

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

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

Date
February 1, 2023
(Date of earliest event reported)

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

Utah
(State or Other Jurisdiction of Incorporation)

000-31972
(Commission File No.)

87-0627421
(I.R.S. Employer Identification No.)

20800 Swenson Drive, Suite 175, Waukesha, WI 53186
(Address of Principal Executive Offices)

414.302.2299
(Registrant's Telephone Number)

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None	None	None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$0.001 par value

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

2023 Long Term Cash Incentive Plan

On February 1, 2023, the Board of Directors of the Company (the "Board") approved the Telkonet, Inc. 2023 Long-Term Cash Incentive Plan (the "LTI Plan"), with an effective date of January 1, 2023. The provisions of the LTI Plan apply to bonuses under the plan relating to the Company's performance during the period beginning January 1, 2023, and ending on December 31, 2025, and the LTI Plan will remain in effect until terminated by the Board.

The purpose of the LTI Plan is to attract, retain and motivate employees and to advance the interests of the Company and its shareholders by providing incentives in the form of bonus awards to certain employees of the Company and certain affiliates of the Company. Employees eligible to be selected as participants in the LTI Plan ("Participants") are the employees of the Company and certain affiliates of the Company. Awards are payable in cash.

The LTI Plan generally will be administered by the Board, which has the authority to select Participants and grant awards on terms the Board considers appropriate, subject to the provisions of the LTI Plan, and to establish performance goals and performance metrics applicable to such awards, as well as the formulas and weightings for the performance goals. The Board also has the authority, among other things, to interpret the LTI Plan, to establish, amend and rescind rules and regulations relating to the LTI Plan, and to make all other determinations for the administration of the LTI Plan. Although the Board shall serve as plan administrator under the Plan, it may delegate day to day administration, including recordkeeping, to the Company's finance department.

Each fiscal year, for each Participant (or category of Participants), the Board will determine a target bonus amount, based on a percentage of the Participant's eligible compensation, to be payable to the Participant if the performance goal is achieved at the target level. The Board may also establish a minimum threshold level of performance achievement and a maximum level of performance achievement and may also designate a separate level of performance that must be met for any award to be payable regardless of the level of performance achievement of any other designated performance goals.

Awards will be conditioned on the attainment of one or more performance goals based upon performance metrics selected by the Board, which may include, without limitation, one or more of the performance metrics set forth in the LTI Plan. Following the performance period, the Committee will review the Company's audited financials relating to the performance period, and determine whether such performance goals were attained and will determine the amount of any bonus payments to be made pursuant to such awards.

Bonus payments shall be made no later than 60 days following the completion of the Company's audited financials for the performance period.

In addition to the performance requirements, a Participant must be employed by the Company or an affiliate of the Company on the payment date to receive a bonus payment.

The foregoing description of the LTI Plan is only a summary and is qualified in its entirety by reference to the full text of the LTI Plan, which is attached as Exhibit 10.1 to this Current Report on Form 8-K and is incorporated by reference herein.

2023 Long Term Cash Incentive Plan Award Agreements

On February 1, 2023, the Board also approved award agreements (the "Award Agreements") with John M. Srouji, the Company's Chief Sales and Operating Officer, Jeffrey J. Sobieski, the Company's Chief Technology Officer, and Richard E. Mushrush, the Company's Chief Financial Officer, pursuant to the LTI Plan. Each of the Award Agreements provides for a cash incentive based on trailing 12-month EBITDA and revenue targets at the end of the 3-year performance period. Incentives are earned by achieving at least 85% of the EBITDA target, with a cap of 115% of target, with the cash payments ranging from 10% to 60% of annual base salary in accordance with the sliding scale set forth in Exhibit A to the Award Agreements. Incentives are separately earned by achieving at least 90% of the revenue target, with a cap of 110% of target, with the cash payments ranging from 10% to 60% of annual base salary. While cash payments for achieving revenue the revenue target is generally independent of achieving the EBITDA target, no revenue-based cash incentive will be awarded unless 85% of the EBITDA target is achieved.

The foregoing description of the Award Agreements is only a summary and is qualified in its entirety by reference to the full text of the Award Agreements, a form of which is attached as Exhibit 10.2 to this Current Report on Form 8-K and is incorporated by reference herein.

Retention Bonus Agreement

On February 1, 2023, the Board also approved a Retention Bonus Agreement (the "Bonus Agreement") to be entered into with selected employees (each, an "Awardee") to enable the Company to attract, retain and motivate employees and to advance the interests of the Company and its stockholders. In the event an Awardee remains employed by the Company during the 3-year retention period beginning January 1, 2023, the Company shall pay the Awardee no later than the 15th day of the third month following the retention period a single, lump-sum cash payment in an amount equal to 10% of the Awardee's aggregate base salary earned during the retention period.

