interest in, among other things, the Collateral.

SECURITY AGREEMENT

THIS SECURITY AGREEMENT ("Agreement"), dated as of September 9, 2008, is made by TELKONET, INC. and Ethostream, LLC. (the "Debtor" or "Borrower") in favor of THERMO CREDIT, L.L.C. ("Lender"), who agree as follows:

RECITALS

A. Borrower is or will be indebted unto the Lender for loans made or to be made from time to time pursuant to that certain Commercial Business Loan Agreement for Telkonet, Inc. Line of Credit between the Borrower and Lender (as amended, supplemented, replaced or restated from time to time, the "Loan Agreement").

B. In order to secure the full and punctual payment and performance of the Indebtedness (as hereinafter defined) of Borrower to Lender, Debtor has agreed to execute and deliver this Agreement and to grant a continuing security interest in and to the Collateral (as hereafter defined).

AGREEMENT

ARTICLE 1

GENERAL TERMS

Section 1.1 Terms Defined Above or Elsewhere. As used in this Agreement, the terms defined above shall have the meanings indicated.

Section 1.2 Certain Definitions. As used in this Agreement, the following additional terms shall have the meanings indicated:

"Accounts" means all "accounts" (as defined in the UCC) now owned or hereafter acquired by Debtor, and shall also mean and include all accounts receivable, notes, notes receivable, drafts, acceptances, book debts and similar documents and other monies, obligations or indebtedness owing or to become owing to Debtor arising from the sale, lease or exchange of goods or other property by Debtor or the performance of services by Debtor or under any contracts for any of the foregoing (whether or not yet earned by performance on the part of Debtor), in each case whether now in existence or hereafter arising or acquired.

"Chattel Paper" means all "chattel Paper" (as defined in the UCC) now owned or hereafter acquired by the Debtor, whether paper or electronic.

"Collateral" has the meaning set forth in Section 2 of this Agreement.

"Collateral Documents" means collectively all mortgages, pledges, security agreements and other documents by which Debtor grants liens and security interests in immovable or movable property to the Lender.

"Documents" means all "documents" (as defined in the UCC) or other receipts covering, evidencing or representing goods, now owned or hereafter acquired by Debtor.

"Equipment" means all equipment (as defined in the UCC) now owned or hereafter acquired by Debtor, wherever located, together with all additions, accessories, parts, attachments, special tools and accessions now and hereafter affixed thereto or used in connection therewith, and all replacements thereof and substitutions therefor.

“Event of Default” has the meaning set forth in the Loan Agreement.

“General Intangibles” means all general intangibles (as defined in the UCC) now owned or hereafter acquired by Debtor, including without limitation, (i) all contractual rights and obligations or indebtedness owing to Debtor from whatever source arising; (ii) all things in action, rights represented by judgments and claims arising out of tort and other claims relating to the Collateral (including the right to assert and otherwise be the proper party of interest to commence and prosecute actions); (iii) all goodwill, patents, patent licenses, trademarks, trademark licenses, trade names, service marks, trade secrets, rights in intellectual property, copyrights, permits and licenses; (iv) all rights or claims in respect of refunds for taxes paid; (v) all rights in respect of any pension plan or similar arrangement maintained for employees of Debtor, and (vi) all deposit accounts of Debtor maintained with the Lender.

“Indebtedness” means all debts, obligations, indebtedness and liabilities of every kind and character of the Debtor, whether individual, joint and several (solidary), contingent or otherwise, now or hereafter existing in favor of the Lender, including, without limitation, all liabilities, interest, costs and fees, arising under or from any note, open account, overdraft, credit card, lease, Rate Management Transaction, letter of credit application, endorsement, surety agreement, guaranty, acceptance, foreign exchange contract or depository service contract, whether payable to the Lender or to a third party and subsequently acquired by the Lender, any monetary obligations (including interest) incurred or accrued during the pendency of any bankruptcy, insolvency, receivership or other similar proceedings, regardless of whether allowed or allowable in such proceeding, and all renewals, extensions, modifications, consolidations, rearrangements, restatements, replacements or substitutions of any of the foregoing. The term “Rate Management Transaction” in this Agreement means any transaction (including an agreement with respect thereto) that is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, forward transaction, currency swap transaction, cross-currency rate swap transaction, currency option, derivative transaction or any other similar transaction (including any option with respect to any of these transactions) or any combination thereof, whether linked to one or more interest rates, foreign currencies, commodity prices, equity prices or other financial measures.

