

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

May 13, 2010

(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)).
-

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On May 13, 2010, the Company entered into an Employment Agreement with Jason Tienor (the “Tienor Employment Agreement”) for a term commencing as of March 16, 2010 and expiring on March 15, 2011. Pursuant to the terms of the Tienor Employment Agreement, Mr. Tienor will continue to serve as President and Chief Executive Officer. Mr. Tienor will receive a base salary of \$200,000 per year and bonuses and benefits based on our internal policies and participation in our incentive and benefit plans.

Mr. Tienor has been employed by us pursuant to an employment agreement dated March 15, 2007 (the “March 15 Agreement”). The March 15 Agreement was for a term of three years, renewable upon the agreement of the parties and provided for, among other things, an annual base salary of \$148,000 per year and bonuses and benefits based on our internal policies and participation in our incentive and benefit plans. On August 20, 2007, Mr. Tienor’s annual salary was increased to \$200,000. Mr. Tienor has served as our President and Chief Executive Officer since December 2007. Notwithstanding the expiration of the March 15 Agreement, Mr. Tienor continued to be employed and to perform services pursuant to the terms of his employment agreement pending completion of a replacement agreement.

On May 13, 2010, the Company entered into an Employment Agreement with Jeffrey Sobieski (the “Sobieski Employment Agreement”) for a term commencing as of March 16, 2010 and expiring on March 15, 2011. Pursuant to the terms of the Sobieski Employment Agreement, Mr. Sobieski will continue to serve as Chief Operating Officer. Mr. Sobieski will receive a base salary of \$190,000 per year and bonuses and benefits based on our internal policies and participation in our incentive and benefit plans.

Mr. Sobieski has been employed by us pursuant to an employment agreement dated March 15, 2007 (the “March 15 Agreement”). The March 15 Agreement was for a term of three years, renewable upon the agreement of the parties and provided for, among other things, an annual base salary of \$148,000 per year and bonuses and benefits based on our internal policies and participation in our incentive and benefit plans. On December 11, 2007, Mr. Sobieski’s annual salary was increased to \$190,000. Mr. Sobieski has served as our Chief Operating Officer since June 2008. Notwithstanding the expiration of the March 15 Agreement, Mr. Sobieski continued to be employed and to perform services pursuant to the terms of his employment agreement pending completion of a replacement agreement.

The foregoing descriptions of the Tienor Employment Agreement and Sobieski Employment Agreement do not purport to be complete, and are qualified in their entirety by reference to the Tienor Employment Agreement and Sobieski Employment Agreement, copies of which are attached hereto as Exhibits 10.1 and 10.2 and incorporated herein by reference.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

- 10.1 Tienor Employment Agreement
 - 10.2 Sobieski Employment Agreement
-

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: May 13, 2010

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

EMPLOYMENT AGREEMENT

THIS AGREEMENT is dated May 13, 2010 by and between **TELKONET, INC.**, a Utah corporation ("TELKONET" or "Company") and **JASON TIENOR** ("Executive").

WHEREAS, TELKONET desires to employ Executive and to secure for itself the experience, abilities and services of Executive in the capacity of President and Chief Executive Officer of TELKONET upon the terms and conditions specified herein; and

WHEREAS, Executive desires to so provide his services to TELKONET, upon the terms and conditions specified herein.

NOW, THEREFORE, in consideration of the mutual covenants contained herein, and for such other good and valuable consideration, the receipt and sufficiency of which are hereby conclusively acknowledged, the parties, intending to be legally bound, agree as follows:

1. Duties and Scope of Employment.

(a) Positions and Duties. TELKONET hereby employs Executive in the capacity of President and CEO of TELKONET to perform such executive, management and administrative services and other customary duties of those positions consistent with Executive's position as the most senior executive officer within the Company as set forth in the TELKONET by-laws and as TELKONET, by action of its Board of Directors, may provide from time to time. During the term of this Agreement, Executive shall devote his full time, ability and attention to the business of TELKONET on a regular, "best efforts," and professional basis and at all times such efforts shall be under the direction of the Board of Directors.

(b) Board Membership. Executive was appointed to serve as a member of the Board prior to the Effective Date. During the Employment Term, at each annual meeting of the Company's stockholders at which Executive's term as a member of the Board has otherwise expired, the Company will nominate Executive to serve as a member of the Board. Executive's service as a member of the Board will be subject to any required stockholder approval.

2. Term. The term of this Agreement (the "Term") shall commence as of March 16, 2010 and shall expire on March 15, 2011. This Term may be extended by the mutual agreement of both parties unless the Executive is terminated as provided in Section 6.

3. Extent of Services. During the Term and any extension thereof, Executive shall devote his full time and efforts to the performance, to the best of his abilities, of such duties and responsibilities, as described in Section 1 above, and as the Board of Directors shall determine, consistent therewith.

