

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Date of Report (Date of earliest event reported): **May 1, 2012**

TELKONET, INC.
(Exact name of registrant as specified in its charter)

Utah
(State or other jurisdiction
of incorporation)

000-31972
(Commission
File Number)

87-0627421
(IRS Employer
Identification No.)

10200 Innovation Drive, Suite 300
Milwaukee, Wisconsin
(Address of principal executive offices)

53226
(Zip Code)

Registrant's telephone number, including area code: (414) 223-0473

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:

- 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 1, 2012, Telkonet, Inc. (the “Company”) appointed Richard E. Mushrush to the position of Chief Financial Officer of the Company and appointed Matthew P. Koch to the position of Chief Operating Officer of the Company. Mr. Koch is the successor in the position to Jeffrey J. Sobieski, who was appointed to the position of Chief Technology Officer of the Company, as described below.

Mr. Mushrush, 43, served as Acting Chief Financial Officer of the Company from November 2010 to April 2012 and as the Company’s Contoller from January 2009 to 2010. Prior to joining the Company, Mr. Mushrush was Contoller and Business Unit Manager for a division of Illinois Tool Works from 2004 to 2009.

Mr. Koch, 34, served as Vice President of Operations of the Company from December 2007 to April 2012, as Director of Engineering for EthoStream, LLC, the Company’s wholly-owned subsidiary (“EthoStream”) from April 2007 to December 2007, as lead engineer for Ethostream from March 2004 to April 2007. Prior to joining the Company, Mr. Koch was a system administrator for Geneva OnLine from 2001 to 2004 and from 1998 to 2000.

In connection with their appointments, Mr. Mushrush and Mr. Koch each entered into an employment agreement with the Company for a term commencing as of May 1, 2012 and expiring as of May 1, 2013. Under these employment agreements, Mr. Mushrush and Mr. Koch will receive a base salary of \$110,000 per year and \$130,000 per year, respectively, and bonuses and benefits based on the Company’s internal policies and on participation in the Company’s incentive and benefits plans. The term of each of their employment agreements will automatically renew for an additional 12 months unless the parties mutually agree or unless the agreement is terminated.

In addition, on May 1, 2012, the Company entered into an employment agreement with each of Jason L. Tienor and Jeffrey J. Sobieski for a term commencing as of May 1, 2012 and expiring as of May 1, 2014. The terms of each of these employment agreements will automatically renew for an additional 24 months unless the parties mutually agree or unless the agreement is terminated. Pursuant to their respective employment agreements, Mr. Tienor and Mr. Sobieski will receive a base salary of \$200,000 and \$190,000, respectively, and bonuses and benefits based on the Company’s internal policies and on participation in the Company’s incentive and benefit plans.

Effective May 1, 2012, the Company appointed Mr. Sobieski, 36, to the position of Chief Technology Officer of the Company. Mr. Sobieski served as Chief Operating Officer of the Company from June 2008 to April 2012, as the Company’s Executive Vice President, Energy Management, from December 2007 to June 2008 and as Chief Information Officer of EthoStream until December 2007.

Mr. Tienor and Mr. Sobieski each previously executed an employment agreement with the Company dated April 11, 2011 and, notwithstanding the expiration of such agreements, they continued to be employed and to perform services pursuant to the terms of such agreements pending completing of replacement agreements.

On May 1, 2012, the Company entered into an employment agreement with Gerrit J. Reinders for a term commencing as of May 1, 2012 and expiring as of May 1, 2013. The term of his employment agreement will automatically renew for an additional 12 months unless the parties mutually agree or unless the agreement is terminated. Pursuant to his employment agreement, Mr. Reinders will receive a base salary of \$150,000, and bonuses and benefits based on the Company's internal policies and on participation in the Company's incentive and benefit plans.

The foregoing descriptions of the employment agreements do not purport to be complete, and are qualified in their entirety by reference to the respective employment agreements, copies of which are attached hereto as Exhibits 10.1 through 10.5 and incorporated herein by reference.