The foregoing description of the Bonus Agreement is only a summary and is qualified in its entirety by reference to the full text of the Bonus Agreement, a form of which is attached as Exhibit 10.3 to this Current Report on Form 8-K and is incorporated by reference herein.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
10.1	Telkonet, Inc. 2023 Long-Term Cash Incentive Plan
10.2*	Form of Telkonet, Inc. 2023 Long-Term Cash Incentive Plan Award Agreement
10.3	Form of Retention Bonus Agreement
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

*As permitted by Regulation S-K, Item 601(b)(10)(iv) of the Securities Exchange Act of 1934, as amended, certain confidential portions of this exhibit have been redacted from the publicly filed document. The Company agrees to furnish supplementally an unredacted copy of the exhibit to the Securities and Exchange Commission upon its request.

SIGNATURE

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: February 2, 2023

TELKONET, INC.

By: /s/ Piercarlo Gramaglia
Piercarlo Gramaglia
Chief Executive Officer

TELKONET, INC.

2023 LONG-TERM CASH INCENTIVE PLAN

I. PURPOSE

The purpose of the TELKONET, INC. 2023 Long-Term Cash Incentive Plan is to recognize and reward the long-term contributions of a select group of key Employees of TELKONET, INC. and its Affiliates, and to promote retention and commitment from such key Employees by providing them with an opportunity to receive cash payments upon attainment of pre-determined long-term Performance Goals during applicable Performance Periods.

II. DEFINITIONS

The following definitions shall be applicable throughout the Plan unless specifically modified by any paragraph:

(a) **“Affiliate”** means any corporation, partnership, limited liability company or partnership, association, trust or other organization that directly or indirectly controls, is controlled by, or is under common control with, the Company.

(b) **“Award”** means a potential cash payment, conditioned on the attainment of designated Performance Goals during a Performance Period.

(c) **“Award Agreement”** means a written agreement between the Company and a Participant with respect to the grant of an Award.

(d) **“Board”** means the Board of Directors of the Company.

(e) **“Cause”** means the definition set forth in a Participant’s employment agreement with the Company or an Affiliate; however, in the absence of such definition, for purposes of the Plan, “Cause” means (1) a Participant’s plea of guilty or *nolo contendere* to a crime constituting a felony under the laws of the United States or any State thereof or any other jurisdiction in which the Company or its Affiliates conduct business; (2) a Participant’s willful misconduct or gross negligence in the performance of his or her duties to the Company or its Affiliates; (3) a Participant’s continued failure to follow the instructions of the Participant’s supervisor; or (4) a Participant’s repeated neglect of his or her duties for the Company or its Affiliates (other than such neglect resulting from incapacity of the Participant due to physical or mental illness); (5) a Participant’s fraud or embezzlement; (6) a Participant’s conviction of a criminal act that has an adverse effect on the business or reputation of the Company; or (7) a Participant’s material breach of any written agreement or contract with the Company or its Affiliates; provided, however, that “Cause” shall arise under items (3) or (4) only following 15 calendar days’ written notice thereof from the Company or an Affiliate that specifically identifies such failure or neglect and the continuance of such failure or neglect during such notice period. Any failure by the Company or an Affiliate to notify a Participant after the first occurrence of an event constituting Cause shall not preclude any subsequent occurrences of such event (or a similar event) from constituting Cause.

(f) **“Change in Control”** means the occurrence of any of the following events after the Effective Date of this Plan:

(1) The date on which any one person, or more than one person acting as a group (as defined in Code Section 409A and IRS guidance issued thereunder), acquires ownership of Common Stock of the Company that, together with stock held by such person or group, constitutes more than 50% of the total fair market value or total voting power of the Common Stock of the Company. However, if any one person or more than one person acting as a group, is considered to own more than 50% of the total fair market value or total voting power of the Common Stock of the Company, the acquisition of additional stock by the same person or persons is not considered to cause a Change in Control, or to cause a “change in the effective control” of the Company (within the meaning of Code Section 409A and IRS guidance issued thereunder). An increase in the percentage of Common Stock owned by any one person, or persons acting as a group, as a result of a transaction in which the Company acquires its stock in exchange for property shall be treated as an acquisition of stock for purposes of this Section. This paragraph applies only when there is a transfer of stock of the Company (or issuance of stock of the Company) and stock in the Company remains outstanding after the transaction.