4. Compensation.

(a) Salary. Executive shall be paid Two Hundred Thousand Dollars (\$200,000.00) on an annualized basis in accordance with TELKONET's normal payroll practices, and subject to all lawfully required withholding. The base salary may be increased annually as determined by the Board of Directors.

(b) **Bonus.** The Board of Directors of TELKONET and the Executive will agree upon milestones for bonus achievement. The actual bonus amount will be determined by the Board of Directors.

(c) **Executive Participation in TELKONET Staff Benefits Plans.** During the Term, Executive shall be entitled to participate in any group health programs and other benefit plans, which may be instituted from time-to-time for TELKONET employees, and for which Executive qualifies under the terms of such plans. All such benefits shall be provided on the same terms and conditions as generally apply to all other TELKONET employees under these plans and may be modified by TELKONET from time-to-time.

(d) **Expenses.** Executive shall be reimbursed by TELKONET for all ordinary, reasonable, customary and necessary expenses incurred by him in the performance of his duties and responsibilities. Executive agrees to prepare documentation for such expenses as may be necessary for TELKONET to comply with the applicable rules and regulations of the Internal Revenue Service. TELKONET will provide a monthly stipend equal to \$700 to Executive for the purpose of obtaining an auto for the Executive's business use.

5. Vacation. At full pay and without any adverse effect to his compensation, provided that all other terms and conditions of this Agreement are satisfied, Executive shall be entitled to four (4) weeks of vacation for each full calendar year during the term of this Agreement. Executive agrees to schedule his vacation leave in advance upon written notice to the Board of Directors. Carryover of vacation days shall be consistent with Company policy.

6. Termination. This Agreement shall terminate in accordance with Section 2 of this Agreement, or upon the first to occur of any of the following events:

(a) The death of Executive;

(b) The mutual consent of Executive and TELKONET;

(c) "Cause" exists for termination. For purposes of this Agreement, "cause" shall mean the occurrence of any of the following: (1) theft, fraud, embezzlement, or any other act of dishonesty by Executive; (2) any material breach by Executive of any provision of this Agreement which breach is not cured within a reasonable time (but not to exceed thirty (30) days) after written notification thereof to Executive by TELKONET; (3) any habitual neglect of duty or misconduct of Executive in discharging any of his duties and responsibilities under this Agreement after a written demand for performance was delivered to Executive that specifically identified the manner in which the Board believed the Executive had failed to discharge his duties and responsibilities, and the Executive failed to resume substantial performance of such duties and responsibilities on a continuous basis immediately following such demand; (4) commission by Executive of a felony or any offense involving moral turpitude; or (5) any default of Executive's obligations hereunder, or any failure or refusal of Executive to comply with the policies, rules and regulations of TELKONET generally applicable to TELKONET employees, which default, failure or refusal is not cured within a reasonable time (but not to exceed thirty (30) days) after written notification thereof to Executive by TELKONET. If cause exists for termination, Executive shall be entitled to no further compensation, except for accrued leave and vacation and except as may be required by applicable law.

(d) "Good reason" exists for Executive to terminate his employment with TELKONET. For purposes of this Agreement, "good reason" shall mean the occurrence of any of the following: (1) any material adverse reduction in the scope of Executive's authority or responsibilities; (2) any reduction in the amount of Executive's compensation or participation in any employee benefits; or (3) Executive's principal place of employment is actually or constructively moved to any office or other location 50 miles or more outside of Milwaukee, Wisconsin. If Executive terminates his employment with TELKONET for "good reason," then, upon notice to TELKONET by Executive of such termination, TELKONET shall continue to pay Executive's base salary and provide Executive with continued participation in each employee benefit plan in which Executive participated immediately prior to the termination date for the period starting on the first day after the termination date and ending upon expiration of the Term.

(e) If Executive is terminated by TELKONET for any reason other than for "cause," then Executive shall receive: (i) an amount equal to Executive's base salary for the period starting on the first day after the termination and ending upon the expiration of the Term payable in accordance with the Company's payroll schedule applicable to all employees and (ii) reimbursement for any applicable premiums Executive pays, for a period of eighteen (18) months, or if earlier, until Executive is eligible for similar benefits from another employer, if the Executive or any of his dependents is eligible for and elects COBRA continuation coverage (as described in Section 4980B of the Internal Revenue Code of 1986, as amended (the "Code") under the Company's health insurance plan.

(f) In the event TELKONET fails to renew this Agreement upon expiration of the Term, then TELKONET shall continue to pay Executive's base salary for a period of three months following expiration of the Term and reimburse Executive for any applicable premiums Executive pays, during such period, or if earlier, until Executive is eligible for similar benefits from another employer, if the Executive or any of his dependents is eligible for and elects COBRA continuation coverage (as described in Section 4980B of the Internal Revenue Code of 1986, as amended (the "Code") under the Company's health insurance plan.