“Instruments” means all “instruments” (as defined in the UCC) now owned or hereafter acquired by Debtor, including without limitation, all promissory notes, bills of exchange and trade acceptances, now owned or hereafter acquired by Debtor.

“Inventory” means all goods held for sale or lease, or furnished or to be furnished under contracts of service, or consumed in the Debtor's business, including without limitation raw materials, intermediates, work in process, packaging materials, finished goods, semi-finished inventory, scrap inventory, manufacturing supplies and spare parts, all such goods that have been returned to or repossessed by or on behalf of the Debtor, and all such goods released to the Debtor or to third parties under trust receipts or similar documents.

“Lien” means any interest in property securing an obligation owed to, or a claim by, a Person other than the owner of the property, whether such interest is based on jurisprudence, statute or contract, and including but not limited to the lien or security interest arising from a mortgage, encumbrance, pledge, security agreement, conditional sale or trust receipt or a lease, consignment or bailment for security purposes. The term “Lien” shall include reservations, exceptions, encroachments, easements, servitudes, usufructs, rights-of-way, covenants, conditions, restrictions, leases and other title exceptions and encumbrances affecting property. For the purposes of this Agreement, Debtor shall be deemed to be the owner of any property which it has acquired or holds subject to a conditional sale agreement, financing lease or other arrangement pursuant to which title to the property has been retained by or vested in some other Person for security purposes.

“Permitted Liens” means the Security Interests and any other Liens in favor of the Lender or permitted by the Lender in writing to be created or assumed or to otherwise exist on the Collateral, including any and all liens created pursuant to the Security Agreement by and between Borrower and YA Global Investments, L.P. as of May 30, 2008.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, association, joint stock company, trust, unincorporated organization, government or any agency or political subdivision thereof, or any other form of entity.

“Proceeds” means all cash and non-cash proceeds of, and all other profits, rentals or receipts, in whatever form, arising from the collection, sale, lease, exchange, assignment, licensing or other disposition of, or realization upon, Collateral, all rights arising out of Collateral, and all additions to, substitutions for or accessions of any Collateral, including without limitation proceeds from the sale or other disposition of the business of the Debtor generally (including its goodwill, trade names, trademarks, customer lists, etc.) and/or from the sale or other disposition of all or substantially all of the assets of the Debtor other than in the ordinary course of business, all claims of Debtor against third parties for loss or nonconformity of, or interference with the use of, defects or infringement of rights in, or damage to or destruction of any Collateral and all claims of Debtor against third parties for proceeds payable under, or unearned premiums with respect to, policies of insurance in respect of, any Collateral, and any condemnation or requisition payments with respect to any Collateral, and including proceeds of all such proceeds, in each case whether now existing or hereafter arising.

“Security Interests” means the security interests in the Collateral and Proceeds granted hereunder securing the Indebtedness.

“UCC” means the Uniform Commercial Code, Commercial Laws - Secured Transactions (Louisiana Revised Statutes 10:9-101 through 9-710) in the State of Louisiana, as amended from time to time; provided that if by reason of mandatory provisions of law, the perfection or the effect of perfection or non-perfection of the Security Interests in any Collateral or the priority of security interests in any Collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than Louisiana, “UCC” means the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions hereof relating to such perfection or effect of perfection or non-perfection or priority.

ARTICLE 2

SECURITY INTEREST

Section 2.1 The Security Interests. In order to secure the full and punctual payment and performance of all present and future Indebtedness, Debtor hereby grants to the Lender a continuing security interest in and to all rights, title and interest of Debtor in, to or under the following property, whether now owned or existing or hereafter acquired or arising and regardless of where located, together with all additions thereto, substitutions therefor and replacements thereof:

- (i) the Inventory;
- (ii) all books and records, including without limitation computer lists, credit files, computer programs, tapes, disks, punch cards, data processing software, transaction files, master files, printouts (and other computer materials and records) of Debtor pertaining to any of the Collateral;
- (iii) all Proceeds and products of all or any of the Collateral described in clauses (i) through (ii) hereof.