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(2) The date on which any one person, or more than one person acting as a group (as defined in Code Section 409A and IRS guidance issued thereunder), acquires or has acquired ending on the date of the most recent acquisition, ownership of Common Stock of the Company that, together with stock held by such person or group, constitutes more than 50% of the total voting power of the Common Stock of the Company. However, if any one person or more than one person acting as a group, is considered to own more than 50% of the total fair market value of the Common Stock of the Company, the acquisition of additional stock by the same person or persons is not considered to cause a Change in Control, or to cause a “change in the effective control” of the Company (within the meaning of Code Section 409A and IRS guidance issued thereunder). An increase in the percentage of Common Stock owned by any one person, or persons acting as a group, as a result of a transaction in which the Company acquires its stock in exchange for property shall be treated as an acquisition of stock for purposes of this Section.

(3) The date on which a majority of members on the Company’s Board is replaced during any 12-month period by Directors whose appointment or election is not endorsed by a majority of the members of the Company’s Board prior to the date of the appointment or election (provided that solely for purposes of this paragraph, the term Company refers solely to the “relevant corporation,” as defined in Code Section 409A and IRS guidance issued thereunder, for which no other Company is a majority stockholder).

(4) The date on which any one person, or more than one person acting as a group (within the meaning of Code Section 409A and IRS guidance issued thereunder) acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total Gross Fair Market Value equal to or more than 40% of the total Gross Fair Market Value of all of the assets of the Company immediately prior to such acquisition or acquisitions. For purposes of this paragraph, “Gross Fair Market Value” means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

(g) **“Code”** means the Internal Revenue Code of 1986, as amended. A reference in the Plan to any section of the Code shall be deemed to include any amendments or successor provisions to such section and any regulations under such section.

(h) **“Common Stock”** means shares of Telkonet, Inc.’s authorized common stock.

(i) **“Company”** means Telkonet, Inc., a Utah corporation, or any successor thereto.

(j) **“Continuous Service”** means that a Participant’s employment or service relationship with the Company or any Affiliate is not interrupted or terminated. Continuous Service shall not be considered interrupted in the following cases: (1) any leave of absence approved by the Company or (2) transfers between locations of the Company or between the Company and any subsidiary or successor. A leave of absence approved by the Company shall include sick leave, military leave or any other personal leave approved by an authorized representative of the Company. No leave of absence may exceed 90 days for Continuous Service purposes, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment is approved by the Company but not guaranteed by statute or contract, then such employment shall

be considered terminated for Continuous Service purposes, on the 91st day of such leave. In the event a Participant's status changes between the positions of Employee and Director after the Participant's receipt of an Award hereunder, the Participant's Continuous Service shall not be considered terminated solely as a result of any such changes in status. Whether military, government or other service or other leave of absence shall constitute a termination of Continuous Service shall be determined in each case by the Plan Administrator at its discretion, and any determination by the Plan Administrator shall be final and conclusive.

(k) **"Director"** means an individual who is a member of the Board.

(l) **"Effective Date"** shall mean January 1, 2023.

(m) **"Employee"** means an individual who is a common law employee directly employed in the regular business of, and compensated for services on the payroll of, the Company or any Affiliate.

(n) **"Excluded Items"** means, for purposes of evaluating Performance Measures, any gains or losses from the sale of assets outside the ordinary course of business, any gains or losses from discounted operations, any extraordinary gains or losses, the effects of accounting changes, any unusual, nonrecurring, transition, one-time or similar items or changes, the diluted impact of goodwill on acquisitions, and any other items specified by the Plan Administrator.

(o) **"Good Reason"** means the definition set forth in a Participant's employment agreement with the Company or an Affiliate; however, in the absence of such a definition, for purposes of the Plan, "Good Reason" means the occurrence of any of the following without a Participant's prior written consent: (1) a material reduction in a Participant's base salary; (2) a relocation of a Participant's principal place of employment by more than 50 miles; (3) any material breach by the Company or its Affiliates relating to a Participant's employment agreement; (4) a material, adverse change in a Participant's title, authority, duties, or responsibilities (other than temporarily while a Participant is physically or mentally incapacitated; or as required by applicable law; or (5) a material adverse change in the reporting structure applicable to a Participant. To constitute Good Reason, a Participant must provide written notice to the Company of the circumstances providing grounds for Good Reason within 90 days after the initial existence of such circumstances and provide the Company with at least 30 days after providing the written notice to cure such circumstances. If the Participant does not terminate employment for Good Reason within 150 days after the first occurrence of the applicable grounds, the Participant shall be deemed to have waived the right to terminate for Good Reason with respect to such circumstances.