Item 9.01 Financial Statements and Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
10.1	Employment Agreement, dated May 1, 2012 by and between Telkonet, Inc. and Jason L. Tienor
10.2	Employment Agreement, dated May 1, 2012 by and between Telkonet, Inc. and Jeffrey J. Sobieski
10.3	Employment Agreement, dated May 1, 2012 by and between Telkonet, Inc. and Richard E. Mushrush
10.4	Employment Agreement, dated May 1, 2012 by and between Telkonet, Inc. and Matthew P. Koch
10.5	Employment Agreement, dated May 1, 2012 by and between Telkonet, Inc. and Gerrit J. Reinders

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.

Dated: May 3, 2012

TELKONET, INC.

By: /s/ Jason L. Tienor

Jason L. Tienor

President and Chief Executive Officer

EXHIBIT INDEX

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10.5	Employment Agreement, dated April 30, 2012 by and between Telkonet, Inc. and Gerrit J. Reinders

EMPLOYMENT AGREEMENT

THIS AGREEMENT is dated May 1, 2012 by and between **Telkonet, Inc.**, a Utah corporation (“Telkonet” or “Company”) and **Jason L. 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 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 (“Board”), may request from time to time.

(b) Board Membership. During the Employment Term and upon mutual separation unless otherwise agreed, 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 May 1, 2012 and shall expire on May 1, 2014. Upon expiration this term will automatically renew for an additional twenty-four (24) months unless mutually agreed to otherwise or is terminated pursuant to 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 be subject to all lawfully required withholdings. The base salary may be increased, at any time, 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 and Telkonet’s existing policy. Telkonet will provide a stipend equal to \$323 per pay period to Executive for the purpose of obtaining an auto for the Executive’s business use.

(e) **Equity.** Executive is eligible to participate in the Company's Employee Stock Option Plan, in accordance with the terms of such plan and awards as granted by the Compensation Committee of the Company's Board of Directors.

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 or other designated individuals. 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, 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 six (6) month anniversary date of the termination in accordance with the Company's payroll schedule applicable to all employees and (ii) pay for any applicable health insurance premiums, for a period starting on the first day after the termination and ending upon the six (6) month anniversary date of the termination. If the Executive becomes eligible for similar benefits from another employer, Telkonet will reimburse Executive for the Employee's share of current employer's health insurance premium ending upon the six (6) month anniversary date of the termination;

(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 intentional 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 fourteen (14) 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 continual 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 fourteen (14) 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 75 miles or more outside of Milwaukee, WI. 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, or if such period is less than six (6) months, for a period of six (6) months from notice.

(e) If Executive is terminated by Telkonet for any reason other than for “cause” or Telkonet fails to renew this Agreement upon expiration of the Term, 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 six (6) month anniversary date of the termination in accordance with the Company’s payroll schedule applicable to all employees and (ii) pay for any applicable health insurance premiums , for a period starting on the first day after the termination and ending upon the six (6) month anniversary date of the termination. If the Executive becomes eligible for similar benefits from another employer, Telkonet will reimburse Executive for the Employee’s share of current employer’s health insurance premium ending upon the six (6) month anniversary date of the termination.

(f) 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 any back pay, Executive loans or deferrals then due and owing. 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, Executive loans or deferrals then due and owing.

(g) 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.

(h) 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 thirty (30) 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.

(i) 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.

(j) 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 produced 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 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 the time of separation of the Executive from Telkonet.

(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, Suite 300, Milwaukee, WI 53226.

(2) If to Executive, to: Jason L. 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.