The term "Collateral" means each and all of the items and property rights described in clauses (i) through (iii) above.

Section 2.2 No Liability. The Security Interests are granted as security only and shall not subject the Lender to, or transfer or in any way affect or modify, any obligation or liability of Debtor with respect to any of the Collateral or any transaction in connection therewith.

Section 2.3 Intercreditor Agreement; Acknowledgement of Existing Security Interest. Lender acknowledges the validity of the Convertible Debenture and Security Agreement between Debtor and YA Global Investments, L.P. ("YA"). The rights and obligations set forth herein are subject to the letter agreement of even date herewith by and between the Lender, Borrower and YA.

ARTICLE 3

REPRESENTATIONS AND WARRANTIES

Debtor represents and warrants to the Lender that:

Section 3.1 No Liens. Other than financing statements or other similar or equivalent documents or instruments with respect to the Security Interests and Permitted Liens, no financing statement, mortgage, deed of trust, security agreement or other record covering all or any part of the Collateral is on file or of record in any jurisdiction in which such filing or recording would be effective to perfect a Lien on such Collateral. No Collateral is in the possession of any Person (other than Debtor) asserting any claim thereto or security interest therein, except that the Lender or its designee may have possession of Collateral as contemplated hereby. No Person other than the Lender has control of any part of the Collateral.

Section 3.2 Name. The name of the Debtor as it appears in its articles of organization is as it appears on page 1 of this Agreement.

Section 3.3 Organization Identification Numbers. The organization identification numbers of the Debtors are:

<u>Debtor</u>	<u>State of Incorporation/Organization</u>	<u>Organizational ID #</u>
Telkonet, Inc.	Utah	87-0627421
Ethostream LLC	Wisconsin	36-4495786

Section 3.4 Chief Executive Office. The principal office of the Debtor is located at 20374 Seneca Meadows Parkway, Germantown, MD 20876

Section 3.5 No Inconsistent Agreements. The Debtor has not performed any acts or signed any agreements which might prevent the Lender from enforcing any of the terms of this Agreement or which would limit the Lender in any such enforcement.

Section 3.6 Title. Debtor has good and merchantable title to the Collateral free of Liens. Debtor has not heretofore conveyed or agreed to sell, lease, transfer, exchange, license or otherwise dispose of or encumber any Collateral in any way, except in favor of the Lender.

Section 3.9 Special Collateral. No part of the Collateral consists or will consist of consumer goods, crops, farm products, timber, mobile goods, or minerals and the like (including oil and gas) or accounts resulting from the sale thereof, or motor vehicles.

ARTICLE 4

COVENANTS

Section 4.1 Notice of Changes. Without limiting the generality of any covenant with respect thereto set forth in the Loan Agreement, Debtor will not change its name, identity, organization identification number in any manner unless it shall have given the Lender at least 30 days' prior written notice thereof.

Section 4.2 Filing. Debtor hereby authorizes the Lender to file financing statements from time to time, without authentication by Debtor, in jurisdictions deemed appropriate by the Lender describing the Collateral. Debtor shall pay all costs of, or incidental to, the recording or filing of any financing, correction, amendment, continuation, termination or other statements concerning the Collateral. Debtor shall not file any termination statements relative to the financing statements filed in connection with this Agreement, unless and until all rights and obligations of Debtor under this facility have been satisfied. Debtor shall notify the Lender in writing immediately upon filing any correction statements relating to the financing statements filed in connection with this Agreement; provided, that Debtor acknowledges that the filing by Debtor of any such correction statement will result in an Event of Default if the substance thereof contradicts the terms of this Agreement.

Section 4.3 Condition of Equipment and Inventory. Debtor will maintain, preserve and keep the Equipment at all times in thorough repair and good working order and condition (normal wear and tear excepted), and from time to time make all needful repairs, renewals and additions so that its value and the Security Interests shall at no time become impaired. Debtor will not do or permit anything to be done to the Collateral that may violate the terms of any insurance covering the Collateral or any part thereof.

Section 4.4 Insurance. Reference is hereby made to the Loan Agreement, which contains the agreement between Debtor and the Lender as to insurance required to be maintained on the Collateral and the related covenants of Debtor in connection therewith.