(p) **"Grant Date"** means the date on which the Board approves an Award, or such later date as shall be designated by the Board.

(q) **"Participant"** means an Employee who has been granted an Award.

(r) **"Payment Date"** means the date when a Participant's Award is paid in cash following the completion of a Performance Period during which the applicable Performance Goals have been attained and certified by the Board after reviewing the Company's audited financials. In no event shall the Payment Date be later than 60 days following the completion of the Company's audited financials for the Performance Period.

(s) **"Performance Goals"** means the designated corporate goals, based on specified Performance Measures, that must be attained before an Award may be paid.

(t) **"Performance Measures"** means the pre-established performance categories and factors that are taken into account to determine if Performance Goals have been attained. Performance Measures, with Excluded Items, shall be determined under U.S. generally accepted accounting principles, unless the Plan Administrator sets forth an alternate definition in a Participant's Award Agreement.

(u) **"Performance Period"** means a three-calendar year period, unless designated otherwise by the Board on the Grant Date. The initial Performance Period shall run from January 1, 2023 through December 31, 2025.

(v) **"Plan"** means the Telkonet, Inc. 2023 Long-Term Cash Incentive Plan, as it may be amended from time to time.

(w) **"Plan Administrator"** means the Board, although day to day administration shall be the responsibility of the Company's finance department.

(x) **"Separation from Service"** means the definition set forth in Code Section 409A(a)(2)(A)(i) and Treasury Regulation 1.409A-1(h).

III. EFFECTIVE DATE

The Plan shall become effective as of January 1, 2023, upon the date of its adoption by the Board.

IV. PLAN ADMINISTRATION

(a) **Powers.** Awards granted under the Plan and the amounts of such Awards shall be approved by the Board as Plan Administrator. In making such determinations, the Board shall take into account the nature of the services rendered by the respective Employees, their present and potential contribution to the success of the Company and its Affiliates, and such other factors as the Board in its sole discretion shall deem relevant. The Board, as Plan Administrator, shall determine the time or times when an Award shall be granted.

(b) **Additional Powers.** Subject to the express provisions of the Plan, the Board shall include the power to construe the Plan and the respective Award Agreements executed hereunder, to prescribe rules and regulations relating to the Plan, and to determine the terms, restrictions and provisions of each Award Agreement, and to make all other determinations necessary or advisable for administering the Plan. The Board may correct any defect or supply any omission or reconcile any inconsistency in the Plan or in any Award Agreement in the manner and to the extent it shall deem expedient to carry it into effect. The determinations of the Board on the matters referred to in this Article IV shall be conclusive and binding. Although the Board shall serve as Plan Administrator under the Plan, it may delegate day to day administration, including recordkeeping, to the Company's finance department.

(c) **Indemnification.** To the maximum extent permitted by applicable law, each member of the Board shall be indemnified and held harmless by the Company against and from (1) any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by a Board member in connection with or resulting from any claim,

action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan or pursuant to the terms and conditions of any Award except for actions or failures to act taken in bad faith, and (2) any and all amounts paid by a Board member in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such claim, action, suit, or proceeding against the Board member, provided that such member shall give the Company an opportunity, at its own expense, to handle and defend any such claim, action, suit or proceeding before the Board member undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's Articles of Incorporation, Certificate of Incorporation or Bylaws, by contract, as a matter of law, or otherwise, or under any other power that the Company may have to indemnify or hold harmless each such person.

V. LONG-TERM CASH INCENTIVE AWARDS

(a) **Long-Term Cash Incentive Awards.** A "Long-Term Cash Incentive Award" is a dollar amount determined by the Board based on the attainment of Performance Goals designated by the Board at the time of grant and set forth in a Participant's Award Agreement. The Board may grant Long-Term Cash Incentive Awards to eligible Employees upon such terms and conditions as it may determine to the extent such terms and conditions are consistent with the Plan and the applicable Award Agreement.

(b) **Eligibility for Awards.** Awards may be granted only to persons who, at the time of grant, are Employees.

(c) **Terms and Conditions of Awards.** For each Participant's Award, the Chief Executive Officer and Board shall determine (1) the Grant Date of the Award, (2) the dollar value of the long-term incentive subject to the Award; (3) the applicable Performance Period; (4) the designation of Performance Measures to be applied to the Award; (5) the Performance Goals that must be attained; and (6) the applicable service requirements that must be satisfied. Before an Award may be paid, the Board shall determine (A) the extent to which the Performance Goals have been attained and service requirements satisfied, and (B) the applicable Payment Date, if any.