/s/ Glenn A. Garland

/s/ Jason L. Tienor

Chairman - Compensation Committee

Jason L. Tienor

5/1/12

Date

5/1/12

Date

EMPLOYMENT AGREEMENT

THIS AGREEMENT is dated May 1, 2012 by and between **Telkonet, Inc.**, a Utah corporation (“Telkonet” or “Company”) and Jeffrey J. 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 Technology Officer of Telkonet upon the terms and conditions specified herein; and

WHEREAS, Executive desires to 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 Chief Technology Officer of Telkonet to perform such executive, management, development, engineering and administrative services and other customary duties consistent with Executive’s position within the Company, subject to the direction of Telkonet’s Chief Executive Officer and Board of Directors.

2. Term. The term of this Agreement (the “Term”) shall commence as of May 1, 2012 and shall expire on May 1, 2014. Upon expiration this term will automatically renew for an additional twenty-four (24) months unless mutually agreed to otherwise or is terminated pursuant to 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 Telkonet’s Chief Executive Officer 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 be subject to all lawfully required withholdings. The base salary may be increased, at any time, 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 and Telkonet’s existing policy. Telkonet will provide a stipend equal to \$323 per pay period to Executive for the purpose of obtaining an auto for the Executive’s business use.

(e) **Equity.** Executive is eligible to participate in the Company's Employee Stock Option Plan, in accordance with the terms of such plan and awards as granted by the Compensation Committee of the Company's Board of Directors.

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 or other designated individuals. 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, 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 six (6) month anniversary date of the termination in accordance with the Company's payroll schedule applicable to all employees and (ii) pay for any applicable health insurance premiums, for a period starting on the first day after the termination and ending upon the six (6) month anniversary date of the termination. If the Executive becomes eligible for similar benefits from another employer, Telkonet will reimburse Executive for the Employee's share of current employer's health insurance premium ending upon the six (6) month anniversary date of the termination;

(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 intentional 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 fourteen (14) 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 continual 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 fourteen (14) 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 75 miles or more outside of Milwaukee, WI. 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, or if such period is less than six (6) months, for a period of six (6) months from notice.

(e) If Executive is terminated by Telkonet for any reason other than for “cause” or Telkonet fails to renew this Agreement upon expiration of the Term, 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 six (6) month anniversary date of the termination in accordance with the Company’s payroll schedule applicable to all employees and (ii) pay for any applicable health insurance premiums , for a period starting on the first day after the termination and ending upon the six (6) month anniversary date of the termination. If the Executive becomes eligible for similar benefits from another employer, Telkonet will reimburse Executive for the Employee’s share of current employer’s health insurance premium ending upon the six (6) month anniversary date of the termination.

(f) 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 any back pay, Executive loans or deferrals then due and owing. 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, Executive loans or deferrals then due and owing.

(g) 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.

(h) 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 thirty (30) 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.

(i) 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.

(j) 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 produced 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 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 the time of separation of the Executive from Telkonet.

(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, Suite 300, Milwaukee, WI 53226.

(2) If to Executive, to: Jeffrey J. 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.

/s/ Glenn A. Garland

/s/ Jeffrey J. Sobieski

Chairman - Compensation Committee

Jeffrey J. Sobieski

5/1/12
Date

5/1/12
Date

EMPLOYMENT AGREEMENT

THIS AGREEMENT is dated May 1, 2012 by and between **Telkonet, Inc.**, a Utah corporation (“Telkonet” or “Company”) and Richard E. Mushrush (“Executive”).

WHEREAS, Telkonet desires to employ Executive and to secure for itself the experience, abilities and services of Executive in the capacity of Chief Financial 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 Chief Financial Officer of Telkonet to perform such executive, management and administrative services and other customary duties consistent with Executive’s position as a senior executive officer within the Company as set forth in the Telkonet by-laws and as Telkonet, by action of its Chief Executive Officer and Board of Directors (“Board”), may request from time to time.

(b) Location. Executive’s place of work shall be 10200 Innovation Dr., Suite 300, Milwaukee, WI 53226. The Company shall be entitled to require the Executive to travel to work at such other places as business needs require.