Section 4.5 Transfer and Other Liens. Debtor will not encumber the Collateral, or any part thereof, without the prior written consent of the Lender and will not permit any Lien to attach to the Collateral, or any part thereof, other than Permitted Liens, except that Debtor may, in the ordinary course of its business and in the absence of an Event of Default, collect its Accounts, and General Intangibles, dispose of obsolete or unusable items of Equipment and otherwise dispose of Collateral.

Section 4.6 Right of Inspection and Information. Reference is hereby made to the Loan Agreement, which contains the agreement between Debtor and the Lender as to inspection rights of the Lender. Without limiting the generality of the forgoing, Debtor will furnish to the Lender promptly upon request and in the form and content specified by the Lender such data and information concerning the Collateral as the Lender may from time to time specify.

Section 4.7 Taxes. Debtor will pay as and when due and payable all taxes, levies, license fees, assessments, and other impositions levied on the Collateral or any part thereof before its use and operation or which otherwise, if unpaid, might become a Lien upon any Collateral; provided, that Debtor shall not be required to pay any such tax, levee, fee, assessment or imposition if the amount, applicability or validity thereof shall currently be contested in good faith by appropriate proceedings diligently conducted and if Debtor shall have set up reserves therefor adequate under generally accepted accounting principles (provided that such reserves may be set up under generally accepted accounting principles); provided, further, that any such contest shall prevent the sale of the Collateral under special execution or otherwise for the payment of any such tax, levee, fee, assessment or imposition, or other forfeiture or loss of title to the Collateral.

Section 4.8 Further Assurances. On request of the Lender, Debtor will promptly (i) correct any defect, error or omission which may be discovered in the contents of this Agreement or any financing statement relating thereto or in the execution or acknowledgment of this Agreement or any financing statement; (ii) execute, acknowledge, deliver and record such further instruments (including, without limitation, further security agreements, financing statements, continuation statements, correction statements and assignments of accounts, contract rights, general intangibles and proceeds) and do such further acts as may be reasonably necessary, desirable or proper to carry out more effectively the purposes of this Agreement and to more fully identify and subject to the Security Interests hereof any property intended to be covered hereby, including without limitation any renewals, additions, substitutions, replacements or accessions to the Collateral; (iii) execute, acknowledge, deliver and record any document or instrument (including specifically any financing statement) necessary, desirable or proper to protect the Liens and Security Interests hereunder against the rights or interests of third persons; and (iv) cause other Persons (including without limitation those in possession of any Collateral) to execute and deliver in favor of the Lender acknowledgments, consents and control agreements necessary, desirable or appropriate in furtherance of the purposes of this Agreement. All matters shall be in form and substance satisfactory to the Lender. Debtor shall pay all costs connected with any of the foregoing.

Section 4.9 Collateral Indemnity. If the validity or priority of this Agreement or any rights, security interests or other interests created or evidenced hereby shall be attacked, endangered or questioned or if any legal proceedings are instituted with respect thereto, Debtor will give prompt written notice thereof to the Lender and at Debtor's own cost and expense will diligently endeavor to cure any defect that may be developed or claimed, and will take all necessary and proper steps for the defense of such legal proceedings, and the Lender (whether or not named as a party to legal proceedings with respect thereto) is hereby authorized and empowered to take such additional steps as in its judgment and discretion may be necessary or proper for the defense of any such legal proceedings or the protection of the validity or priority of this Agreement and the rights, security interests and other interests created or evidenced hereby, and all expenses so incurred of every kind and character shall be a demand obligation owing by Debtor to the Lender, accruing interest at the default rate of the Indebtedness in accordance with the Loan Agreement, all of which shall be a part of the Indebtedness.

Section 4.10 Compliance with Laws. Debtor will observe and comply with all laws, statutes, ordinances, rules, regulations, judgments, decrees, franchises, permits, licenses, certificates and requirements of all federal, state, parish, county, municipal and other governmental agencies, departments, commissions, boards, courts and authorities applicable to Debtor or to the Collateral.