(g) In the event of a termination under (a), (b), (c) or (d) of this paragraph 6, within thirty (30) days of the separation date, TELKONET shall make a lump sum payment of (i) any back pay then due and owing and (ii) TELKONET'S obligations under that certain Promissory Note dated as of April 26, 2010. Notwithstanding anything to the contrary herein, this Agreement shall not terminate or expire under (e) and (f) of this paragraph six unless and until (iii) Executive is reimbursed for any back pay then due and owing and (iv) TELKONET'S obligations under the Promissory Note are satisfied.

(h) If Executive's employment terminates by reason of death or disability, then (i) Executive will be entitled to receive benefits only in accordance with the Company's then applicable plans, policies, and arrangements.

(i) Separation Agreement and Release of Claims. The receipt of any severance pursuant to this Agreement will be subject to Executive signing and not revoking a separation agreement and release of claims (the "Release") in a form reasonably acceptable to the Company which becomes effective within sixty (60) days following Executive's separation from service. The Release will provide (among other things) that Executive will not disparage the Company, its directors, or its executive officers for 12 months following the date of termination and the Company will instruct its officers and directors not to disparage the Executive. No severance pursuant to this Agreement will be paid or provided until the Release becomes effective.

(j) **No Duty to Mitigate.** Executive will not be required to mitigate the amount of any payment contemplated by this Agreement, nor will any earnings that Executive may receive from any other source reduce any such payment.

(k) **No-Inducement.** In the event of a termination of Executive's employment that otherwise would entitle Executive to the receipt of severance and other benefits pursuant to this Agreement, Executive agrees that as a condition to receipt of such severance, during the 12-month period following termination of employment, Executive, directly or indirectly, whether as employee, owner, sole proprietor, partner, director, founder or otherwise, will not, solicit, induce, or influence any person to modify their employment or consulting relationship with the Company (the "No-Inducement"). If Executive breaches the No-Inducement, all payments and benefits to which Executive otherwise may be entitled pursuant to this Section 6 will cease immediately.

7. **Surrender of Books and Papers.** Upon termination of this Agreement (irrespective of the time, manner, or cause of termination, be it for cause or otherwise), Executive shall immediately surrender to TELKONET all books, records, or other written papers or documents entrusted to him or which he has otherwise acquired pertaining to TELKONET and all other TELKONET property in Executive's possession, custody or control.

8. **Inventions and Patents.** Executive agrees that Executive will promptly from time-to-time fully inform and disclose to TELKONET any and all ideas, concepts, copyrights, copyrightable material, developments, inventions, designs, improvements and discoveries of whatever nature that Executive may have or produce during the term of Executive's employment under this Agreement that pertain or relate to the then current business of TELKONET (the "Creations"), whether conceived by Executive alone or with others and whether or not conceived during regular working hours. All Creations shall be the exclusive property of TELKONET and shall be "works made for hire" as defined in 17 U.S.C. §101, and TELKONET shall own all rights in and to the Creations throughout the world, without payment of royalty or other consideration to Executive or anyone claiming through Executive. Executive hereby transfers and assigns to TELKONET (or its designee) all right, title and interest in and to every Creation. Executive shall assist TELKONET in obtaining patents or copyrights on all such inventions, designs, improvements and discoveries being patentable or copyrightable by Executive or TELKONET and shall execute all documents and do all things reasonably necessary (at TELKONET'S sole cost and expense) to obtain letters of patent or copyright, vest the TELKONET with full and exclusive title thereto, and protect the same against infringement by third parties, and such assistance shall be given by Executive, if needed, after termination of this Agreement for whatever cause or reason. Executive hereby represents and warrants that Executive has no current or future obligation with respect to the assignment or disclosure of any or all developments, inventions, designs, improvements and discoveries of whatever nature to any previous Employer, entity or other person and that Executive does not claim any rights or interest in or to any previous unpatented or uncopyrighted developments, inventions, designs, improvements or discoveries.