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(d) **Award Forfeiture.** Unless specified otherwise in a Participant's Award Agreement, each Award shall vest based on a Participant's Continuous Service with the Company and its Affiliates and the attainment of pre-established Performance Goal(s) that are determined using one or more designated Performance Measures. Each Award shall vest independently of other Awards. No Award shall vest unless the Performance Goals for each Performance Measure during the Performance Period are attained. A Performance Measure shall be based on quantitative measures of success, such as profitability measures, return measures (e.g., return on investments (ROI), return on total assets (ROTA), etc.), revenue growth measures as well qualitative measures, such as leadership and merger integration. Other corporate measures also may be utilized, including, but not limited to: return on invested capital (ROIC) and/or revenue growth. Awards automatically shall be forfeited if Separation from Service occurs prior to the Payment Date.

(e) **Payment.** Payment of an Award only shall occur following the completion of a Performance Period during which the applicable Performance Goals have been attained and certified by the Board after reviewing the Company's audited financials. In no event shall the payment occur later than 60 days following the completion of the Company's audited financials for the Performance Period. A Participant must have Continuous Service with the Company or an Affiliate through the applicable Payment Date to receive payment for an Award unless specified otherwise herein or in a Participant's Award Agreement. In the event of a Change in Control, the Performance Period shall be deemed to have ended immediately prior to the consummation of the Change in Control, and the Company shall pay out Awards based on the greater of actual performance to date or the actual Performance Goals.

(f) **Termination of Award.** An Award shall terminate if the Participant violates the Participant's confidentiality and non-competition agreement or does not remain in the Continuous Service of the Company and its Affiliates at all times during the applicable Performance Period, except as may be otherwise determined by the Board and specifically set forth herein or in the Participant's Award Agreement. On or before the Grant Date, the Board may, in its sole discretion, prescribe additional terms, conditions or restrictions relating to the an Award, including, but not limited to, rules pertaining to the termination of a Participant's employment. Such additional terms, conditions or restrictions shall be set forth in the Award Agreement issued in conjunction with an Award.

(g) **Award Agreements.** At the time an Award is issued under this Article V, the Company and the Participant shall enter into a Award Agreement setting forth each of the terms contemplated hereby, and such additional terms as the Board may determine to be appropriate. The terms and provisions of the respective Award Agreements need not be identical.

VI. AMENDMENT AND TERMINATION OF THE PLAN

The Company, through action by the Board, shall have the right to alter or amend the Plan, an outstanding Award or any part thereof from time to time; provided that no change in the Plan or Award may be made that would impair the rights of a Participant with respect to the vested portion of an Award without the consent of the Participant. The Company, through discretionary action of the Board, may terminate the Plan at any time.

VII. MISCELLANEOUS

(a) **No Right To An Award.** Neither the adoption of the Plan nor any action of the Board shall be deemed to give any individual any right to be granted an Award under the Plan, except as may be evidenced by an Award Agreement duly executed on behalf of the Company, and then only to the extent and on the terms and conditions expressly set forth therein. The Plan shall be unfunded. The Company shall not be required to establish any special or separate fund or to make any other segregation of funds or assets to assure the performance of its obligations under any Award.

(b) **No Employment Rights Conferred.** Nothing contained in the Plan shall (1) confer upon any Employee any right with respect to continuation of employment or with the Company or any Affiliate or (2) interfere in any way with the right of the Company or any Affiliate to terminate his or her employment relationship at any time.

(c) **Withholding.** To the extent applicable, the Company shall have the right in connection with any Award granted hereunder, to withhold from any cash payment under the Award or other cash compensation due the Participant to satisfy any income and employment taxes required by law to be withheld and to require any payments required to enable the Company or its Affiliates to satisfy its withholding obligations.

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(d) **No Restriction on Corporate Action.** Nothing contained in the Plan shall be construed to prevent the Company or any Affiliate from taking any action that is deemed by the Company or such Affiliate to be appropriate or in its best interest, whether or not such action would have an adverse effect on the Plan or any Award made under the Plan. No Participant, beneficiary or other person shall have any claim against the Company or any Affiliate as a result of any such action.

(e) **Restrictions on Transfer.** Awards granted under this Plan shall not be transferable other than by will or the laws of descent and distribution.

(f) **Right of Offset.** The Company shall have the right to offset against its obligation to cash under any Award Agreement any outstanding amounts (including, without limitation, travel and entertainment or advance account balances, loans, repayment obligations under any Awards, or amounts repayable to the Company pursuant to tax equalization, housing, automobile or other employee programs) that the Participant then owes to the Company and any amounts the Board otherwise deems appropriate pursuant to any tax equalization policy or agreement. This right of offset shall not be an exclusive remedy, and the Company's election not to exercise the right of offset with respect to any amount payable to a Participant shall not constitute a waiver of this right of offset with respect to any other amount payable to the Participant or any other remedy.

