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

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT UNDER SECTION 13 OR 15(d)**
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013

OR

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d)**
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 001-36216

IDEAL POWER INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**14-1999058**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5004 Bee Creek Road, Suite 600
Spicewood, Texas 78669

(Address of principal executive offices)

(Zip Code)

(512) 264-1542

(Registrant's telephone number, including area code)

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

Title of each class	**Name of each exchange on which each is registered**
Common Stock, par value $0.001	NASDAQ Capital Market

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days.Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer ☐ Accelerated filer ☐
Non-accelerated filer ☐ Smaller reporting company ☒
(Do not check if a smaller reporting company)

Indicate by check mark whether the issuer is a shell company (as defined in Rule 12b-2 of the Exchange Act).Yes ☐ No ☒

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

As of June 30, 2013, the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the last sale price of the common equity was $0.

As of March 26, 2014 the issuer has 7,010,959 shares of common stock, par value $0.001, issued and outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND OTHER INFORMATION CONTAINED IN THIS REPORT

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and the provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements give our current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. You can find many (but not all) of these statements by looking for words such as “approximates,” “believes,” “hopes,” “expects,” “anticipates,” “estimates,” “projects,” “intends,” “plans,” “would,” “should,” “could,” “may,” or other similar expressions in this report. In particular, these include statements relating to future actions, prospective products, applications, customers, technologies, future performance or results of anticipated products, expenses, and financial results. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

- our history of losses;
- our ability to achieve profitability;
- our limited operating history;
- emerging competition and rapidly advancing technology in our industry that may outpace our technology;
- customer demand for the products and services we develop;
- the impact of competitive or alternative products, technologies and pricing;
- our ability to manufacture any products we develop;
- general economic conditions and events and the impact they may have on us and our potential customers;
- our ability to obtain adequate financing in the future, as and when we need it;
- our success at managing the risks involved in the foregoing items; and
- other factors discussed in this report.

The forward-looking statements are based upon management’s beliefs and assumptions and are made as of the date of this report. We undertake no obligation to publicly update or revise any forward-looking statements included in this report. You should not place undue reliance on these forward-looking statements.

Unless otherwise stated or the context otherwise requires, the terms “Ideal Power,” “we,” “us,” “our” and the “Company” refer to Ideal Power Inc.

ITEM 1: BUSINESS

Our Company

We have developed an electronic power conversion technology called Power Packet Switching Architecture ("PPSA"). PPSA is a new universal power conversion technology intended to improve upon current power conversion technology in key product metrics, such as weight, size, cost, efficiency and flexibility. PPSA utilizes standardized hardware with application specific embedded software. We have been granted 19 United States patents and one Chinese patent on PPSA and its applications, and are continuing to build an intellectual property portfolio around it.

Electronic power converters change the form of electrical energy to optimize generation, distribution, consumption or storage. This conversion may include changing between direct current ("DC") and alternating current ("AC") forms of electricity or changing the voltage and current.

The change in sources and uses of energy is driving a need for new energy infrastructure and technology. Renewables in particular are driving the need for significant change. For example, renewable sources create a need for energy storage to reduce the detrimental effect to the grid from the intermittency of renewable energy generation. Distributed power conversion plays a central role in this new infrastructure. Inverters are used to convert DC power from renewable solar and wind generators to AC power. Bi-directional inverters/chargers are needed for large-scale battery storage and fast electric vehicle ("EV") charging. Power conversion for distributed grid energy storage can also improve grid power resiliency and create remote micro-grids to bring distributed power systems to remote communities without power grids. In short, power converters play a crucial role in ensuring the most efficient form of power is available across the electricity spectrum from generation through distribution to storage and ultimately consumption.

In the marketplace, there are currently two main varieties of large-scale inverters: transformer-based inverters and transformer-less inverters. Transformer-based inverters rely on transformers, which are big and heavy. Thus, inverters with transformers are costly to manufacture, ship and install.

Alternatively, transformer-less inverters are lighter, smaller and more efficient than transformer-based inverters. The main problem with conventional transformer-less inverters is that they do not provide electrical isolation. This means the system cannot be grounded, which creates additional safety concerns compared with non-grounded systems such as typical photovoltaic ("PV") arrays. The US National Electrical Code prohibited the use of non-grounded systems until 2005, and still imposes regulations for systems with transformer-less inverters. These regulations may require installers to use double jacketed PV wire, overcurrent protection, and disconnect devices on both the positive and negative conductors. These additional requirements raise system cost.

PPSA enables a size and weight profile smaller than a transformer-less inverter while simultaneously providing isolation. Consequently, PPSA has the potential to impact several fast-growing markets.

Though we intend to ultimately generate revenues primarily by licensing our technology to OEMs, we have begun by developing and selling our products to demonstrate the capabilities of our technology to organizations in both the public and the private sectors. Our primary business strategy is (1) to search for and evaluate prospective licensing and partnership agreements with established companies in the industry vertical markets for which we have developed PPSA products; (2) to develop new PPSA products that extend our capabilities and address additional market sectors; and (3) to further develop the PPSA technology platform. Our first efforts are focused on the PV inverter, distributed grid energy storage and EV DC charging markets. We have completed products for the PV inverter and distributed grid energy storage markets, namely a 30kW PV inverter (for the PV market) and a 30kW battery converter (for the distributed grid energy storage market), and are working to develop a related product for the EV DC charging market.

We believe our product for the PV inverter market is the only technology capable of offering a transformer-less inverter with isolation. We have also developed a bi-directional battery converter product for several emerging grid-storage markets.

We are also evaluating related market applications for PPSA. We believe the combination of our technological expertise and our intellectual property enables us to form relationships with established

companies in our target markets and should enable us to share in the economic benefits that we believe our technology can unlock. We also believe that our unique technology will allow us to deliver solutions to new high-growth emerging markets before competitors, and that this will allow us to capture early market opportunities that may arise in these markets.

Our Technology

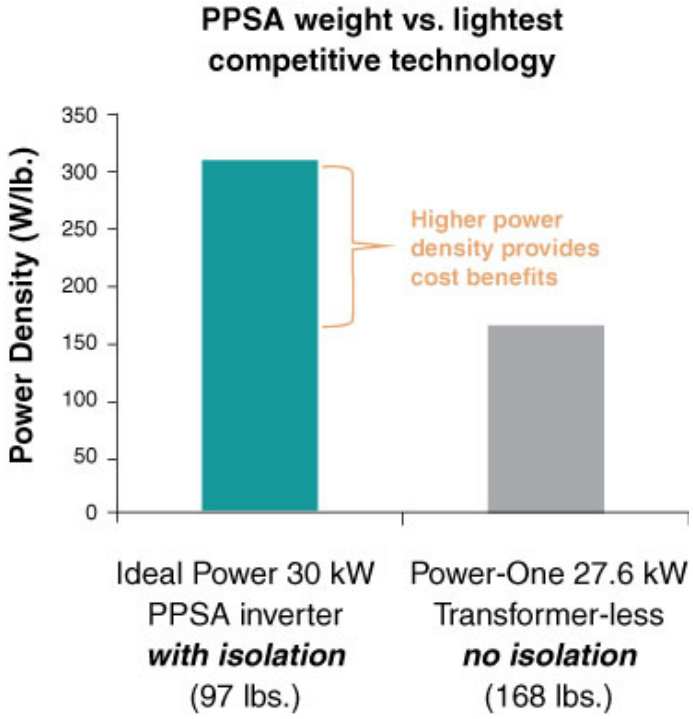
In our PPSA technology, power flows through and is temporarily stored in an AC link magnetic storage component. This power packet switching is the heart of our technology. After the AC link is charged, it is disconnected from both input and output, providing isolation without a transformer.