9. Trade Secrets, Non-Competition and Non-Solicitation.

(a) **Trade Secrets.** Contemporaneous with the execution of this Agreement and during the term of employment under this Agreement, TELKONET shall deliver to Executive or permit Executive to have access to and become familiar with various confidential information and trade secrets of TELKONET, including without limitation, data, production methods, customer lists, product format or developments, other information concerning the business of TELKONET and other unique processes, procedures, services and products of TELKONET, which are regularly used in the operation of the business of the TELKONET (collectively, the “Confidential Information”) For purposes of the preceding sentence, information is not treated as being Confidential Information if it: (i) is or becomes generally available to the public other than by Executive in violation of this Agreement; (ii) is obtained by Executive in good faith from a third party who discloses such information to Executive on a non-confidential basis without violating any obligation of confidentiality or secrecy relating to the information disclosed; (iii) is independently developed by Executive outside the scope of his employment without use of Confidential Information; or (iv) is Executive’s personnel information. Executive shall not disclose any of the Confidential Information that he receives from TELKONET or their clients and customers in the course of his employment with TELKONET, directly or indirectly, nor use it in any way, either during the term of this Agreement or for a period of five (5) years thereafter, except as required in the course of employment with TELKONET. Executive further acknowledges and agrees that Executive owes TELKONET, a fiduciary duty to preserve and protect all Confidential Information from unauthorized disclosure or unauthorized use. All files, records, documents, drawings, graphics, processes, specifications, equipment and similar items relating to the business of TELKONET, whether prepared by Executive or otherwise coming into Executive’s possession in the course of his employment with TELKONET, shall remain the exclusive property of TELKONET and shall not be removed from the premises of TELKONET without the prior written consent of TELKONET unless removed in relation to the performance of Executive’s duties under this Agreement. Any such files, records, documents, drawings, graphics, specifications, equipment and similar items, and any and all copies of such materials which have been removed from the premises of TELKONET, shall be returned by Executive to TELKONET. For purposes of this Section 9, “TELKONET” means Telkonet, Inc., including its subsidiaries and affiliates and all successors and predecessors in interest to TELKONET.

(b) **Non-Competition.** Executive acknowledges that he will be provided with and have access to the Confidential Information, the unauthorized use or disclosure of which would cause irreparable injury to TELKONET, that TELKONET’s willingness to enter into this Agreement is based in material part on Executive’s agreement to the provisions of this Section 9(b) and that Executive’s breach of the provisions of this Section would materially and irreparably damage TELKONET. In consideration for TELKONET’s disclosure of Confidential Information to Executive, Executive’s access to the Confidential Information, and the salary paid to executive hereunder, Executive agrees that during the term of Executive’s employment under this Agreement and for one (1) year after the termination of Executive’s employment and regardless whether such termination is with or without cause, Executive shall not, directly or indirectly, either as an executive, employee, employer, consultant, agent, principal, partner, stockholder, corporate officer, director, advisor or in any other individual or representative capacity, engage or participate in any business that is in competition in any manner whatsoever with the Restricted Business (as defined herein) in North America. “Restricted Business” means any business conducted by TELKONET at any time prior to or during Executive’s employment pursuant to this Agreement.

(c) **Reasonableness of Restrictions.** Executive acknowledges that the restrictions set forth in Section 9(b) of this Agreement are reasonable in scope and necessary for the protection of the business and goodwill of TELKONET. Executive agrees that should any portion of the covenants in Section 9 be unenforceable because of the scope thereof or the period covered thereby or otherwise, the covenant shall be deemed to be reduced and limited to enable it to be enforced to the maximum extent permissible under the laws and public policies applied in the jurisdiction in which enforcement is sought.

(d) Injunctive Relief, Extension of Restrictive Period. In the event of a breach of any of the covenants by Executive or TELKONET contained in this Agreement, it is understood that damages will be difficult to ascertain, and either party may petition a court of law or equity for injunctive relief in addition to any other relief which Executive or TELKONET may have under the law, including but not limited to reasonable attorneys' fees.

10. Indemnification and Insurance. Executive will be covered under the Company's insurance policies and, subject to applicable law, will be provided indemnification to the maximum extent permitted by the Company's bylaws, Certificate of Incorporation, and standard form of Indemnification Agreement, with such insurance coverage and indemnification to be in accordance with the Company's standard practices for senior executive officers but on terms no less favorable than provided to any other Company senior executive officer or director.

11. Miscellaneous.

(a) This Agreement shall be binding upon the parties and their respective heirs, executors, administrators, successors and assigns. Executive shall not assign any part of his rights under this Agreement without the prior written consent of TELKONET.

(b) This Agreement contains the entire agreement and understanding between the parties and supersedes any and all prior understandings and agreements between the parties regarding Executive's employment.

(c) No modification hereof shall be binding unless made in writing and signed by the party against whom enforcement is sought. No waiver of any provisions of this Agreement shall be valid unless the same is in writing and signed by the party against whom it is sought to be enforced, unless it can be shown through custom, usage or course of action.

(d) This Agreement is executed in, and it is the intention of the parties hereto that it shall be governed by, the laws of the State of Wisconsin without giving effect to applicable conflict of laws provisions.

(e) The provisions of this Agreement shall be deemed to be severable, and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof.