Section 4.11 Non-Liability. Debtor hereby agrees to indemnify and hold the Lender (and the Affiliates thereof) and their directors, officers, employees, consultants and agents (collectively, the "indemnified parties") harmless from and against any and all liability, loss or damage which any of the indemnified parties may incur under or by reason of this Agreement, and from any and all claims, costs, expenses and demands whatsoever which may be asserted against any indemnified party by reason of any act of any indemnified party under this Agreement or otherwise incurred by any indemnified party in connection with the enforcement of their rights under this Agreement, other than as, and to the extent of, the result of the gross negligence or willful misconduct of any indemnified party.

ARTICLE 5

DEFAULT

Section 5.1 General Authority. Debtor hereby irrevocably appoints the Lender its agent and attorney in fact, with full power of substitution, in the name of Debtor or the Lender, for the sole use and benefit of the Lender, but at Debtor's expense, to exercise, at any time and from time to time while an Event of Default has occurred and is continuing, all or any of the following powers with respect to all or any of the Collateral to:

- (i) settle, compromise, compound, prosecute or defend any action or proceeding with respect to any of the Collateral, and
- (ii) enforce all supporting obligations with respect to any Collateral.

The aforesaid mandate and power of attorney, being coupled with an interest, is irrevocable so long as any of the Indebtedness remains outstanding.

Section 5.4 Sale. Upon the occurrence of an Event of Default, the Lender may exercise all rights of a Lender under the UCC and other applicable law (including without limitation such rights under the UCC or other applicable law authorizing the taking of self-help remedies by a Lender in protecting its rights in, to and under collateral) and, in addition, the Lender may, without being required to give any notice, except as herein provided or as may be required by mandatory provisions of law, sell the Collateral or any part thereof at public or private sale, for cash, upon credit or for future delivery, and at such price or prices as the Lender may deem satisfactory. The Lender may be the purchaser of any or all of the Collateral so sold at any public sale (or, if the Collateral is of a type customarily sold in a recognized market or is of a type which is the subject of widely distributed standard price quotations, at any private sale). Debtor will execute and deliver such documents and take such other action as the Lender deems necessary or advisable in order that any such sale may be made in compliance with law. Upon any such sale the Lender shall have the right to deliver, assign and transfer to the purchaser thereof the Collateral so sold. Each purchaser at any such sale shall hold the Collateral so sold to it absolutely and free from any claim or right of whatsoever kind, including any equity or right of redemption of Debtor which may be waived, and Debtor, to the extent permitted by law, hereby specifically waives all rights of redemption, stay or appraisal which it has or may have under any law now existing or hereafter adopted. Debtor agrees that ten (10) days prior written notice of the time and place of any sale or other intended disposition of any of the Collateral constitutes "reasonable notification" within the meaning of Section 9-612 of the UCC (or, if applicable, the comparable section of the UCC under the laws of another jurisdiction), except that shorter or no notice shall be reasonable as to any Collateral which is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market. The notice (if any) of such sale shall (1) in case of a public sale, state the time and place fixed for such sale, and (2) in the case of a private sale, state the day after which such sale may be consummated. Any such public sale shall be held at such time or times within ordinary business hours and at such place or places as the Lender may fix in the notice of such sale. At any such sale the Collateral may be sold in one lot as an entirety or in separate parcels or portions, as the Lender may determine. The Lender shall not be obligated to make any such sale pursuant to any such notice. The Lender may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for the sale, and such sale may be made at any time or place to which the same may be so adjourned. In case of any sale of all or any part of the Collateral on credit or for future delivery, the Collateral so sold may be retained by the Lender until the selling price is paid by the purchaser thereof, but the Lender shall not incur any liability in case of the failure of such purchaser to take up and pay for the Collateral so sold and, in case of any such failure, such Collateral may again be sold upon like notice. The Lender may specifically modify or disclaim, in its sole discretion, any warranties or the like as to any Collateral and this procedure shall not be considered adversely to affect the commercial reasonableness of any such sale. The Lender may comply with any applicable state or federal law requirements in connection with a disposition of the Collateral and compliance will not be considered adversely to affect the commercial reasonableness of any sale of the Collateral. Leasing and licensing of Collateral by the Lender to third Persons are types of sales permitted hereunder.