Figure 1: Schematic of PPSA Process

Traditional inverter technology uses several magnetic components and capacitors that are heavy and expensive, have custom hardware for fixed functions that are inflexible and costly, and have high electrical and thermal stresses that significantly increase failure rates and reduce efficiency. Our technology eliminates the majority of the passive components of traditional power converters, including transformers, inductors and capacitors. PPSA technology can provide isolated power conversion in a single device, which provides clear advantages over traditional technologies. Among them are:

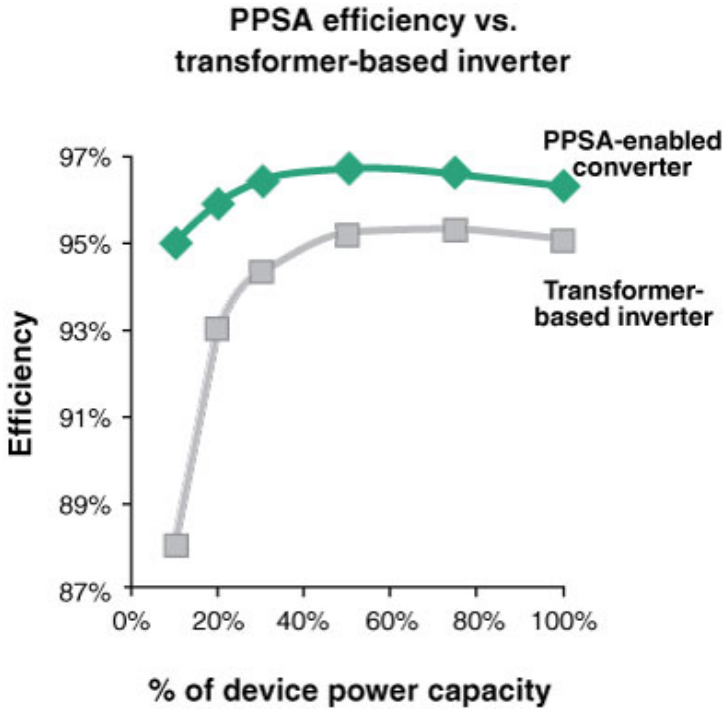
- Weight: PPSA architecture reduces weight by eliminating passive components such as transformers, inductors and bulk capacitors. Our 30kW PV inverter weighs 97 pounds. By contrast, competing 30kW PV inverters with transformers weigh approximately 1,200 pounds, and transformer-less inverters (which do not provide isolation) weigh around 170 pounds.

Figure 2: PPSA Weight Comparison



- Cost: Reduced weight results in lower manufacturing costs. In addition, lighter weight components save end customers on transportation and installation costs.
- Safety: Since PPSA provides isolation, it allows the systems in which it is used to be grounded. Non-grounded systems require additional safeguards to pass U.S. safety regulations, which increase system cost and reduce efficiency.
- Inverter Efficiency: Efficiency is the measure of power out of the inverter as a percentage of the power into the inverter. Thus, high efficiency PV inverters use less power in the conversion process and supply more power for use. In the California Energy Commission ("CEC") weighted efficiency test, our 30kW PV inverter efficiency is 96.5% as measured by Intertek, a company engaged in product testing and inspection as well as industry certification. This is one of the highest PV inverter efficiencies for approved PV inverters with isolation, as shown on the CEC website. In addition, our battery converter has achieved efficiencies of over 96%, which we believe is superior to competing systems. The efficiency improvement can be more significant when operating the system at relatively low rated power, which is more common in battery systems than in PV systems.

Figure 3: PPSA Efficiency Comparison



- Scalability/Flexibility: PPSA technology uses standardized hardware with application specific software, thus providing more scalability that we believe will allow us, and our licensees, to rapidly develop products for new applications. PPSA's flexibility enables uses from small commercial-scale (below 10kW) to utility-scale (over 1MW).
- Reliability: Our technology enables a simplified product that eliminates several common failure modes. Our products use no electrolytic capacitors. We believe that this design feature, together with our other design improvements, increases overall reliability.

We are currently working on a next generation bi-directional insulated gate bipolar transistors ("BD-IGBT") with funds from a $2.5 million ARPA-E grant from the U.S. Department of Energy. For a discussion of the economic terms and conditions of the ARPA-E grant, please see the discussion in the section of this report titled "Management's Discussion and Analysis of Results of Operations and Financial

Condition — Critical Accounting Policies — Revenue Recognition". We believe this funding is sufficient to demonstrate the capability of our bi-directional power switch technology and build prototypes of our PPSA products with these switches. If successful, we believe these BD-IGBTs will further improve our key technology metrics. Research universities and commercial vendors are working on this project under our direction.

Business Strategy

Our business strategy is to promote and expand the uses of our PPSA platform technology initially through product sales, followed by licensing these product designs to OEMs and also through strategic development relationships to expand the range of markets serviced with our technology.

Licensing Approach: We are focused on licensing our proprietary power conversion PPSA technology to OEMs. We will seek license fees and royalties from OEMs based on the sales of their products integrating PPSA technology. We believe that OEMs could achieve higher margins by providing PPSA-enabled products to system integrators. We are targeting OEMs in the PV inverter, distributed grid energy storage converter, and EV DC charging markets as potential commercial licensees of our PPSA technology. We believe strategic relationships with key OEM licensees would enable us to reap the benefits of our technology much faster than by manufacturing, distributing or installing products ourselves. We believe this business model will also allow us to concentrate our efforts and resources on projects more in line with our expertise. As we develop new applications for our technology, we expect to target new strategic relationships in different market sectors.

Products: We believe that our products demonstrate the advantages of our technology for OEMs with whom we seek to form strategic development relationships. As noted above, we have completed development of our first two products, a 30kW PV inverter (for the PV market) and a 30kW battery converter (for the distributed grid energy storage market). At Intertek, these products have passed UL1741, a rigorous set of performance and safety tests required for connection to the power grid in the U.S. and several other countries.

Our next planned product is a 30kW 3-port hybrid converter, intended for integrating PV, grid energy storage, and DC charging systems. We believe this product will improve energy and cost-efficiency over conventional solutions. After that, we intend to develop a 30kW micro-grid converter that we expect will add new capabilities to support off grid and emergency back-up power applications.

The development of the hybrid converter and micro-grid converter will be our largest new product development effort. We are pursuing incremental funding for this development through Department of Energy grants, which we may or may not receive. We received a Department of Energy Small Business Innovation Research ("SBIR") Phase I grant in the amount of $150,000, which we used for funding development of the new hardware design. We successfully completed the work funded by the grant in May 2013, when we delivered proof-of-concept prototype samples of the hybrid converter to NREL for evaluation.

The first step of the development process was to create a new 3-port hardware design to be used for both products. This was completed in May 2013; however, we expect to make some incremental hardware design improvements based on initial hardware testing.

For the hybrid converter, we will first develop enhanced embedded control software that will control multi-port power flow. When this is completed, we plan to sell sample products to early customers, and then make incremental hardware and software improvements based on feedback from these early customers. After these improvements are implemented, we expect to work with Intertek on industry certification, including UL1741 compliance.

We expect that the micro-grid converter development process will be broadly similar to that of the hybrid converter. We plan to refine the embedded control software in order to enable the micro-grid converter to support off-grid operation or to be used as a battery backup power system during grid faults. We then plan to sell samples to early customers in order to gather feedback to further improve the product. Finally, the micro-grid converter will also require certification.

Figure 4: Planned Product Pipeline

We are focusing our long-term development efforts on our next-generation BD-IGBT. Uni-directional IGBTs are widely used in power converters. Conventional power converters and IGBT power switches conduct and block current in a single direction. Currently, we successfully use these standard uni-directional IGBTs in our PPSA systems.

Bi-directional power switches conduct and block current in both directions; if we are able to successfully design and build these, we believe they would enhance several key metrics of the PPSA platform. In addition, if we redesign our products to utilize these bi-directional switches, we believe we will be able reduce the number of components in our system, which may further reduce material costs and improve efficiency.

Figure 5: Potential Benefits of BD-IGBT Power Switch Components

	Current Technology	BD-IGBT*(2015)
IGBT	standard	bi-directional
Power	30kW	60kW
Weight	97lbs	~100lbs
Power Density	309W/lb	>550W/lb
Efficiency (CEC)	96.5%	>98%

*Expected date for BD-IGBT to be developed.

Our BD-IGBT development effort is being funded by the U.S. Department of Energy's $2.5 million ARPA-E grant. We believe the Department of Energy grant will be sufficient to prove this technology's capability and build a prototype PPSA product with these switches.

Intellectual Property: As a company primarily focused on licensing, we expect that our most valuable asset will be our intellectual property. This includes U.S. and foreign patents, patent applications, common-law trademarks, trade secrets and know-how. We are pursuing an aggressive intellectual property strategy.