(f) Any notice or communication permitted or required by this Agreement shall be in writing and shall become effective upon personal service, or service by wire transmission, which has been acknowledged by the other party as being received, or two (2) days after its mailing by certified mail, return receipt requested, postage prepaid addressed as follows:

(1) If to TELKONET:

Attn: General Counsel
Telkonet, Inc.
10200 Innovation Drive
Milwaukee, WI 53226

(2) If to Executive, to:

Jason Tienor
at the last residential address known by the Company as provided by Executive in writing.

(g) Acknowledgment. Executive acknowledges that he has had the opportunity to discuss this matter with and obtain advice from his private attorney, has had sufficient time to, and has carefully read and fully understands all the provisions of this Agreement, and is knowingly and voluntarily entering into this Agreement.

(h) Counterparts. This Agreement may be executed in counterparts, and each counterpart will have the same force and effect as an original and will constitute an effective, binding agreement on the part of each of the undersigned.

IN WITNESS WHEREOF, TELKONET and Executive have executed this Agreement as of the date first set forth above.

TELKONET, INC.

EXECUTIVE

By: /s/ Anthony J. Paoni
Name: Anthony J. Paoni
Title: Chairman of the Board

By: /s/ Jason Tienor
Jason Tienor

EMPLOYMENT AGREEMENT

THIS AGREEMENT is dated May 13, 2010 by and between **TELKONET, INC.**, a Utah corporation ("TELKONET" or "Company") and **JEFFREY SOBIESKI** ("Executive").

WHEREAS, TELKONET desires to employ Executive and to secure for itself the experience, abilities and services of Executive in the capacity of Chief Operating Officer of TELKONET upon the terms and conditions specified herein; and

WHEREAS, Executive desires to so provide his services to TELKONET, upon the terms and conditions specified herein;

NOW, THEREFORE, in consideration of the mutual covenants contained herein, and for such other good and valuable consideration, the receipt and sufficiency of which are hereby conclusively acknowledged, the parties, intending to be legally bound, agree as follows:

1 . Duties. Executive will serve as TELKONET's Chief Operating Officer. Executive shall render such executive, management and administrative services and perform such tasks in connection with the affairs and overall operation of TELKONET as is customary for his position, subject to the direction of TELKONET's Chief Executive Officer and Board of Directors. During the term of this Agreement, Executive shall devote his full time, ability and attention to the business of TELKONET on a regular, "best efforts," and professional basis.

2. Term. The term of this Agreement (the "Term") shall commence as of March 16, 2010 shall expire on March 15, 2011. This Term may be extended by the mutual agreement of both parties unless the Executive is terminated as provided in Section 6.

3. Extent of Services. During the Term and any extension thereof, Executive shall devote his full time and efforts to the performance, to the best of his abilities, of such duties and responsibilities as described in Section 1 above, and as the Board of Directors and/or the TELKONET CEO shall determine, consistent therewith.

4. Compensation.

(a) **Salary.** Executive shall be paid One Hundred Ninety Thousand Dollars (\$190,000.00) on an annualized basis in accordance with TELKONET's normal payroll practices, and subject to all lawfully required withholding. The base salary may be increased annually as determined by the Board of Directors.

(b) **Bonus.** The Board of Directors of TELKONET and the Executive will agree upon milestones for bonus achievement. The actual bonus amount will be determined by the Board of Directors with the recommendation/review by the TELKONET CEO.

(c) **Executive Participation in TELKONET Staff Benefits Plans.** Following the Effective Date, Executive shall be entitled to participate in any group health programs and other benefit plans, which may be instituted from time-to-time for TELKONET employees, and for which Executive qualifies under the terms of such plans. All such benefits shall be provided on the same terms and conditions as generally apply to all other TELKONET employees under these plans and may be modified by TELKONET from time-to-time.

(d) **Expenses.** Subject to approval by the TELKONET CEO, Executive shall be reimbursed by TELKONET for all ordinary, reasonable, customary and necessary expenses incurred by him in the performance of his duties and responsibilities. Executive agrees to prepare documentation for such expenses as may be necessary for TELKONET to comply with the applicable rules and regulations of the Internal Revenue Service. TELKONET will provide a monthly stipend equal to \$700 to Executive for the purpose of obtaining an auto for the Executive's business use.

5. Vacation. At full pay and without any adverse effect to his compensation, provided all other terms and conditions of this Agreement are satisfied, Executive shall be entitled to four (4) weeks of vacation for each full calendar year during the term of this Agreement. Executive agrees to schedule his vacation leave in advance upon written notice to the ETHOSTREAM CEO. Carryover of vacation days in excess of two weeks is subject to the prior approval of the TELKONET CEO.