(g) **Code Section 409A.** The Awards granted hereunder are intended to be exempt from, or in compliance with, Code Section 409A, and the Plan and Award Agreements are to be construed accordingly. Notwithstanding the foregoing, each Participant and not the Company or its Affiliates shall be responsible for any taxes related to an Award, including any taxes under Code Section 409A. For purposes of the Plan and Award Agreements, any references to employment termination or terms of like kind are intended to constitute a "Separation from Service" within the meaning of Code Section 409A and regulations thereunder.

(h) **Plan Document Controls.** All Awards granted under the Plan shall be subject to the terms and conditions of the Plan, In the event of any inconsistency between the terms of the Plan and an Award Agreement, the terms of the Plan shall control.

(i) **Governing Law.** The Plan shall be governed by, and construed in accordance with, the laws of the State of Wisconsin, without regard to conflicts of laws principles thereof.

Signatures on following page

IN WITNESS WHEREOF, the Board has caused this 2023 Long-Term Cash Incentive Plan to be executed this 8th day of February, 2023, effective as of January 1, 2023.

TELKONET, INC.

By: _____

Name: _____

Title: _____

In this document, "[***]" indicates that certain confidential information has been redacted from this document because it is both (i) not material to investors and (ii) likely to cause competitive harm to the Company if publicly disclosed.

**TELKONET, INC.
2023 LONG-TERM CASH INCENTIVE PLAN**

AWARD AGREEMENT

THIS AGREEMENT (the "Agreement") is made effective as of February 1, 2023 (the "Grant Date"), between Telkonet, Inc. (the "Company") and the individual whose name is set forth on the signature page hereof, who is an employee of the Company or any Affiliate of the Company (the "Participant"). Capitalized terms used but not otherwise defined herein shall have the same meanings as in the Telkonet, Inc. 2023 Long-Term Cash Incentive Plan, as may be amended from time to time (the "Plan").

WHEREAS, the Company desires to grant the Participant a long-term cash incentive award in a dollar amount determined by the Board of Directors, subject to adjustment, based on the attainment of Performance Goals designated below and pursuant to the terms and conditions of this Agreement and the Plan (the "Award"); and

WHEREAS, the Board has determined that it is in the best interests of the Company and its shareholders to grant the Award provided for herein to the Participant as an incentive for increased efforts during his or her employment; the Company has approved the grant of the Award on the Grant Date and has advised the Company thereof and instructed the undersigned officer to execute this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other good and valuable consideration, receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. **Grant of Cash Long-Term Cash Incentive.** Subject to the terms and conditions of the Plan and the additional terms and conditions set forth in this Agreement, the Company hereby grants to the Participant a long-term cash incentive of twenty percent (20%) to one hundred twenty percent (120%) of Participant's base salary as of the last day of the Performance Period, based on the attainment of the Performance Goals designated below. The cash incentive is split into two categories: (a) a trailing 12-month EBITDA target measured from the end of the Performance Period ("Goal #1"); and (b) a trailing 12-month revenue target measured from the end of the Performance Period. Exhibit A attached hereto sets forth the cash incentives to be paid upon achieving certain percentages of Goal #1 and Goal #2, however, in no event shall any cash incentive be paid (for either Goal #1 or Goal #2) unless at least eighty-five percent (85%) of Goal #1 is achieved.

In the event of any conflict between the Plan and this Agreement, the terms of the Plan shall control, it being understood that variations in this Agreement from terms set forth in the Plan shall not be considered to be in conflict if the Plan, whether explicitly or implicitly, permits such variations.

2. **Performance Period.** The Performance Period for the Award is the three-calendar year period, commencing with the calendar year that includes the Grant Date; provided; however, that in the event of a Change in Control, the Performance Period shall be deemed to have ended immediately prior to the consummation of the Change in Control.

3. **Performance Goals.** The Performance Goals for the Performance Period are: attainment of both of the following Performance Measures:

Goal #1:

Trailing 12-Month EBITDA at the End of the Performance Period
[***]

Goal #2:

Trailing 12-Month Revenue at the End of the Performance Period
[***]

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4. **Forfeiture.** The Award automatically shall be forfeited if Separation from Service occurs prior to the Payment Date.

5. **Transferability.** The Award may not be transferred, sold, assigned, pledged, hypothecated or otherwise alienated except as provided in Section VII(e) of the Plan.