We have 19 issued U.S. patents and one issued Chinese patent. We have filed numerous additional pending U.S., foreign and international patent applications. The pending foreign and international patent applications, barring unforeseen problems, are expected to provide patent protection in additional countries including the European Union, China, India, Korea, Malaysia, the Philippines, Singapore and Brazil. We expect to file a significant number of additional patent applications as our technology matures. The issue date and expiration date of our issued U.S. patents is included in the table below:

Title	Number	Issued	Expires
Universal Power Converter	7,599,196	6-Oct-09	6-Oct-2028
Universal Power Converter Methods	7,778,045	17-Aug-10	5-Jun-2029
Power Conversion with Added Pseudo-Phase	8,295,069	23-Oct-12	17-Aug-2030
Converter For Enhanced Efficiency Power Conversion	8,300,426	30-Oct-12	30-Mar-2028
Universal Power Converter with Bidirectional Switching Devices	8,345,452	1-Jan-13	6-Jun-2027
Power Transfer Devices, Methods, and Systems with Crowbar Switch Shunting Energy-Transfer Reactance	8,391,033	5-Mar-13	29-Jun-2030
Buck-Boost Power Converter Circuits, Methods and Systems	8,395,910	12-Mar-13	6-Jun-2027
Universal Power Converter with Two Input Drive Operations During Each Half-Cycle	8,400,800	19-Mar-13	6-Jun-2027
Power Conversion with Added Pseudo-Phase	8,406,025	26-Mar-13	17-Aug-2030
Power Transfer Devices, Methods, and Systems with Crowbar Switch Shunting Energy-Transfer Reactance	8,432,711	30-Apr-13	29-Jun-2030
Power Transfer Devices, Methods, and Systems with Crowbar Switch Shunting Energy-Transfer Reactance	8,441,819	14-May-13	29-Jun-2030
PV Array Systems, Methods, and Devices with Improved Diagnostics and Monitoring	8,446,042	21-May-13	30-Nov-2031
PV Array Systems, Methods, and Devices with Improved Diagnostics and Monitoring	8,446,043	21-May-13	30-Nov-2031
Power Transfer Devices, Methods, and Systems with Crowbar Switch Shunting Energy-Transfer Reactance	8,446,705	21-May-13	29-Jun-2030
Power Transfer Devices, Methods, and Systems with Crowbar Switch Shunting Energy-Transfer Reactance	8,451,637	28-May-13	29-Jun-2030
Photovoltaic Array Systems, Methods, and Devices with Bidirectional Converter	8,461,718	11-Jun-13	30-Nov-2031
Photovoltaic Array Systems, Methods, and Devices with Bidirectional Converter	8,471,408	25-Jun-13	30-Nov-2031
Power Conversion with Added Pseudo-Phase	8,514,601	20-Aug-13	17-Aug-2030
Power Conversion with Current Sensing Coupled through Saturating Element	8,531,858	10-Sep-13	30-Nov-2031
Universal Power Converter	CN101523710B	5-Mar-14	6-Jun-2027

Our background research has not identified any public information, such as patents or published articles, relating to our

technology that would restrict our freedom to operate our business as currently conducted and contemplated by us in our future operations. However, on October 4, 2013 we received a letter from a competitor alleging that the system architecture that appears on our website "appears" to infringe on patents licensed to or held by the competitor. The letter asks that we explain why we believe that our technology does not represent an infringement. We have investigated this claim and we have determined that the allegation is without merit. No resolution regarding this assertion has been reached. If we cannot resolve this matter, the cost to us of any litigation or other proceeding relating to intellectual property rights, even if resolved in our favor, could be substantial, and the litigation would divert management's attention from our day-to-day operations. As we continue to grow and to develop our intellectual property, we expect to attract threats from patent monetization firms or competitors alleging infringement of intellectual property rights.

We rely on a combination of patent filings, laws that protect intellectual property, confidentiality procedures, and contractual restrictions with our employees and others, to establish and protect our intellectual property rights. In addition, the software that is shipped with our products is encrypted, which makes it very difficult for potential patent infringers to reverse-engineer our products.

Target Markets

We believe that our PPSA technology has the potential to impact large global markets that currently rely upon high-power electronic power converters, including PV inverters, EV charging infrastructure, grid-storage battery converters and micro-grids. Several of these are multi-billion dollar global markets. We are carefully selecting which market segments to participate in based on time-to-market for our PPSA platform and market size/growth rate. We are currently targeting the following three market segments.

PV Inverter Market

The U.S. Energy Information Administration forecasts solar capacity to grow by more than 1000% from 2011 to 2040, representing an increase in power production of 46GW. Industry analysts estimated the global PV inverter market at approximately $7.1 billion in 2012. Analysts also forecast significant growth in the installed base of PV inverters, from 30GW in 2012 to over 58GW in 2017, representing a CAGR of 13.8%.

The rapid growth in solar installations is due to a mix of declining system prices, subsidies and increasing environmental initiatives. Since 2008, module prices have fallen by 80%. Balance of system costs — which include PV inverters, installation cost, shipping cost, regulatory costs, and cabling and wiring systems — are becoming more important as their proportional share of total overall cost has risen over the years.

Our product for the PV market is a 30kW PV inverter. We believe that it is the only technology capable of offering a transformer-less inverter with isolation at reasonable economics. We believe our PV inverter product validates our unique technology in one of its simplest implementations. We believe PPSA-based converters provide the following advantages:

- Lighter weight and smaller size, reducing logistics and installation cost as well as footprint
- Higher efficiencies, thereby increasing energy production
- Flexibility of installation
- Electrical isolation

Our current 30kW PV inverter with electrical isolation weighs 97 pounds compared to about 1,200 pounds for typical PV inverters that provide comparable electrical isolation. The product supports standard grounded PV arrays (with both unipolar and bipolar configurations) without requiring an internal or external transformer. Its small, lightweight design allows simple installation indoors or outdoors. The PV inverter completed industry certifications in May 2012, and has industry standard features. As of December 31, 2013, we have sold production units to PV inverter installation companies with installations in Texas, California, Oregon, Colorado, and Arizona.

Figure 6: Seven of our 30kW PV inverters in use at the University of Texas-Austin

Distributed Grid Energy Storage Market

One key reason some customers have been slow to adopt renewable sources is that power is not necessarily produced when customers need it. PV only produces energy when the sun is shining, and wind turbines only when the wind is blowing. Consequently, customers who cannot use the power produced at those times may waste the excess power. This diminishes the value of using renewables.

Some utility jurisdictions have a "net metering" policy, which allows customers to sell their excess electric power to the utility and then purchase it back when needed at the same price. In effect, the local utility and power grid act as a remote battery system for energy consumers in these jurisdictions. As the penetration of renewables increases, utilities will be under financial pressure to reduce or discontinue net metering policies, as they receive no compensation for this service. Thus, we believe that utilities will, in the future, seek to reduce or discontinue net-metering policies, and by doing so, create market demand for local energy storage systems. In the United States, a key driver for the use of energy storage is to reduce utility demand charges. Peak demand charges can account for a significant portion of the electricity bill for commercial and industrial customers. Therefore, it may be financially attractive for commercial buildings, for example, to reduce peak loads in order to limit peak demand charges.

In the United States, avoiding peak demand charges can make installation of commercial energy storage systems financially attractive. In many cases the payback time for the end user can be quicker than with grid-connected residential or utility-scale systems. Therefore, there is great potential for suppliers to target combined commercial-scale PV and grid energy storage systems in the U.S. The Americas are predicted to remain the largest market for energy storage in grid-connected commercial PV systems over the next five years, increasing from an estimated 1.4MW of PV systems with installed storage in 2012 to 900MW in 2017, a CAGR of 264%. The California grid operator has issued a mandate for over 1GW of new energy storage to be installed by 2020, and we believe other states and countries will increasingly consider grid storage to firm intermittent renewables and improve grid resiliency.

Our product for this market is a 30kW battery converter. It is suitable for several emerging grid energy storage applications, including commercial peak demand reduction and buffering high power EV DC chargers and bidirectional EV DC chargers. Our battery converter completed industry certification in January 2013. As of December 31, 2013, we have sold this product to customers in California, Colorado, Michigan, New Jersey,

Ohio, Oregon, Washington and Wisconsin. We have made commercial sales to Sharp, Powin Energy, Green Charge Networks and others. We have made Commercial Off The Shelf ("COTS") government sales to the NREL and the U.S. Navy.

We plan to migrate early customer designs from our 2-port battery converter to our 3-port hybrid converter when it becomes available. We believe this will allow a lower cost, more efficient integrated solution for supporting both commercial-scale grid energy storage and PV inverter functions. We plan to further develop a 3-port micro-grid converter that could use similar hardware to the hybrid converter but may also provide new capabilities to provide emergency backup power or operate off-grid. This will allow our customers to add emergency backup power capabilities to these systems or operate them in remote off-grid installations.

Figure 7: Our 30kW battery converter used for containerized grid energy storage undergoing testing at the Bonneville Power Authority, Washington

DC Charging Market

Alternatives to gas-powered cars have historically comprised a small portion of the overall automotive market. We believe this is changing rapidly. Based on industry reports, consumers will soon have a greater selection of EVs including both plug-in hybrid electric vehicles and fully electric vehicles.

A major limitation of EVs is their limited driving range on batteries and the recharging time to extend this range. EVs have an on-board charger that converts the low voltage AC power in a home to the DC power needed for charging EV batteries. The on-board charger is typically small and light, to enable it to fit inside the car. Because of these limitations, the charger takes about 8 hours for a full charge (which provides a driving range of about 100 miles).