6. Termination. This Agreement shall terminate in accordance with Section 2 of this Agreement, or upon the first to occur of any of the following events:

(a) The death of Executive;

(b) The mutual consent of Executive and TELKONET;

(c) "Cause" exists for termination. For purposes of this Agreement, "cause" shall mean the occurrence of any of the following: (1) theft, fraud, embezzlement, or any other act of dishonesty by Executive; (2) any material breach by Executive of any provision of this Agreement which breach is not cured within a reasonable time (but not to exceed thirty (30) days after written notification thereof to Executive by TELKONET; (3) any habitual neglect of duty or misconduct of Executive in discharging any of his duties and responsibilities under this Agreement after a written demand for performance was delivered to Executive that specifically identified the manner in which the Board believed the Executive had failed to discharge his duties and responsibilities, and the Executive failed to resume substantial performance of such duties and responsibilities on a continuous basis immediately following such demand; (4) commission by Executive of a felony or any offense involving moral turpitude; or (5) any default of Executive's obligations hereunder, or any failure or refusal of Executive to comply with the policies, rules and regulations of TELKONET generally applicable to TELKONET employees, which default, failure or refusal is not cured within a reasonable time (but not to exceed thirty (30) days) after written notification thereof to Executive by TELKONET. If cause exists for termination, Executive shall be entitled to no further compensation, except for accrued leave and vacation and except as may be required by applicable law.

(d) "Good reason" exists for Executive to terminate his employment with TELKONET. For purposes of this Agreement, "good reason" shall mean the occurrence of any of the following: (1) any material adverse reduction in the scope of Executive's authority or responsibilities as CIO of ETHOSTREAM; (2) any reduction in the amount of Executive's compensation or participation in any employee benefits; or (3) Executive's principal place of employment is actually or constructively moved to any office or other location 50 miles or more outside of Milwaukee, Wisconsin. If Executive terminates his employment with TELKONET for "good reason," then, upon notice to TELKONET by Executive of such termination, TELKONET shall continue to pay Executive's base salary and provide Executive with continued participation in each employee benefit plan in which Executive participated immediately prior to the termination date for the period starting on the first day after the termination date and ending upon the expiration of the Term.

(e) If Executive is terminated by TELKONET for any reason other than for “cause,” then Executive will receive: an amount equal to Executive's base salary for the period starting on the first day after the termination and ending upon the expiration of the then current term payable in accordance with the Company’s payroll schedule applicable to all employees and (ii) reimbursement for any applicable premiums Executive pays, for a period of eighteen (18) months, or if earlier, until Executive is eligible for similar benefits from another employer, if the Executive or any of his dependents is eligible for and elects COBRA continuation coverage (as described in Section 4980B of the Internal Revenue Code of 1986, as amended (the “Code”) under the Company’s health insurance plan. In the event TELKONET fails to renew this Agreement upon expiration of the Term, then TELKONET shall continue to pay Executive's base for a period of three months following expiration of the Term and reimburse Executive for any applicable premiums Executive pays, during such three month period, or if earlier, until Executive is eligible for similar benefits from another employer, if the Executive or any of his dependents is eligible for and elects COBRA continuation coverage (as described in Section 4980B of the Internal Revenue Code of 1986, as amended (the “Code”) under the Company’s health insurance plan.

(f) In the event TELKONET fails to renew this Agreement upon expiration of the Term, then TELKONET shall continue to pay Executive's base salary for a period of three months following expiration of the Term and reimburse Executive for any applicable premiums Executive pays, during such period, or if earlier, until Executive is eligible for similar benefits from another employer, if the Executive or any of his dependents is eligible for and elects COBRA continuation coverage (as described in Section 4980B of the Internal Revenue Code of 1986, as amended (the “Code”) under the Company’s health insurance plan.

(g) In the event of a termination under (a), (b), (c) or (d) of this paragraph 6, within thirty (30) days of the separation date, TELKONET shall make a lump sum payment of (i) any back pay then due and owing and (ii) TELKONET’S obligations under that certain Promissory Note dated as of April 26, 2010. Notwithstanding anything to the contrary herein, this Agreement shall not terminate or expire under (e) and (f) of this paragraph six unless and until (iii) Executive is reimbursed for any back pay then due and owing and (iv) TELKONET’S obligations under the Promissory Note are satisfied.

(h) If Executive’s employment terminates by reason of death or disability, then (i) Executive will be entitled to receive benefits only in accordance with the Company’s then applicable plans, policies, and arrangements.

(i) Separation Agreement and Release of Claims. The receipt of any severance pursuant to this Agreement will be subject to Executive signing and not revoking a separation agreement and release of claims (the “Release”) in a form reasonably acceptable to the Company which becomes effective within sixty (60) days following Executive’s separation from service. The Release will provide (among other things) that Executive will not disparage the Company, its directors, or its executive officers for 12 months following the date of termination and the Company will instruct its officers and directors not to disparage the Executive. No severance pursuant to this Agreement will be paid or provided until the Release becomes effective.