6. **Participant's Employment by the Company.** Nothing contained in this Agreement (i) obligates the Company or any Affiliate to employ the Participant in any capacity whatsoever or (ii) prohibits or restricts the Company or any Affiliate from terminating the employment of the Participant at any time or for any reason whatsoever, with or without Cause, and the Participant hereby acknowledges and agrees that neither the Company nor any other person or entity has made any representations or promises whatsoever to the Participant concerning the Participant's employment or continued employment by the Company or any Affiliate thereof.

7. **Withholding.** In accordance with Section VII(c) of the Plan, the Company shall have the right to withhold from the Participant's compensation or to require the Participant to remit sufficient funds to satisfy applicable withholding for income and employment taxes. The Company shall be authorized to take such action as may be necessary, in the opinion of the Company's counsel including, without limitation, withholding amounts from any compensation or other amount owing from the Company to the Participant, to satisfy the obligations for payment of the minimum amount of any such taxes.

8. **Limitation on Obligations.** The Company's obligation with respect to the Award granted hereunder is limited solely to the delivery to the Participant of cash on the payment date when cash is due. This Award shall not be secured by any specific assets of the Company or any of its subsidiaries, nor shall any assets of the Company nor any of its Affiliates be designated as attributable or allocated to the satisfaction of the Company's obligations under this Agreement. In addition, the Company shall not be liable to the Participant for damages relating to any delay in issuing the share certificates, any loss of the certificates, or any mistakes or errors in the issuance of the certificates or in the certificates themselves.

9. **Notices.** Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of its Secretary, and any notice to be given to the Participant shall be addressed to him or her at the address stated in the Company's Participant records. By a notice given pursuant to this Section 9, either party may hereafter designate a different address for notices to be given to the party. Any notice that is required to be given to the Participant shall, if the Participant is then deceased, be given to the Participant's personal representative if such representative has previously informed the Company of his status and address by written notice under this Section 9. Any notice shall have been deemed duly given when enclosed in a properly sealed envelope or wrapper addressed as aforesaid, deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service.

10. **Governing Law.** The laws of the State of Wisconsin shall govern the interpretation, validity and performance of the terms of this Agreement regardless of the

law that might be applied under principles of conflicts of laws.

11. **Amendment.** Subject to Section VI of the Plan, this Agreement may be amended only by a writing executed by the parties hereto if such amendment would materially and adversely affect the Participant. Any such amendment shall specifically state that it is amending this Agreement.

12. **Noncompete Recoupment.** This Agreement, the Award and any economic benefits recognized by Participant in connection with the Award are subject to forfeiture and/or recoupment pursuant to the confidentiality and non-competition agreement entered into by the Participant with the Company.

13. **Signature in Counterparts.** This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Grant Date.

PARTICIPANT

_____(signature)
_____(print name)

TELKONET, INC.

By: _____
Name: _____
Title: _____

[Signature Page to Telkonet, Inc. 2023 Long-Term Incentive Plan Award Agreement]

EXHIBIT A
CASH INCENTIVES

Goal #1

EBITDA	Percentage of Goal #1 Achieved	Cash Incentive Equal to Percentage of Annual Base Salary
***	85%	10%
***	86%	11%
***	86%	12%
***	87%	13%
***	87%	14%
***	88%	15%
***	89%	16%
***	89%	17%
***	90%	18%
***	90%	19%
***	91%	20%
***	92%	21%
***	92%	22%
***	93%	23%
***	93%	24%
***	94%	25%
***	95%	26%
***	95%	27%
***	96%	28%

***	96%	29%
***	97%	30%
***	98%	31%
***	98%	32%
***	99%	33%
***	99%	34%
***	100%	35%
***	101%	36%
***	101%	37%
***	102%	38%
***	102%	39%
***	103%	40%
***	104%	41%
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***	105%	43%
***	105%	44%
***	106%	45%
***	107%	46%
***	107%	47%
***	108%	48%
***	108%	49%
***	109%	50%
***	110%	51%
***	110%	52%
***	111%	53%
***	111%	54%
***	112%	55%
***	113%	56%
***	113%	57%
***	114%	58%
***	114%	59%
***	115%	60%

Goal #2

Revenue	Percentage of Goal #2 Achieved	Cash Incentive Equal to Percentage of Annual Base Salary
***	90.00%	10%
***	90.40%	11%
***	90.80%	12%
***	91.20%	13%
***	91.60%	14%
***	92.00%	15%
***	92.40%	16%
***	92.80%	17%
***	93.20%	18%
***	93.60%	19%
***	94.00%	20%
***	94.40%	21%
***	94.80%	22%
***	95.20%	23%
***	95.60%	24%
***	96.00%	25%
***	96.40%	26%
***	96.80%	27%
***	97.20%	28%
***	97.60%	29%
***	98.00%	30%
***	98.40%	31%
***	98.80%	32%
***	99.20%	33%
***	99.60%	34%
***	100%	35%
***	100%	36%
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***	106%	50%