A DC charger or fast charger contains a high-powered charger located outside the car. This off-board charger has the potential to fully charge a car in about 30 minutes. EV fast chargers are used to extend the driving range without the long charging time of low power on-board chargers and can also improve charging efficiency. Navigant Research (2013) forecasts the shipments of DC chargers increasing from 9,000 in 2013 to 98,000 in 2020.

DC chargers can incur high demand charges, which translate into high operating costs for DC charging stations. A typical 50kW DC charger in Southern California can fully charge a Nissan Leaf for less than $4 per vehicle, but the utility peak demand charges on the installation can be more than $1000/month.

We have a 30KW battery charger for this market that exhibits the characteristics of our PPSA technology. Our PPSA-enabled battery charger is 95% efficient. Competing chargers have approximately 90% efficiency, which means that they may waste twice as much energy as our products do. This improved efficiency should

result in lower electricity expense. We believe our system is more efficient because competing EV DC chargers may require an isolation transformer, while our system provides the necessary isolation without a transformer.

We are currently developing a 30kW 3-port hybrid converter for this market. We expect this to be our first product to exploit the single-stage multi-port capabilities of our technology. We are designing this product to include two DC ports and one AC grid port that will combine the capabilities of our existing PV inverter and battery converter. We believe, if the product performs as planned, it would perform at lower cost and higher efficiency than other hybrid converters.

We believe that our hybrid converter product could have an impact on the DC charging market by integrating efficient buffer battery storage to reduce demand charges, and PV to allow efficient charging directly from distributed resources. We expect the efficiency, flexibility, and cost benefits of our technologies to contribute to the spread of DC charging stations; as such, we are seeking to establish early leadership in the DC fast charging infrastructure market.

NRG Energy, Inc. ("NRG") has received approval from the California Energy Commission to invest $1.9 million for a Modular Micro-Grid DC Charging Technology Demonstration Program that may develop and demonstrate a new EV DC charging solution using our 30kW 2-port battery converter and 3-port hybrid converter. After successful technical and economic demonstration, NRG intends to deploy these solutions, including the hybrid converter, into its broad EV charging station rollout. NRG believes that our power converter systems will reduce installation and operational costs and create new value streams for the commercial building owners hosting the EV charging infrastructure and grid operator. The additional flexibility and functionality of this platform can lower total lifetime cost of ownership of EV DC charging infrastructure.

Figure 8: Our 30kW battery converter used for bi-directional DC charging at the National Renewable Energy Laboratory, Colorado

Other Markets

As mentioned above, our technology may be applicable to a wide variety of power conversion needs. This may include, among others, the variable frequency motor drive market, uninterruptible power supply market, or the solid-state transformer market. We will continue to evaluate new markets to determine their fit with the criteria we outlined above: our time-to-market and market size/growth rate.

Early Development Relationships

PPSA has gained early validation from licensing and development arrangements with organizations in both the private and public sectors.

Lockheed Martin Corporation ("LMC"): We received approximately $1.3 million in early revenues from LMC from a License Agreement and a Subcontractor Development Agreement, both of which were entered into in December 2009. We received approximately $1.1 million from a subcontract project to develop hardware and provide technical support for LMC's Hybrid Intelligent Power development contract from the U.S. Army Communications-Electronics Research, Development and Engineering Center. We completed this work in early 2012 and do not expect additional revenues for subcontract development.

Pursuant to the License Agreement, LMC has the non-exclusive right to use our initial patents for government and mobile applications. Mobile applications are defined in the License Agreement as "products contained in an air, ground, water or space vehicle or that are intended to be transported from time to time from one location to another."

LMC is required to pay us a royalty of 3% on sales of any products that leverage our technology. Additionally, through December 31, 2013, LMC was required to pay us minimum annual royalties in order to retain its exclusive rights for government applications. LMC notified the Company in February 2014 that it would not pay the annual royalty for 2014 and thus no longer has an exclusive right for government applications. We earned $230,000 in annual licensing revenues from LMC through December 31, 2013 and will no longer receive annual licensing revenues under this agreement.

Department of Energy: We have been awarded two significant grants from the U.S. Department of Energy. We have received approximately $2.1 million in revenue from these grants. These grants provided funding for long-term research and next generation product development. We expect to receive additional revenue from these grants until they are completed. We plan to apply for additional government grants in the future.

We received an award of $2.5 million from ARPA-E. As of December 31, 2013 we recognized revenue of $1,923,000, leaving $577,000 of the award value remaining to be recognized over for the next 13 months. We are using this award to develop and commercialize our BD-IGBT technology. While we currently successfully use commodity silicon IGBT and diode components in our products, we are developing BD-IGBT components that we believe could significantly improve the efficiency, weight, and manufacturing costs of our products. Research universities and commercial vendors are working under our direction and are receiving the majority of the ARPA-E program funding. We believe this funding will be sufficient to develop and demonstrate the BD-IGBT power switch in a PPSA prototype system.

Our second Department of Energy award was a $150,000 Phase I SBIR grant. We used this grant to develop early prototypes of a 3-port hybrid converter. We completed this project in May 2013 and we do not expect to receive further awards from the Department of Energy for this project.

National Renewable Energy Laboratory: On May 13, 2013 we announced a Cooperative Research and Development Agreement to use our technology to develop and test next generation electric vehicle DC charging infrastructure solutions. The goal of this effort is to create standard reference designs using our patented technology in the 3-port hybrid converter that can readily be adopted by commercial and municipal EV fleets, military installations, and public infrastructure. These reference designs seek to improve the cost, efficiency and reliability of power conversion between EVs, solar panels, storage batteries and electric grid, as well as provide grid energy storage and emergency backup power capabilities.

Competition

We compete against well-established incumbent power conversion technologies. We believe that, for the markets we have identified, our technology provides significant competitive advantages, however, we do not currently have a significant competitive presence in our industry.

Transformer Based Technologies: Transformer-based inverters are the conservative choice, as they have been in the market longer than any other system. They provide isolation, but are big and heavy. There have been significant improvements in the efficiency of transformer-based inverters over the years, but we believe further improvements are limited because of the transformer requirements. The major suppliers in this market include: SMA, Advanced Energy, and Schneider Electric.

Transformer-Less Technologies: Transformer-less inverters are the norm in the European market for PV applications; they are lighter and more efficient than transformer based inverters. They have been obtaining market share in the U.S. market because of these characteristics. The drawback of transformer-less inverters is that they provide no electrical isolation. SMA, Power One (acquired by ABB), REFUsol (acquired by Advanced Energy), Kaco, and Fronius compete in this market.

Inverter with High Frequency Transformers: Inverters with high frequency transformers provide isolation without the weight of a transformer-based inverter. However, high frequency inverters lose competiveness as they scale-up in power. This is because in contrast to traditional inverters, high frequency inverters do not become more efficient or less costly per watt of power they convert. Power One and SMA are the key suppliers in this market.

Micro-inverters: In a string of PV modules connected to a string inverter, if one of the modules is in the shade, that one low-performing module constrains the output of the whole string. The problem is resolved by using micro-inverters connected to each module. However, large arrays of microinverters are expensive to produce and install, which mainly relegates their use to the residential market. The leader in micro inverters is Enphase.

Research and Development Costs

During the years ended December 31, 2013 and December 31, 2012, we incurred $2,643,096 and $1,760,111, respectively, in research and development costs, of which $1,430,798 and $709,954, respectively, were included in cost of revenues and $1,212,298 and $1,050,157, respectively, were included in operating expenses.

Manufacturing

We currently use subcontractors to assemble and test our product from our designs using commodity materials and components.

Employees

As of March 26, 2014, we had 13 full-time employees. None of these employees are covered by a collective bargaining agreement, and we believe our relationship with our employees is good.

Industry Certifications

Industry certifications are generally required for our products. The main certification requirement is UL1741, which tests and guarantees grid safety and product safety for distributed generation sources including PV inverters, battery converters, and bi-directional EV chargers. A National Recognized Testing Laboratory (“NRTL”) must complete the certification before our customers may install and use our products in the United States.

We have worked with Intertek, an NRTL, for these certifications and have completed testing and received authorization to use their ETL mark on our 30kW PV inverter and 30kW battery converter. While we have been able to rapidly and timely complete these certifications, which we believe is indicative of our commitment to the development of our technology, we may not be as successful in completing certification in a timely manner on future products, such as our 3-port hybrid converter, which could limit our ability to bring such products to market.

Europe and Japan have different certification test procedures, but generally test for similar capabilities. We do not have familiarity with these other grid safety certifications; however, such certifications are likely to be required to sell our products in these regions. Geographic regions outside of North America, Europe and Japan generally do not have specific certification requirements, but may require one or more of the other regional certifications before products are approved for sale.