Section 5.5 Foreclosure in Louisiana. The provisions of this Section shall, without limiting the generality of any other provision of this Agreement, be applicable in the event any foreclosure shall take place in Louisiana on any Collateral or, in connection with any foreclosure hereunder, Louisiana law shall otherwise be applicable. The Lender, instead of exercising the power of sale herein conferred upon it, may proceed by a suit or suits at law or in equity to foreclose the Security Interests and sell the Collateral, or any portion thereof, under a judgment or decree of a court or courts of competent jurisdiction. For the purposes of Louisiana executory process procedures, Debtor does hereby acknowledge the Indebtedness and confess judgment in favor of the Lender (and applicable Affiliates thereof) for the full amount of the Indebtedness. Debtor does by these presents consent and agree that upon the occurrence of an Event of Default it shall be lawful for the Lender to cause all and singular the Collateral to be seized and sold under executory or ordinary process, at the Lender's sole option, without appraisal, appraisal being hereby expressly waived, in one lot as an entirety or in separate parcels or portions as the Lender may determine, to the highest bidder, and otherwise exercise the rights, powers and remedies afforded herein and under applicable Louisiana law. Any and all declarations of fact made by authentic act before a Notary Public in the presence of two witnesses by a person declaring that such facts lie within his knowledge shall constitute authentic evidence of such facts for the purpose of executory process. Debtor hereby waives in favor of the Lender (and applicable Affiliates thereof): (a) the benefit of appraisal as provided in Louisiana Code of Civil Procedure Articles 2332, 2336, 2723 and 2724, and all other laws conferring the same; (b) the demand and three days delay accorded by Louisiana Code of Civil Procedure Article 2721; (c) the notice of seizure required by Louisiana Code of Civil Procedure Articles 2293 and 2721; (d) the three days delay provided by Louisiana Code of Civil Procedure Articles 2331 and 2722; and (e) the benefit of the other provisions of Louisiana Code of Civil Procedure Articles 2331, 2722 and 2723, not specifically mentioned above. In the event the Collateral or any part thereof is seized as an incident to an action for the recognition or enforcement of this Agreement by executory process, ordinary process, sequestration, writ of fieri facias, or otherwise, Debtor and the Lender agree that the court issuing any such order shall, if petitioned for by the Lender, direct the applicable sheriff to appoint as a keeper of the Collateral, the Lender or any agent designated by the Lender or any person named by the Lender at the time such seizure is effected. This designation is pursuant to Louisiana Revised Statutes 9:5136-9:5140.2 and the Lender shall be entitled to all the rights and benefits afforded thereunder as the same may be amended. It is hereby agreed that the keeper shall be entitled to receive a reasonable compensation in excess of its reasonable costs and expenses incurred in the administration or preservation of the Collateral, payable on a monthly basis. The designation of keeper made herein shall not be deemed to require the Lender to provoke the appointment of such a keeper.

Section 5.6 Assemble Collateral. For the purpose of enforcing any and all rights and remedies under this Agreement the Lender may (i) require Debtor to, and Debtor agrees that it will, at its expense and upon the request of the Lender, forthwith assemble all or any part of the Collateral as directed by the Lender and make it available at a place designated by the Lender which is, in its opinion, reasonably convenient to the Lender and Debtor, whether at the premises of Debtor or otherwise, and the Lender shall be entitled to specific performance of this obligation, (ii) to the extent permitted by applicable law of this or any other state, enter, with or without process of law and without breach of the peace, any premise where any of the Collateral is or may be located, and without charge or liability to it seize and remove such Collateral from such premises, (iii) have access to and use Debtor's books and records relating to the Collateral and (iv) prior to the disposition of the Collateral, store or transfer it without charge in or by means of any storage or transportation facility owned or leased by Debtor, process, repair or recondition it or otherwise prepare it for disposition in any manner and to the extent the Lender deems appropriate and, in connection with such preparation and disposition, use without charge any trademark, trade name, copyright, patent or technical process used by Debtor.

Section 5.7 Limitation on Duty of Lender. Beyond the exercise of reasonable care in the custody thereof, the Lender shall have no duty as to any Collateral in its possession or control or in the possession or control of any agent or bailee or any income thereon. The Lender shall be deemed to have exercised reasonable care in the custody of the Collateral in its possession if the Collateral is accorded treatment substantially equal to that which it accords its own property, and shall not be liable or responsible for any loss or damage to any of the Collateral, or for any diminution in the value thereof, by reason of the act or omission of any warehouseman, carrier, forwarding agency, consignee or other agent or bailee selected by the Lender in good faith. Debtor agrees that the Lender shall not be obligated to preserve rights against prior parties obligated on any Chattel Paper or Instruments.