2. Term. The term of this Agreement (the “Term”) shall commence as of May 1, 2012 and shall expire on May 1, 2013. Upon expiration this term will automatically renew for an additional twelve (12) months unless mutually agreed to otherwise or is terminated pursuant to Section 6.

3. Extent of Services. During the Term and any extension thereof, Executive shall devote his full time, ability, attention 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 Chief Executive Officer shall determine, consistent therewith.

4. Compensation.

(a) Salary. Executive shall be paid One Hundred Thousand Dollars (\$110,000.00) on an annualized basis in accordance with Telkonet’s normal payroll practices, and be subject to all lawfully required withholdings. The base salary may be increased, at any time, as determined by the Chief Executive Officer and the Board of Directors.

(b) Bonus. The Chief Executive Officer, 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 and Telkonet’s existing policy.

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 Chief Executive Officer or other designated individuals. Carryover of vacation days shall be consistent with Company's existing 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. Executive shall then 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 two (2) month anniversary date of the termination in accordance with the Company's payroll schedule applicable to all employees and (ii) pay for any applicable health insurance premiums, for a period starting on the first day after the termination and ending upon the two (2) month anniversary date of the termination. If the Executive becomes eligible for similar benefits from another employer, Telkonet will reimburse Executive for the Employee's share of current employer's health insurance premium ending upon the two (2) month anniversary date of the termination;

(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 intentional 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 fourteen (14) 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 continual 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 fourteen (14) 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 75 miles or more outside of Milwaukee, WI. 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, or if such period is less than two (2) months, for a period of two (2) months from notice.

(e) If Executive is terminated by Telkonet for any reason other than for “cause” or Telkonet fails to renew this Agreement upon expiration of the Term, 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 two (2) month anniversary date of the termination in accordance with the Company's payroll schedule applicable to all employees and (ii) pay for any applicable health insurance premiums, for a period starting on the first day after the termination and ending upon the two (2) month anniversary date of the termination. If the Executive becomes eligible for similar benefits from another employer, Telkonet will reimburse Executive for the Employee's share of current employer's health insurance premium ending upon the two (2) month anniversary date of the termination.

(f) 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 any back pay, Executive loans or deferrals then due and owing. Notwithstanding anything to the contrary herein, this Agreement shall not terminate or expire under (e) of this paragraph six unless and until (iii) Executive is reimbursed for any back pay, Executive loans or deferrals then due and owing.

(g) 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.

(h) 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 thirty (30) 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.

(i) 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.

(j) 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 produced 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 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 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 the time of separation of the Executive from Telkonet.

(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, Suite 300, Innovation Drive Milwaukee, WI 53226.

(2) If to Executive, to: Richard E. Mushrush 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.

/s/ Glenn A. Garland

/s/ Richard E. Mushrush

Chairman - Compensation Committee

Richard E. Mushrush

5/1/12

Date

5/1/12

Date

EMPLOYMENT AGREEMENT

THIS AGREEMENT is dated May 1, 2012 by and between **Telkonet, Inc.**, a Utah corporation (“Telkonet” or “Company”) and Matthew P. Koch (“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 and Scope of Employment.

(a) Positions and Duties. Telkonet hereby employs Executive in the capacity of Chief Operating Officer of Telkonet to perform such executive, management and administrative services and other customary duties consistent with Executive’s position as a senior executive officer within the Company as set forth in the Telkonet by-laws and as Telkonet, by action of its Chief Executive Officer and Board of Directors (“Board”), may request from time to time.

(b) Location. Executive’s place of work shall be 10200 Innovation Dr., Suite 300, Milwaukee, WI 53226. The Company shall be entitled to require the Executive to travel to work at such other places as business needs require.

2. Term. The term of this Agreement (the “Term”) shall commence as of May 1, 2012 and shall expire on May 1, 2013. Upon expiration this term will automatically renew for an additional twelve (12) months unless mutually agreed to otherwise or is terminated pursuant to Section 6.