Government Regulation

Government approval is not required for us to sell our products. However government support for renewable energy, grid storage, electric vehicle charging infrastructure and improved grid resiliency may impact growing markets that we service. Utility regulations and support may also impact these end markets. Government and utility support for these markets is generally required near term for these markets to grow and changes in policy by governments or utilities may limit the market opportunities for our products.

ITEM 1A: RISK FACTORS

We are subject to various risks that may materially harm our business, prospects, financial condition and results of operations. An investment in our common stock is speculative and involves a high degree of risk. In evaluating an investment in shares of our common stock, you should carefully consider the risks described below, together with the other information included in this report.

The risks described below are not the only risks we face. If any of the events described in the following risk factors actually occurs, or if additional risks and uncertainties later materialize, that are not presently known to us or that we currently deem immaterial, then our business, prospects, results of operations and financial condition could be materially adversely affected. In that event, the trading price of our common stock could decline, and you may lose all or part of your investment in our shares. The risks discussed below include forward-looking statements, and our actual results may differ substantially from those discussed in these forward-looking statements.

Risks Related to Our Business

We lack an established operating history on which to evaluate our business and determine if we will be able to execute our business plan, and we can give no assurance that our operations will result in profits.

We were formed in Texas on May 17, 2007 and converted to a Delaware corporation on July 15, 2013; therefore, we have a limited operating history that makes it difficult to evaluate our business. We have been granted patents by the United States of America and China and we have currently pending patent applications with the United States Patent and Trademark Office and equivalent offices in the European Union, India, Malaysia, Singapore, the Philippines, South Korea, China, Brazil and Canada for our power converter technology and our methods of operation, as well as various improvements on and applications of our basic power converter design. We have also had our designs validated by UL certifications from Intertek, the California Energy Commission, and several photovoltaic ("PV") inverter installations. However, we have only recently begun sales of our products, and we cannot say with certainty when we will begin to achieve profitability. No assurance can be made that we will ever become profitable.

We have incurred losses in prior periods and expect to incur losses in the future. We may never be profitable.

Since our inception on May 17, 2007 through December 31, 2013, we sustained $16,752,212 in net losses and we had net losses for the years ended December 31, 2013 and 2012 of $9,551,698 and $4,647,219, respectively. We expect to continue to sustain losses for the foreseeable future.

As sales of our products have generated minimal operating revenues, we have relied on borrowings under convertible promissory notes, governmental grants and, recently, proceeds from our initial public offering to continue our operations. If we are unable to raise funds through equity or debt offerings, there can be no assurance that we will be able to implement our business plan, generate sustainable revenue or ever achieve profitable operations. We expect to have operating losses until such time as we develop a substantial and stable revenue base. We cannot assure you that we can achieve or sustain profitability on a quarterly or annual basis in the future.

To date we have had a limited number of customers. We cannot assure you that our customer base will increase.

One customer, the Department of Energy, from which we received $1,229,000 in net revenues in 2013, accounted for 65% of net revenue for the year ended December 31, 2013. Two customers, the Department of Energy and Lockheed Martin Corporation ("LMC"), from which we received $694,000 and $153,900, respectively, in net revenues in 2012, accounted for 75% of net revenue for the year ended December 31, 2012. The Company sold its products to a limited number of customers in 2013.

We may not be able to meet our product development and commercialization milestones.

Product development and testing are subject to unanticipated and significant delays, expenses and technical or other problems. We cannot guarantee that we will successfully achieve our milestones within our planned timeframe or ever. Our plans and ability to achieve profitability depend on acceptance of our

technology and our products by key market participants, such as vendors and marketing partners, and potential end-users of our products. We continue to educate designers and manufacturers about our solar PV inverters, grid-battery converters, and electrified vehicle ("EV") charging infrastructure. More generally, the commercialization of our products may also be adversely affected by many factors not within our control, including:

- the willingness of market participants to try a new product and the perceptions of these market participants of the safety, reliability, functionality and cost effectiveness of our products;
- the emergence of newer, possibly more effective technologies;
- the future cost and availability of the raw materials and components needed to manufacture and use our products; and
- the adoption of new regulatory or industry standards that may adversely affect the use or cost of our products.

Accordingly, we cannot predict that our products will be accepted on a scale sufficient to support development of mass markets for them.

We must achieve design wins to retain our existing customers and to obtain new customers, although design wins achieved do not necessarily result in substantial sales.

The constantly changing nature of technology in the markets we serve causes equipment manufacturers to continually design new systems. We must work with these manufacturers early in their design cycles to modify our equipment or design new equipment to meet the requirements of their new systems. Manufacturers typically choose one or two vendors to provide the components for use with the early system shipments. Selection as one of these vendors is called a design win. It is critical that we achieve these design wins in order to retain existing customers and to obtain new customers.

We believe that equipment manufacturers often select their suppliers based on factors including long-term relationships and end user demand. Accordingly, we may have difficulty achieving design wins from equipment manufacturers who are not currently our customers. In addition, we must compete for design wins for new systems and products of our existing customers, including those with whom we have had long-term relationships. Our efforts to achieve design wins are time consuming, expensive, and may not be successful. If we are not successful in achieving design wins, or if we do achieve design wins but our customers' systems that utilize our products are not successful, our business, financial condition, and results of operations could be materially and adversely impacted.

Once a manufacturer chooses a component for use in a particular product, it is likely to retain that component for the life of that product. Our sales and growth could experience material and prolonged adverse effects if we fail to achieve design wins. However, design wins do not always result in substantial sales, as sales of our products are dependent upon our customers' sales of their products.

The prototype of our new 3-port hybrid converter may not provide the results we expect, may prove to be too expensive to produce and market, or may uncover problems of which we are currently not aware, any of which could harm our business and prospects.

We are currently developing our prototype of a 3-port hybrid converter, which is an integrated solar PV inverter and battery charger/inverter, based on improvements to our current PV inverter products. We do not yet know if the prototype will produce positive results consistent with our expectations. The prototype may also cost significantly more than expected, and the prototype design and construction process may uncover problems of which we are currently not aware. These and other prototypes of emerging products are a material part of our business plan, and if they are not proven to be successful, our business and prospects could be harmed.

We have received grant funds from the United States for the development of a bidirectional insulated gate bipolar transistor ("BD-IGBT"). In certain instances, the United States may obtain title to inventions related to this effort. If we were to lose title to those inventions, we may have to pay to license them from the United States in order to manufacture the BD-IGBT. If we were unable to license those inventions from the United States, it could slow down our product development.

In conjunction with the Advanced Research Projects Agency-Energy ("ARPA-E") grant we received from the Department of Energy, we granted to the United States a non-exclusive, nontransferable, irrevocable, paid-up license to practice or have practiced for or on behalf of the United States inventions related to the BD-IGBT and made within the scope of the grant. If we fail to disclose to the Department of Energy an invention made with grant funds that we disclose to patent counsel or for publication, or if we elect not to retain title to the invention, the United States may request that title to the subject invention be transferred to it.

We also granted "march-in-rights" to the United States in connection with any BD-IGBT inventions in which we choose not to retain title, if those inventions are made under the ARPA-E grant. Pursuant to the march-in-rights, the United States has the right to require us, any person to whom we have assigned our rights, or any exclusive licensee to grant a non-exclusive, partially exclusive, or exclusive license in any field of use to a responsible applicant upon terms that are reasonable. If the license is not granted as requested, the United States has the right to grant the license if it determines that we have not achieved practical application of the invention in the field of use, the action is necessary to alleviate health or safety needs, the action is necessary to meet requirements for public use specified by Federal regulations and such requirements have not been satisfied, or the action is necessary because an agreement to manufacture the invention in the United States has not been obtained or waived or because any such agreement has been breached.

If we lost title to the United States as a result of any of these events, we would have to pay to license the inventions to manufacture the BD-IGBT from the United States. If we were unable to license those inventions from the United States, it could slow down our product development.

We have entered into a Cooperative Research and Development Agreement with the National Renewable Energy Lab ("NREL"). Under that agreement, the United States Government and NREL will have licenses to inventions made under that contract.

As we announced in May 2013, we have entered into a Cooperative Research and Development Agreement ("CRADA") with NREL. The CRADA provides that NREL and the Company will jointly develop and demonstrate a hybrid power converter system which includes bi-directional electric vehicle charging, photovoltaic generation, and stationary battery storage using our 3-port hybrid converter. Together with NREL, we will also jointly investigate synergies in tightly integrating these separate power conversion systems.

The United States retains a nonexclusive, nontransferable, irrevocable, paid-up license to practice or to have practiced for or on behalf of the United States every invention made under this CRADA. The same licensing terms may apply to NREL's operator, the Alliance for Sustainable Energy LLC.