Section 5.8 Appointment of Agent. At any time or times, in order to comply with any legal requirement in any jurisdiction, the Lender may appoint a bank or trust company or one or more other Persons with such power and authority as may be necessary for the effectual operation of the provisions hereof and may be specified in the instrument of appointment.

Section 5.9 Expenses. In the event that Debtor fails to comply with any provisions of this Agreement or the Collateral Documents, such that the value of any Collateral or the validity, perfection, rank or value of any Security Interest hereunder is thereby diminished or potentially diminished or put at risk, the Lender may, but shall not be required to, effect such compliance on behalf of Debtor, and Debtor shall reimburse the Lender for the costs thereof on demand. All insurance expenses and all expenses of protecting, storing, warehousing, appraising, preparing for sale, handling, maintaining and shipping the Collateral, any and all excise, property, sales, and use taxes imposed by any federal, state or local authority on any of the Collateral, all expenses in respect of periodic appraisals and inspections of the Collateral to the extent the same may be requested from time to time, and all expenses in respect of the sale or other disposition thereof shall be borne and paid by Debtor; and if Debtor fails to promptly pay any portion thereof when due, the Lender may, at its or their option, but shall not be required to, pay the same and charge Debtor's account therefor, and Debtor agrees to reimburse the Lender therefor on demand. All sums so paid or incurred by the Lender for any of the foregoing and any and all other sums for which Debtor may become liable hereunder and all costs and expenses (including reasonable attorneys' fees, legal expenses and court costs) incurred by the Lender in enforcing or protecting the Security Interests or any of the rights or remedies under this Agreement or the other Collateral Documents, together with interest thereon until paid at the default rate specified in the Loan Agreement, shall be additional Indebtedness hereunder and Debtor agrees to pay all of the foregoing sums promptly on demand.

ARTICLE 6

MISCELLANEOUS

Section 6.1 Notices. Any notice or demand which, by provision of this Agreement, is required or permitted to be given or served by the Lender to or on the Debtor shall be deemed to have been sufficiently given and served for all purposes by giving same to the Lender in accordance with the provisions of the Loan Agreement.

Section 6.2 Amendment. Neither this Agreement nor any provisions thereof may be changed, waived, discharged or terminated orally or in any manner other than by an instrument in writing signed by the party against whom enforcement of the change, waiver, discharge or termination is sought.

Section 6.3 Waivers. No course of dealing on the part of the Lender, its officers, employees, consultants or agents, nor any failure or delay by the Lender with respect to exercising any of its rights, powers or privileges under this Agreement shall operate as a waiver thereof.

Section 6.4 Cumulative Rights. The rights and remedies of the Lender under this Agreement and any other collateral documents shall be cumulative, and the exercise or partial exercise of any such right or remedy shall not preclude the exercise of any other right or remedy.

Section 6.5 Titles of Articles, Sections and Subsections. All titles or headings to articles, sections, subsections or other divisions of this Agreement or the exhibits hereto are only for the convenience of the parties and shall not be construed to have any effect or meaning with respect to the other content of such articles, sections, subsections or other divisions, such other content being controlling as to the agreement between the parties hereto.

Section 6.6 Singular and Plural. Words used herein in the singular, where the context so permits, shall be deemed to include the plural and vice versa. The definitions of words in the singular herein shall apply to such words when used in the plural where the context so permits and vice versa.

Section 6.7 Governing Law. This Agreement is a contract made under and shall be construed in accordance with and governed by the laws of the United States of America and the State of Louisiana.

Section 6.8 Successors and Assigns. (a) All covenants and agreements contained by or on behalf of the Debtor in this Agreement shall bind its successors and assigns and shall inure to the benefit of the Lender and its successors and assigns.

(b) This Agreement is for the benefit of the Lender and for such other Person or Persons as may from time to time become or be the holders of any of the Indebtedness, and this Agreement shall be transferable and negotiable, with the same force and effect and to the same extent as the Indebtedness may be transferable, it being understood that, upon the transfer or assignment by the Lender of any of the Indebtedness, the legal holder of such Indebtedness shall have all of the rights granted to the Lender under this Agreement.