3. Extent of Services. During the Term and any extension thereof, Executive shall devote his full time, ability, attention 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 Chief Executive Officer shall determine, consistent therewith.

4. Compensation.

(a) Salary. Executive shall be paid One Hundred Thirty Thousand Dollars (\$130,000.00) on an annualized basis in accordance with Telkonet’s normal payroll practices, and be subject to all lawfully required withholdings. The base salary may be increased, at any time, as determined by the Chief Executive Officer and the Board of Directors.

(b) Bonus. The Chief Executive Officer, 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 and Telkonet’s existing policy.

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 Chief Executive Officer or other designated individuals. Carryover of vacation days shall be consistent with Company's existing 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. Executive shall then 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 two (2) month anniversary date of the termination in accordance with the Company's payroll schedule applicable to all employees and (ii) pay for any applicable health insurance premiums, for a period starting on the first day after the termination and ending upon the two (2) month anniversary date of the termination. If the Executive becomes eligible for similar benefits from another employer, Telkonet will reimburse Executive for the Employee's share of current employer's health insurance premium ending upon the two (2) month anniversary date of the termination;

(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 intentional 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 fourteen (14) 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 continual 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 fourteen (14) 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 75 miles or more outside of Milwaukee, WI. 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, or if such period is less than two (2) months, for a period of two (2) months from notice.

(e) If Executive is terminated by Telkonet for any reason other than for “cause” or Telkonet fails to renew this Agreement upon expiration of the Term, 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 two (2) month anniversary date of the termination in accordance with the Company's payroll schedule applicable to all employees and (ii) pay for any applicable health insurance premiums, for a period starting on the first day after the termination and ending upon the two (2) month anniversary date of the termination. If the Executive becomes eligible for similar benefits from another employer, Telkonet will reimburse Executive for the Employee's share of current employer's health insurance premium ending upon the two (2) month anniversary date of the termination.

(f) 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 any back pay, Executive loans or deferrals then due and owing. Notwithstanding anything to the contrary herein, this Agreement shall not terminate or expire under (e) of this paragraph six unless and until (iii) Executive is reimbursed for any back pay, Executive loans or deferrals then due and owing.

(g) 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.

(h) 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 thirty (30) 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.

(i) 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.

(j) 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 produced 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 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 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 the time of separation of the Executive from Telkonet.

(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, Suite 300, Innovation Drive Milwaukee, WI 53226.

(2) If to Executive, to: Matthew P. Koch 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.

/s/ Glenn A. Garland

/s/ Matthew P. Koch

Chairman - Compensation Committee

Matthew P. Koch

5/1/12

5/1/12

Date

Date

EMPLOYMENT AGREEMENT

THIS AGREEMENT is dated May 1, 2012 by and between **Telkonet, Inc.**, a Utah corporation (“Telkonet” or “Company”) and Gerrit J. Reinders (“Executive”).

WHEREAS, Telkonet desires to employ Executive and to secure for itself the experience, abilities and services of Executive in the capacity of Executive Vice President of Sales & Marketing 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 Executive Vice President of Sales & Marketing of Telkonet to perform such executive, management and administrative services and other customary duties consistent with Executive’s position as a senior executive officer within the Company as set forth in the Telkonet by-laws and as Telkonet, by action of its Chief Executive Officer and Board of Directors (“Board”), may request from time to time.

(b) Location. Executive’s place of work shall be 10200 Innovation Dr., Suite 300, Milwaukee, WI 53226. The Company shall be entitled to require the Executive to travel to work at such other places as business needs require.

2. Term. The term of this Agreement (the “Term”) shall commence as of May 1, 2012 and shall expire on May 1, 2013. Upon expiration this term will automatically renew for an additional twelve (12) months unless mutually agreed to otherwise or is terminated pursuant to Section 6.

3. Extent of Services. During the Term and any extension thereof, Executive shall devote his full time, ability, attention 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 Chief Executive Officer shall determine, consistent therewith.