This agreement also grants "march-in-rights" to the United States in connection with any inventions made under this contract in which we choose not to retain title, if those inventions are made under the CRADA contract. Pursuant to the march-in-rights, the United States has the right to require us, any person to whom we have assigned our rights, or any exclusive licensee to grant a non-exclusive, partially exclusive, or exclusive license in any field of use to a responsible applicant upon terms that are reasonable. If the license is not granted as requested, the United States has the right to grant the license if it determines that we have not achieved practical application of the invention in the field of use, the action is necessary to alleviate health or safety needs, the action is necessary to meet requirements for public use specified by Federal regulations and such requirements have not been satisfied, or the action is necessary because an agreement to manufacture the invention in the United States has not been obtained or waived or because any such agreement has been breached.

We do not expect to make any inventions under the CRADA.

As we continue to grow and to develop our intellectual property, we expect to attract threats from patent monetization firms or competitors alleging infringement. We may incur substantial costs as a result of litigation or other proceedings relating to patent and other intellectual property rights.

As we continue to grow and to develop our intellectual property, we expect to attract threats from patent monetization firms or competitors alleging infringement of intellectual property rights. For example, on October 4, 2013 we received a letter from a competitor alleging that the system architecture that appears on our website "appears" to infringe on patents licensed to or held by the competitor. We have investigated this claim and we have determined that the allegation is without merit. No resolution regarding this assertion has been reached. If we cannot resolve this matter, the cost to us of any litigation or other proceeding relating to intellectual property rights, even if resolved in our favor, could be substantial, and the litigation would divert management's attention from our day-to-day operations. Some of our competitors may be able to sustain the costs of complex patent litigation more effectively than we can because they have substantially greater resources. If we do not prevail in this type of litigation, we may be required to: pay monetary damages; stop commercial activities relating to our product; obtain one or more licenses in order to secure the rights to continue manufacturing or marketing certain products; or attempt to compete in the market with substantially similar products. Uncertainties resulting from the initiation and continuation of any litigation could limit our ability to continue some of our operations. In addition, a court may require that we pay expenses or damages, and litigation could disrupt our commercial activities.

We expect to license our technology in the future; however the terms of these agreements may not prove to be advantageous to us. If the license agreements we enter into do not prove to be advantageous to us, our business and results of operations will be adversely affected.

Our goal is to license our technology to our customers. However, we may not be able to secure license agreements with customers on terms that are advantageous to us. Furthermore, the timing and volume of revenue earned from license agreements will be outside of our control. If the license agreements we enter into do not prove to be advantageous to us, our business and results of operations will be adversely affected.

We have not devoted significant resources towards the marketing and sale of our products and we continue to rely on the marketing and sales efforts of third parties whom we do not control.

To date, we have sold low volumes of our solar PV inverter and battery converter products and, even after adding industry veterans to our staff, we continue to experience a learning curve in the marketing and sale of products on a commercial basis. We expect that the marketing and sale of these products will continue to be conducted by a combination of independent manufacturers' representatives, third-party strategic partners, distributors, or original equipment manufacturers ("OEMs"). Consequently, commercial success of our products will depend to a great extent on the efforts of others. We intend to enter into strategic marketing and distribution agreements or other collaborative relationships to market and sell our solar PV inverter, battery converter and other value added products. However, we have not entered into any strategic marketing or material distribution agreements at this time. We have entered into one distribution agreement with a large electrical equipment distributor, but have not sold any products through that distributor thus far. We may not be able to identify or establish appropriate relationships in the near term or in the future. We can give no assurance that these distributors or OEMs will focus adequate resources on selling our products or will be successful in selling them. In addition, third-party distributors or OEMs have or may require us to provide volume price discounts and other allowances, customize our products or provide other concessions that could reduce the potential profitability of these relationships. Failure to develop sufficient distribution and marketing relationships in our target markets will adversely affect our commercialization schedule and to the extent we have entered or enter into such relationships, the failure of our distributors and other third parties to assist us with the marketing and distribution of our products, or to meet their monetary obligations to us, may adversely affect our financial condition and results of operations.

A material part of our success depends on our ability to manage our suppliers and manufacturers. Our failure to manage our suppliers and manufacturers could materially and adversely affect our results of operations and relations with our customers.

We rely upon suppliers to provide the components necessary to build our products and on contract manufacturers to produce our products. There can be no assurance that key suppliers and manufacturers will provide components or products in a timely and cost efficient manner or otherwise meet our needs and expectations. Our ability to manage such relationships and timely replace suppliers and manufacturers, if necessary, is critical to our success. Our failure to timely replace our contract manufacturers and suppliers, should that become necessary, could materially and adversely affect our results of operations and relations with our customers.

Our business is dependent upon our ability to obtain financing. If we do not obtain such financing, we may have to cease our activities.

There is no assurance that we will operate profitably or generate positive cash flows in the future. In the future, we may require additional financing in order to sell our then current products and to continue the research and development required to produce our next generation of products. At that time, we may not be able to obtain financing on commercially reasonable terms or at all. If we do not obtain such financing when needed, our business could fail.

The economic downturn in the United States has adversely affected, and is likely to continue affecting, our ability to raise capital, which may potentially impact our ability to continue our operations.

As a company that is still in the process of developing its technology, we may need to rely on raising funds from investors to support our future research and development activities and our operations. The economic downturn in the United States has resulted in a tightening of the credit markets, which has made it more difficult to raise capital. If we are unable to raise funds as and when we need them, we may be forced to curtail our operations or even cease operating altogether.

We are subject to credit risks.

Some of our customers may experience financial difficulties and/or may fail to meet their financial obligations to us. As a result, we may incur charges for bad debt provisions related to some trade receivables. In certain cases where our end customers utilize contract manufacturers or distributors, our accounts receivable risk may lie with the contract manufacturer or distributor and may not be guaranteed by the end customer. In addition, in connection with the growth of the renewable energy market, we are gaining a substantial number of new customers, some of which have relatively short histories of operations or are newly formed companies. As a result, it is difficult to ascertain financial information in order to appropriately extend credit to these customers. Further, the volatility in the renewable energy market may put additional pressure on our customers' financial positions, as they may be required to respond to large swings in revenue. The renewable energy industry has also seen an increasing amount of bankruptcies and reorganizations as the availability of financing has diminished.

If customers fail to meet their financial obligations to us, or if the assumptions underlying our recorded bad debt provisions with respect to receivables obligations do not accurately reflect our customers' financial conditions and payment levels, we could incur write-offs of receivables in excess of our provisions, which could have a material adverse effect on our cash flow and operating results.

We may not be able to control our warranty exposure, which could increase our expenses.

We currently offer and expect to continue to offer a warranty with respect to our power converters and we expect to offer a warranty with each of our future product applications. If the cost of warranty claims exceeds any reserves we may establish for such claims, our results of operations and financial condition could be adversely affected.

We may be exposed to lawsuits and other claims if our products malfunction, which could increase our expenses, harm our reputation and prevent us from growing our business.

Any liability for damages resulting from malfunctions of our products could be substantial, increase our expenses and prevent us from growing or continuing our business. Potential customers may rely on our products for critical needs, such as backup power. A malfunction of our products could result in warranty claims or other product liability. In addition, a well-publicized actual or perceived problem could adversely affect the market's perception of our products. This could result in a decline in demand for our products, which would reduce revenue and harm our business. Further, since our products are used in devices that are made by other manufacturers, we may be subject to product liability claims even if our products do not malfunction.

We are highly dependent on the services of William Alexander, as well as other key members of our executive management team. Our inability to retain these individuals could impede our business plan and growth strategies, which could have a negative impact on our business and the value of your investment.

Our ability to implement our business plan depends, to a critical extent, on the continued efforts and services of William Alexander, our founder and Chief Technology Officer, and other members of our executive management team. If we lose the services of any of these persons during this important time in our development, the loss may result in a delay in the implementation of our business plan and plan of operations. We can give no assurance that we could find satisfactory replacements for these individuals on terms that would not be unduly expensive or burdensome to us. We do not currently carry a key-man life insurance policy that would assist us in recouping our costs in the event of the death or disability of any of these persons.

Any failure by management to properly manage our expected rapid growth could have a material adverse effect on our business, operating results and financial condition.

If our business develops as expected, we anticipate that we will grow rapidly in the near future. Our failure to properly manage our expected rapid growth could have a material adverse effect on our ability to retain key personnel. Our expansion could also place significant demands on our management, operations, systems, accounting, internal controls and financial resources. If we experience difficulties in any of these areas, we may not be able to expand our business successfully or effectively manage our growth. Any failure by management to manage growth and to respond to changes in our business could have a material adverse effect on our business, financial condition and results of operations.

Risks Relating to the Industry

Our industry is intensely competitive. We cannot guarantee you that we can compete successfully.