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***	108%	56%
***	109%	57%
***	109%	58%
***	110%	59%
***	110%	60%

RETENTION BONUS AGREEMENT

This Retention Bonus Agreement (the “**Agreement**”) is effective as of January 1, 2023 (the “**Effective Date**”), by and between Telkonet, Inc. (the “**Company**”) and [●] (the “**Executive**”). The Company and Executive are referred to from time to time in this Agreement individually as a “**Party**” and together as the “**Parties**.”

Background

- A. Executive is an employee of the Company.
- B. The Company desires to provide Executive with a bonus upon Executive remaining employed by the Company during the Retention Period.
- Now, therefore, the Parties agree as follows.

Agreement

1. Bonus. As additional employment compensation, if Executive remains an employee in good standing with the Company from the Effective Date through the third anniversary of the Effective Date (the “**Retention Period**”), then the Company shall pay Executive a bonus (the “**Retention Bonus**”) in an amount equal to ten percent (10%) of the aggregate Base Salary (as defined in Executive’s employment agreement) paid to Executive over the three-year Retention Period. The Retention Bonus shall be paid in a single lump sum no later than the 15th day of the third month following the Retention Period, and shall be subject to all applicable withholdings, taxes, and other deductions. The Retention Bonus shall be in addition to any other performance bonus which may be owing to Executive at the applicable time.

2. Effect of Termination or Resignation. If the Company terminates Executive’s employment with the Company for any reason or if Executive voluntarily resigns from Executive’s position with the Company before the end of the Retention Period, then the Company shall have (a) no obligation to pay the Retention Bonus to Executive, and (b) no other payment obligations owing to Executive arising under this Agreement.

3. Employment Status. Nothing in this Agreement shall alter Executive’s employment status. This Agreement shall not be deemed to create a contract of employment between the Company and Executive and shall create no right in Executive to continue in the Company’s employment for any specific period of time, or to create any other rights in Executive or obligations on the part of the Company, except as set forth in this Agreement.

4. Miscellaneous.

(a) Successors and Assigns. The rights and obligations of the Company under this Agreement shall be binding upon and run in favor of the successors and assigns of the Company.

(b) Amendment; Modification. This Agreement may be changed, modified or amended only in writing signed by both the Company and Executive.

(c) Severability; Survival. If any provision or portion of this Agreement is determined to be invalid or unenforceable for any reason, in whole or in part, then the remaining provisions of this Agreement shall nevertheless be binding upon the Parties with the same effect as though the invalid or unenforceable part had been severed and deleted. The respective rights and obligations of the Parties under this Agreement shall survive the termination or expiration of the Agreement to the extent necessary to the intended preservation of such rights and obligations.

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(d) Notice. Any notice, request, instruction or other document to be given under this Agreement by any Party to another Party shall be in writing and shall be deemed effective upon delivery to the other Party by certified mail (return receipt requested), delivery by messenger or overnight delivery service or fax to the then-most recently known address of the other Party.

(e) Applicable Law; Venue.

(i) This Agreement shall be governed by and construed in accordance with the laws of the State of Wisconsin without application of applicable conflict of law provisions. Any action relating to this Agreement shall be brought exclusively in the United States District Court of the Eastern District of Wisconsin or the courts of the State of Wisconsin located in Waukesha County, Wisconsin.

(ii) **Each Party knowingly, voluntarily and intentionally waives any rights it or he may have to a trial by jury in respect of any litigation based hereon or arising out of or in connection with this Agreement. This provision is a material inducement for the Parties to enter into this Agreement.**

(f) Entire Agreement. This Agreement represents the entire agreement between the Company and Executive with respect to the subject matter of this Agreement, and all prior and contemporaneous agreements relating to such subject matter (whether written or unwritten) are nullified and superseded by this Agreement.

(g) Execution of Agreement. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Copies (whether electronic, fax or otherwise) of this Agreement may be made and relied upon to the same extent as an original.

[Signature Page Follows]

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The Parties executed this Retention Bonus Agreement as of _____, 2023.

THE COMPANY:

TELKONET, INC.

By: _____

Name: _____

Title: _____

EXECUTIVE:

Signature

Printed Name

[Signature Page to Retention Bonus Agreement]