4. Compensation.

(a) Salary. Executive shall be paid One Hundred Thousand Dollars (\$150,000.00) on an annualized basis in accordance with Telkonet’s normal payroll practices, and be subject to all lawfully required withholdings. The base salary may be increased, but not decreased, at any time during the term of employment as determined by the Chief Executive Officer and the Board of Directors.

(b) Bonus. The Chief Executive Officer, 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 and Telkonet’s existing policy.

(e) Equity. Executive is eligible to participate in the Company's Employee Stock Option Plan, in accordance with the terms of such plan and awards as granted by the Compensation Committee of the Company's Board of Directors.

(f) Commission. Telkonet has established a commission structure for Executive's position based on measurable goals as provided in Exhibit 1.

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 Chief Executive Officer or other designated individuals. Carryover of vacation days shall be consistent with Company's existing 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. Executive shall then 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 three (3) month anniversary date of the termination in accordance with the Company's payroll schedule applicable to all employees and (ii) pay for any applicable health insurance premiums, for a period starting on the first day after the termination and ending upon the three (3) month anniversary date of the termination. If the Executive becomes eligible for similar benefits from another employer, Telkonet will reimburse Executive for the Employee's share of current employer's health insurance premium ending upon the three (3) month anniversary date of the termination;

(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 intentional 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 fourteen (14) 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 continual 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 fourteen (14) 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 75 miles or more outside of Milwaukee, WI. 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, or if such period is less than three (3) months, for a period of three (3) months from notice.

(e) If Executive is terminated by Telkonet for any reason other than for “cause” or Telkonet fails to renew this Agreement upon expiration of the Term, 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 three (3) month anniversary date of the termination in accordance with the Company’s payroll schedule applicable to all employees and (ii) pay for any applicable health insurance premiums, for a period starting on the first day after the termination and ending upon the three (3) month anniversary date of the termination. If the Executive becomes eligible for similar benefits from another employer, Telkonet will reimburse Executive for the Employee’s share of current employer’s health insurance premium ending upon the three (3) month anniversary date of the termination.

(f) 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 any back pay, Executive loans or deferrals then due and owing. Notwithstanding anything to the contrary herein, this Agreement shall not terminate or expire under (e) of this paragraph six unless and until (iii) Executive is reimbursed for any back pay, Executive loans or deferrals then due and owing.

(g) 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.

(h) 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 thirty (30) 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.

(i) 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.

(j) 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 produced 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 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 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 the time of separation of the Executive from Telkonet.

(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, Suite 300, Innovation Drive Milwaukee, WI 53226.

(2) If to Executive, to: Gerritt J. Reinders 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.

/s/ Glenn A. Garland

/s/ Gerrit J. Reinders

Chairman - Compensation Committee

Gerrit J. Reinders

5/1/12

Date

5/1/12

Date

Exhibit 1

Commission Structure

The Company has established a commission structure for your role based on measurable goals for the fiscal 2012 year. In addition to Executive's base salary during 2012, target cash incentive compensation is \$100,000 based on delivering EcoSmart Sales Revenue of \$7.5 Million. EcoSmart Sales Revenue will be defined as monies received from customers for the delivery of EcoSmart goods and services. The goal is to deliver linear sales per quarter leading to an annual target of \$7.5 Million.

For recognized revenue above annual target, 1% commission will be paid following the 2012 fiscal year. Successful sales meeting the quarterly target will result in quarterly commissions being paid in full at the end of the quarter in which sales revenue results were delivered.

Executive's incentive compensation plan will be reviewed and adjusted by the Compensation Committee after the 2012 fiscal year to ensure overall company performance and compensation goals are being achieved. After the 2012 fiscal year, Executive compensation, including incentive, will be set by the Compensation Committee with the input of the Chief Executive Officer. It is the intent of the Company that the incentive compensation will not be capped. In the event of a termination, bonus will be prorated upon termination.