We will be competing against providers of power converter systems that are highly established and have substantially greater manufacturing, marketing, management and financial resources including very substantial market position and name recognition. The competitors for our PV inverter products include ABB, Advanced Energy, SMA and Chint Solar. All aspects of our business, including pricing, financing and servicing, as well as the general quality, efficiency and reliability of our products, are significant competitive factors. Our ability to successfully compete with respect to each of these factors is material to the acceptance of our products and our future profitability. In addition, the solar power industry may tend to be resistant to change and to new products from suppliers that are not major names in the field. Our competitors will use their established position to their competitive advantage. If our innovations are successful, our competitors may seek to adopt and copy our ideas, designs and features. Our competitors may develop or offer technologies and products that may be more effective or popular than our products and they may be more successful in marketing their products than we are in marketing ours. Pricing competition could result in lower margins for our products.

We expect to compete on the basis of our products' significantly lower cost, smaller footprint, and higher efficiency. Technological advances in alternative energy products or other power converter technologies may negatively affect the development of our products or make our products non-competitive or obsolete prior to commercialization or afterwards.

We cannot assure you that we will be able to compete successfully in our markets, or compete effectively against current and new competitors as our industry continues to evolve.

The reduction or elimination of government subsidies and economic incentives for energy-related technologies could harm our business.

We believe that near-term growth of energy-related technologies, including power converter technology, relies on the availability and size of government and economic incentives and grants (including, but not limited to, the U.S. Investment Tax Credit and various state and local incentive programs). These incentive programs could be challenged by utility companies, or for other reasons found to be unconstitutional, and/or could be reduced or discontinued for other reasons. The reduction, elimination, or expiration of government subsidies and economic incentives could delay the development of our technology and harm our business.

Changes to the National Electrical Codes ("NEC") could adversely affect our technology and products.

Our products are installed by system integrators that must meet the NEC standards, including using equipment that meets industry standards such as UL1741. The NEC standards address the safety of these systems. The NEC standards, along with the UL1741 and IEEE1547 requirements, continue to evolve and are subject to change. If we respond to these changing standards and requirements more slowly than our competitors, or if we are unable to meet new standards and requirements, our products will be less competitive.

New technologies in the alternative energy industry may supplant solar PV inverter devices (including our current products for which we have patents and pending patent applications), which would harm our business and operations.

The alternative energy industry is subject to rapid technological change. Our future success will depend on the cutting edge relevance of our technology, and thereafter on our ability to appropriately respond to changing technologies and changes in function of products and quality. If new technologies supplant our power converter technology, our business would be adversely affected and we will have to revise our plan of operation.

Businesses, consumers, and utilities might not adopt alternative energy solutions as a means for providing or obtaining their electricity and power needs.

On-site distributed power generation solutions that utilize our inverter products (such as PV systems) provide an alternative means for obtaining electricity and are relatively new methods of obtaining electrical power. There is a risk that businesses, consumers, and utilities may not adopt these new methods at levels sufficient to grow our business. Traditional electricity distribution is based on the regulated industry model whereby businesses and consumers obtain their electricity from a government regulated utility. For alternative methods of distributed power to succeed, businesses, consumers and utilities must adopt new purchasing practices and must be willing to rely upon less traditional means of providing and purchasing electricity. As larger solar projects come online, utilities are becoming increasingly concerned with grid stability, power management and the predictable loading of such power onto the grid.

We cannot be certain that businesses, consumers, and utilities will choose to utilize on-site distributed power at levels sufficient to sustain our business. The development of a mass market for our products may be impacted by many factors which are out of our control, including:

- market acceptance of PV systems that incorporate our products;
- the cost competitiveness of these systems;
- regulatory requirements; and
- the emergence of newer, more competitive technologies and products.

If a mass market fails to develop or develops more slowly than we anticipate, we may be unable to recover the costs we will have incurred to develop these products.

The industries in which we compete are subject to volatile and unpredictable cycles.

As a supplier to the solar, grid energy storage, EV charging infrastructure, wind, electric motor and related industries, we are subject to business cycles. The timing, length, and volatility of these business cycles can be difficult to predict. These industries historically have been cyclical due to sudden changes in customers' manufacturing capacity requirements and spending, which depend in part on capacity utilization, demand for customers' products, inventory levels relative to demand, and access to affordable capital. These changes have affected the timing and amounts of customers' purchases and investments in technology, and affect our orders, net sales, operating expenses, and net income. In addition, we may not be able to respond adequately or quickly to the declines in demand by reducing our costs. We may be required to record significant reserves for excess and obsolete inventory as demand for our products changes.

To meet rapidly changing demand in each of the industries we serve, we must effectively manage our resources and production capacity. During periods of decreasing demand for our products, we must be able to appropriately align our cost structure with prevailing market conditions, effectively manage our supply chain, and motivate and retain key employees. During periods of increasing demand, we must have sufficient manufacturing capacity and inventory to fulfill customer orders, effectively manage our supply chain, and attract, retain, and motivate a sufficient number of qualified individuals. If we are not able to timely and appropriately adapt to changes in our business environment or to accurately assess where we are positioned within a business cycle, our business, financial condition, or results of operations may be materially and adversely affected.

Risks Related to Owning Our Common Stock

We are an "emerging growth company" under the Jumpstart Our Business Startups Act of 2012 ("JOBS Act") and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are an "emerging growth company," as defined in the JOBS Act, and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies" including, but not limited to, not being required to comply with the auditor attestation requirements of section 404 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. At present, we intend to take advantage of the exemption from the requirement of holding a nonbinding advisory vote on executive compensation but do not intend to take advantage of any of the other exemptions, other than as they apply to all other "smaller reporting companies," though we may do so at some point in the future. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

We will remain an "emerging growth company" for up to five years, although we will lose that status sooner if our revenues exceed $1 billion, if we issue more than $1 billion in non-convertible debt in a three year period, or if the market value of our common stock that is held by non-affiliates exceeds $700 million as of any June 30.

Our status as an "emerging growth company" under the JOBS Act may make it more difficult to raise capital as and when we need it.

Because of the exemptions from various reporting requirements provided to us as an "emerging growth company," we may be less attractive to investors and it may be difficult for us to raise additional capital as and when we need it. Investors may be unable to compare our business with other companies in our industry if they believe that our reporting is not as transparent as other companies in our industry. If we are unable to raise additional capital as and when we need it, our financial condition and results of operations may be materially and adversely affected.

If a public market for our common stock develops, it may be volatile. This may affect the ability of our investors to sell their shares as well as the price at which they sell their shares.

If a market for our common stock develops, the market price for the shares may be significantly affected by factors such as variations in the volume of trading activity, quarterly and yearly operating results, general trends in the alternative energy industry, and changes in state or federal regulations affecting us and our industry. Furthermore, in recent years the stock market has experienced extreme price and volume fluctuations that are unrelated or disproportionate to the operating performance of the affected companies. Such broad market fluctuations may adversely affect the market price of our common stock, if a market for it develops.

We have the right to issue shares of preferred stock. If we were to issue preferred stock, it is likely to have rights, preferences and privileges that may adversely affect the common stock.

We are authorized to issue 10,000,000 shares of "blank check" preferred stock, with such rights, preferences and privileges as may be determined from time-to-time by our board of directors. Our board of directors is empowered, without stockholder approval, to issue preferred stock in one or more series, and to fix for any series the dividend rights, dissolution or liquidation preferences, redemption prices, conversion rights, voting rights, and other rights, preferences and privileges for the preferred stock. No shares of preferred stock are presently issued and outstanding and we have no immediate plans to issue shares of preferred stock. The issuance of shares of preferred stock, depending on the rights, preferences and privileges attributable to the preferred stock, could adversely reduce the voting rights and powers of the common stock and the portion of the Company's assets allocated for distribution to common stockholders in a liquidation event, and could also result in dilution in the book value per share of the common stock we are offering. The preferred stock could also be utilized, under certain circumstances, as a method for raising additional capital or discouraging, delaying or preventing a change in control of the Company, to the detriment of the investors in the common stock offered hereby. We cannot assure you that we will not, under certain circumstances, issue shares of our preferred stock.

We have not paid dividends in the past and have no immediate plans to pay dividends.

We plan to reinvest all of our earnings, to the extent we have earnings, in order to market our products and to cover operating costs and to otherwise become and remain competitive. We do not plan to pay any cash dividends with respect to our securities in the foreseeable future. We cannot assure you that we would, at any time, generate sufficient surplus cash that would be available for distribution to the holders of our common stock as a dividend. Therefore, you should not expect to receive cash dividends on our common stock.

Management of our Company is within the control of the board of directors and the officers. You should not purchase our common stock unless you are willing to entrust management of our Company to these individuals.