(j) No Duty to Mitigate. Executive will not be required to mitigate the amount of any payment contemplated by this Agreement, nor will any earnings that Executive may receive from any other source reduce any such payment.

(k) **No-Inducement.** In the event of a termination of Executive's employment that otherwise would entitle Executive to the receipt of severance and other benefits pursuant to this Agreement, Executive agrees that as a condition to receipt of such severance, during the 12-month period following termination of employment, Executive, directly or indirectly, whether as employee, owner, sole proprietor, partner, director, founder or otherwise, will not, solicit, induce, or influence any person to modify their employment or consulting relationship with the Company (the "No-Inducement"). If Executive breaches the No-Inducement, all payments and benefits to which Executive otherwise may be entitled pursuant to this Section 6 will cease immediately.

7. **Surrender of Books and Papers.** Upon termination of this Agreement (irrespective of the time, manner, or cause of termination, be it for cause or otherwise), Executive shall immediately surrender to TELKONET all books, records, or other written papers or documents entrusted to him or which he has otherwise acquired pertaining to TELKONET and/or ETHOSTREAM and all other TELKONET property in Executive's possession, custody or control.

8. **Inventions and Patents.** Executive agrees that Executive will promptly from time-to-time fully inform and disclose to TELKONET any and all ideas, concepts, copyrights, copyrightable material, developments, inventions, designs, improvements and discoveries of whatever nature that Executive may have or produce during the term of Executive's employment under this Agreement that pertain or relate to the then current business of TELKONET (the "Creations"), whether conceived by Executive alone or with others and whether or not conceived during regular working hours. All Creations shall be the exclusive property of TELKONET and shall be "works made for hire" as defined in 17 U.S.C. §101, and TELKONET shall own all rights in and to the Creations throughout the world, without payment of royalty or other consideration to Executive or anyone claiming through Executive hereby transfers and assigns to TELKONET (or its designee) all right, title and interest in and to every Creation. Executive shall assist TELKONET in obtaining patents or copyrights on all such inventions, designs, improvements and discoveries being patentable or copyrightable by Executive or TELKONET and shall execute all documents and do all things reasonably necessary (at TELKONET's sole cost and expense) necessary to obtain letters of patent or copyright, vest the TELKONET with full and exclusive title thereto, and protect the same against infringement by third parties, and such assistance shall be given by Executive, if needed, after termination of this Agreement for whatever cause or reason. Executive hereby represents and warrants that Executive has no current or future obligation with respect to the assignment or disclosure of any or all developments, inventions, designs, improvements and discoveries of whatever nature to any previous Employer, entity or other person and that Executive does not claim any rights or interest in or to any previous unpatented or uncopyrighted developments, inventions, designs, improvements or discoveries.

9. **Trade Secrets, Non-Competition and Non-Solicitation.**

(a) **Trade Secrets.** Contemporaneous with the execution of this Agreement and during the term of employment under this Agreement, TELKONET shall deliver to Executive or permit Executive to have access to and become familiar with various confidential information and trade secrets of TELKONET, including without limitation, data, production methods, customer lists, product format or developments, other information concerning the business of TELKONET and other unique processes, procedures, services and products of TELKONET, which are regularly used in the operation of the business of TELKONET, (collectively, the "Confidential Information"). For purposes of the preceding sentence, information is not treated as being Confidential Information if it: (i) is or becomes generally available to the public other than by Executive in violation of this Agreement; (ii) is obtained by Executive in good faith from a third party who discloses such information to Executive on a non-confidential basis without violating any obligation of confidentiality or secrecy relating to the information disclosed; (iii) is independently developed by Executive outside the scope of his employment without use of Confidential Information; or (iv) is Executive's personnel information. Executive shall not disclose any of the Confidential Information that he receives from TELKONET or their clients and customers in the course of his employment with TELKONET, directly or indirectly, nor use it in any way, either during the term of this Agreement or for a period of five (5) years thereafter, except as required in the course of employment with TELKONET. Executive further acknowledges and agrees that Executive owes TELKONET, a fiduciary duty to preserve and protect all Confidential Information from unauthorized disclosure or unauthorized use. All files, records, documents, drawings, graphics, processes, specifications, equipment and similar items relating to the business of TELKONET, whether prepared by Executive or otherwise coming into Executive's possession in the course of his employment with TELKONET, shall remain the exclusive property of TELKONET and shall not be removed from the premises of TELKONET without the prior written consent of TELKONET unless removed in relation to the performance of Executive's duties under this Agreement. Any such files, records, documents, drawings, graphics, specifications, equipment and similar items, and any and all copies of such materials which have been removed from the premises of TELKONET, shall be returned by Executive to TELKONET. For purposes of this Section 9, "TELKONET" means Telkonet, Inc., including its subsidiaries and affiliates and all successors and predecessors in interest to TELKONET.