(c) The Debtor hereby recognizes and agrees that the Lender may, from time to time, one or more times, transfer all or any portion of the Indebtedness to one or more third parties. Such transfers may include, but are not limited to, sales of participation interests in such Indebtedness in favor of one or more third party lenders. Upon any transfer of all or any portion of the Indebtedness, the Lender may transfer and deliver any or all of the Proceeds to the transferee of such Obligation and such Proceeds shall secure any and all of the Obligation in favor of such a transferee then existing and thereafter arising, and after any such transfer has taken place, the Lender shall be fully discharged from any and all future liability and responsibility to Debtor with respect to such Proceeds, and the transferee thereafter shall be vested with all the powers, rights and duties with respect to such Proceeds.

Section 6.9 Counterparts. This Agreement may be executed in two or more counterparts, and it shall not be necessary that the signatures of all parties hereto be contained on any one counterpart hereof; each counterpart shall be deemed an original, but all of which together shall constitute one and the same instrument.

THE NEXT PAGE IS THE SIGNATURE PAGE

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

DEBTOR:

TELKONET, INC.

By: _____

Name: _____

Title: _____

ETHOSTREAM LLC

By: _____

Name: _____

Title: _____

**Media Contacts:**

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Garrett Axford, Georgina Garrett / Simon Jones, 866.940.9987, +44.1903.854900 mail@garrett-axford.co.uk

For Immediate Release**Telkonet Announces Completion of Funding Arrangement**

Funding will support energy management and hospitality solutions for this growing market segment

September 10, 2008: Germantown, MD – Telkonet, Inc. (AMEX:TKO), the leading provider of innovative, centrally managed solutions for integrated energy management, networking, building automation and proactive support services, announced today that it has entered into a two-year, \$1,000,000 line of credit facility with Thermo Credit, LLC, a funding company specializing in the telecommunications industry. The proceeds from this line of credit, together with the Thermo Credit \$2.5 million receivable financing agreement signed in February 2008, will be used for the working capital requirements of the Company to support growth opportunities and accelerate revenue.

“As we discussed in our second quarter conference call, this completes our goal of securing asset-based financing, helping us to shape the financing to our specific business needs. The funding will enable us to take advantage of the tremendous market potential for our energy management products, as the demand for our technology has been continually growing,” stated Jason Tienor, Telkonet CEO.

This latest inventory-based funding will help Telkonet fulfill the pipeline demand for its energy management products, expand its opportunities with energy-saving programs, as well as continue to increase sequential quarterly growth and achieve its goal of operating cash flow breakeven within 2008.

About Thermo Credit

Thermo Credit, LLC (www.thermocredit.com) is a financial services company focused exclusively on the telecommunications industry. Thermo Credit serves established, well-run companies that need capital to expand or improve their operations. The company provides asset based solutions, loans, lines of credit and capital investment programs. For more information contact Seth Block at (504) 620-3101 or seth@thermocredit.com

About Telkonet

Telkonet’s unique broadband networking solutions currently support more than 2 million network users per month, with its energy management systems optimizing energy consumption in over 95,000 rooms. Telkonet’s technology innovation is underpinned by the highest level of end-to-end quality of service, with comprehensive technical customer support. Its systems deliver wide-ranging functionality, from wired and wireless high-speed Internet access to energy management, IP surveillance and local area networking. Telkonet’s platforms are widely deployed on the global stage – in single buildings and ships, in multi-building complexes, hospitality venues and multi-dwelling units, and at government, education and defense locations.

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Telkonet's innovations include the revolutionary Telkonet Series 5 and the Telkonet iWire System™, which convert a site's existing internal electrical infrastructure into an IP network backbone – quickly, cost-effectively and without disruption. The portfolio also includes the integrated EthoStream product suite, providing a comprehensive and advanced technology management platform for the hospitality industry, differentiated by outstanding remote management tools and a dedicated customer support facility. Networked Telkonet SmartEnergy™ completes the line-up, delivering typical bottom line savings of up to 30% by controlling in-room energy consumption according to occupancy. For more information, please visit www.telkonet.com.

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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).