(b) Non-Competition. Executive acknowledges that he will be provided with and have access to the Confidential Information, the unauthorized use or disclosure of which would cause irreparable injury to TELKONET, that TELKONET's willingness to enter into this Agreement is based in material part on Executive's agreement to the provisions of this Section 9(b) and that Executive's breach of the provisions of this Section would materially and irreparably damage TELKONET. In consideration for TELKONET's disclosure of Confidential Information to Executive, Executive's access to the Confidential Information, and the salary paid to executive by ETHOSTREAM hereunder, Executive agrees that during the term of Executive's employment with ETHOSTREAM under this Agreement and for one (1) year after the termination of Executive's employment and regardless whether such termination is with or without cause, Executive shall not, directly or indirectly, either as an executive, employee, employer, consultant, agent, principal, partner, stockholder, corporate officer, director, advisor or in any other individual or representative capacity, engage or participate in any business that is in competition in any manner whatsoever with the Restricted Business (as defined herein) in North America. "Restricted Business" means any business conducted by TELKONET, either itself or through ETHOSTREAM, at any time prior to or during Executive's employment pursuant to this Agreement.

(c) Reasonableness of Restrictions. Executive acknowledges that the restrictions set forth in Section 9(b) of this Agreement are reasonable in scope and necessary for the protection of the business and goodwill of TELKONET. Executive agrees that should any portion of the covenants in Section 9 be unenforceable because of the scope thereof or the period covered thereby or otherwise, the covenant shall be deemed to be reduced and limited to enable it to be enforced to the maximum extent permissible under the laws and public policies applied in the jurisdiction in which enforcement is sought.

(d) Injunctive Relief; Extension of Restrictive Period. In the event of a breach of any of the covenants by Executive or TELKONET contained in this Agreement, it is understood that damages will be difficult to ascertain, and either party may petition a court of law or equity for injunctive relief in addition to any other relief which Executive or TELKONET may have under the law, including but not limited to reasonable attorneys' fees.

10. Indemnification and Insurance. Executive will be covered under the Company's insurance policies and, subject to applicable law, will be provided indemnification to the maximum extent permitted by the Company's bylaws, Certificate of Incorporation, and standard form of Indemnification Agreement, with such insurance coverage and indemnification to be in accordance with the Company's standard practices for senior executive officers but on terms no less favorable than provided to any other Company senior executive officer or director.

11. Miscellaneous.

(a) This Agreement shall be binding upon the parties and their respective heirs, executors, administrators, successors and assigns. Executive shall not assign any part of his rights under this Agreement without the prior written consent of TELKONET.

(b) This Agreement contains the entire agreement and understanding between the parties and supersedes any and all prior understandings and agreements between the parties regarding Executive's employment.

(c) No modification hereof shall be binding unless made in writing and signed by the party against whom enforcement is sought. No waiver of any provisions of this Agreement shall be valid unless the same is in writing and signed by the party against whom it is sought to be enforced, unless it can be shown through custom, usage or course of action.

(d) This Agreement is executed in, and it is the intention of the parties hereto that it shall be governed by, the laws of the State of Wisconsin without giving effect to applicable conflict of laws provisions.

(e) The provisions of this Agreement shall be deemed to be severable, and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof.

(f) Any notice or communication permitted or required by this Agreement shall be in writing and shall become effective upon personal service, or service by wire transmission, which has been acknowledged by the other party as being received, or two (2) days after its mailing by certified mail, return receipt requested, postage prepaid addressed as follows:

(1) If to TELKONET:

Attn: General Counsel
Telkonet, Inc.
10200 Innovation Drive
Milwaukee, WI 53226

(2) If to Executive, to:

Jeffrey Sobieski
at the last residential address known by the Company as provided by Executive in writing.

(g) Acknowledgment. Executive acknowledges that he has had the opportunity to discuss this matter with and obtain advice from his private attorney, has had sufficient time to, and has carefully read and fully understands all the provisions of this Agreement, and is knowingly and voluntarily entering into this Agreement.

(h) Counterparts. This Agreement may be executed in counterparts, and each counterpart will have the same force and effect as an original and will constitute an effective, binding agreement on the part of each of the undersigned.

IN WITNESS WHEREOF, TELKONET and Executive have executed this Agreement as of the date first set forth above.

TELKONET, INC.

EXECUTIVE

By: /s/ Anthony J. Paoni

Name: Anthony J. Paoni

Title: Chairman of the Board

By: /s/ Jeffrey Sobieski

Jeffrey Sobieski