All decisions with respect to the management of the Company will be made by our board of directors and our officers, who beneficially own 12.2% of our common stock, as calculated in accordance with Rule 13d-3 promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"). Therefore, management will retain significant influence in electing a majority of the board of directors who shall, in turn, have the power to appoint the officers of the Company and to determine, in accordance with their fiduciary duties and the business judgment rule, the direction, objectives and policies of the Company including, without limitation, the purchase of businesses or assets; the sale of all or a substantial portion of the assets of the Company; the merger or consolidation of the Company with another corporation; raising additional capital through financing and/or equity sources; the retention of cash reserves for future product development, expansion of our business and/or acquisitions; the filing of registration statements with the Securities and Exchange Commission for offerings of our capital stock; and transactions that may cause or prevent a change in control of the Company or its winding up and dissolution. Accordingly, no investor should purchase our common stock unless such investor is willing to entrust all aspects of the management of the Company to such individuals.

We will incur significant increased costs as a result of becoming a public company that reports to the Securities and Exchange Commission and our management will be required to devote substantial time to meet compliance obligations.

As a public company reporting to the Securities and Exchange Commission, we will incur significant legal, accounting and other expenses that we did not incur as a private company. We are subject to reporting requirements of the Exchange Act and the Sarbanes-Oxley Act, as well as rules subsequently implemented by the Securities and Exchange Commission that impose significant requirements on public companies, including requiring establishment and maintenance of effective disclosure and financial controls and changes in corporate governance practices. In addition, on July 21, 2010, the Dodd-Frank Wall Street Reform and Protection Act was enacted. There are significant corporate governance and executive compensation-related provisions in the Dodd-Frank Act that are expected to increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly and may also place undue strain on our personnel, systems and resources. Our management and other personnel will need to devote a substantial amount of time to these new compliance initiatives. In addition, we expect these rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified people to serve on our board of directors, our board committees or as executive officers.

Failure to build our finance infrastructure and improve our accounting systems and controls could impair our ability to comply with the financial reporting and internal controls requirements for publicly traded companies.

As a public company, we operate in an increasingly demanding regulatory environment, which requires us to comply with applicable provisions of the Sarbanes-Oxley Act, and the related rules and regulations of the Securities and Exchange Commission, expanded disclosure requirements, accelerated reporting requirements and more complex accounting rules. Company responsibilities required by the Sarbanes-Oxley Act include establishing corporate oversight and adequate internal control over financial reporting and disclosure controls and procedures. Effective internal controls are necessary for us to produce reliable financial reports and are important to help prevent financial fraud. We will need to hire or outsource additional finance personnel and build our financial infrastructure as a public company, including complying with the applicable requirements of Section 404 of the Sarbanes-Oxley Act. We may be unable to do so on a timely basis. Until we are able to expand our finance and administrative capabilities and establish necessary financial reporting infrastructure, we may not be able to prepare and disclose, in a timely manner, our financial statements and other required disclosures or comply with the applicable provisions of the Sarbanes-Oxley Act or existing or new reporting requirements. If we cannot provide reliable financial reports or prevent fraud, our business and results of operations could be harmed and investors could lose confidence in our reported financial information.

Shares eligible for future sale may adversely affect the market for our common stock.

From time to time, holders of our restricted common stock may be eligible to sell all or some of their shares by means of ordinary brokerage transactions in the open market, pursuant to Rule 144 promulgated under the Securities Act of 1933 (the “Securities Act”), subject to certain limitations. In general, pursuant to Rule 144, non-affiliate stockholders may sell freely after six months subject only to the current public information requirement (which disappears after one year). In general, common stock held by affiliates may also be sold pursuant to Rule 144 after six months, subject to the current public information requirements, volume limitation requirement, broker’s sale requirement and Form 144 filing requirement. As of December 31, 2013, approximately 3,187,709 shares of our outstanding common stock were eligible for sale pursuant to Rule 144.

Furthermore, as of December 31, 2013, we had outstanding options and warrants for the purchase of 485,573 shares and 1,659,922 shares, respectively, of our common stock and we may grant additional options and/or warrants in the future. If our stock price rises, the holders may exercise their options or warrants and sell a large number of shares.

Any sale of a substantial number of shares of our common stock may have a material adverse effect on the market price of our common stock.

Any substantial sale of our common stock pursuant to Rule 144 may have a material adverse effect on the market price of our common stock.

Our charter documents and Delaware law may inhibit a takeover that stockholders consider favorable.

Our Certificate of Incorporation ("Certificate") and bylaws and applicable provisions of Delaware law may delay or discourage transactions involving an actual or potential change in control or change in our management, including transactions in which stockholders might otherwise receive a premium for their shares, or transactions that our stockholders might otherwise deem to be in their best interests. The provisions in our Certificate and bylaws:

- authorize our board of directors to issue preferred stock without stockholder approval and to designate the rights, preferences and privileges of each class; if issued, such preferred stock would increase the number of outstanding shares of our capital stock and could include terms that may deter an acquisition of us;
- limit who may call stockholder meetings;
- do not permit stockholders to act by written consent;
- do not provide for cumulative voting rights; and
- provide that all vacancies may be filled by the affirmative vote of a majority of directors then in office, even if less than a quorum.

In addition, Section 203 of the Delaware General Corporation Law may limit our ability to engage in any business combination with a person who beneficially owns 15% or more of our outstanding voting stock unless certain conditions are satisfied. This restriction lasts for a period of three years following the share acquisition. These provisions may have the effect of entrenching our management team and may deprive you of the opportunity to sell your shares to potential acquirers at a premium over prevailing prices. This potential inability to obtain a control premium could reduce the price of our common stock. See "Anti-Takeover Effects of Certain Provisions of Delaware Law and Our Charter Documents" for additional information.

If securities or industry analysts do not publish research or reports about our business, or if they issue an adverse or misleading opinion regarding our stock, our stock price and trading volume could decline.

The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us or our business. Presently, analysts do not publish reports on us on a regular basis, which in turn may have an adverse effect on our stock price or trading volume. If any of the analysts who cover us now or in the future issue an adverse opinion regarding our stock, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

ITEM 1B: UNRESOLVED STAFF COMMENTS

None.

ITEM 2: PROPERTIES

Our principal office is located at 5004 Bee Creek Road, Suite 600, Spicewood, Texas 78669. We currently lease approximately 3,750 square feet of office and laboratory space under a triple net lease that is due to expire on May 31, 2014. The rent is approximately $3,300 per month.

On March 24, 2014, we entered into a lease for 14,782 square feet of office and laboratory space located at 4120 Freidrich Lane, Suite 100, Austin, Texas 78744. The triple net lease has a term of 48 months and we expect the commencement date of the lease to be approximately June 1, 2014. The annual base rent in the first year of the lease is $154,324 and increases by $3,548 in each succeeding year of the lease. In addition,

we will be required to pay our proportionate share of operating costs for the building. We have a one-time option to terminate the lease on May 31, 2017 with a termination payment of approximately $99,000 if we elect to exercise this option. Our principal office will change to this location upon commencement of the lease term.

ITEM 3: LEGAL PROCEEDINGS

We are not a party to any pending legal proceedings.

ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is quoted under the symbol IPWR on the NASDAQ Capital Market. Our common stock began trading on the NASDAQ Capital Market on November 22, 2013. The table below presents the range of high and low sales prices of our common stock since November 22, 2013.

High and low sales prices

	High	Low
Fiscal year ended December 31, 2013		
First quarter	N/A	N/A
Second quarter	N/A	N/A
Third quarter	N/A	N/A
Fourth quarter	$ 7.77	$ 5.15

As of March 26, 2014 we had approximately 104 shareholders of record. The name, address and telephone number of our stock transfer agent is Corporate Stock Transfer, Inc., 3200 Cherry Creek South Drive, Suite 430, Denver, Colorado, 80209, (303) 282-4800.

Dividends

We have not paid any cash dividends on our common stock since our inception and do not anticipate paying any cash dividends in the foreseeable future. We plan to retain our earnings, if any, to provide funds for the expansion of our business.

Securities Authorized for Issuance under Equity Compensation Plans

The table below provides information, as of December 31, 2013, regarding our 2013 Equity Incentive Plan under which our equity securities are authorized for issuance to officers, directors, employees, consultants, independent contractors and advisors.

2013 Equity Incentive Plan

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	373,173	$ 4.72	186,162[(1)]

(1) The number of securities remaining available for future issuance under our equity compensation plan is increased on the first calendar day of each quarter by 10% of the increase in our fully diluted share count from the first calendar day of the prior quarter. On January 1, 2014, the number of securities remaining available for future issuance under equity compensation plans increased to 466,810. This amount will not be subject to future increases as the maximum number of securities that may be issued under our equity compensation plan is 839,983.

Recent Issuances of Unregistered Securities

On August 6, 2013 we filed a registration statement, number 333-190414, with the Securities and Exchange Commission to register an offering of 3,000,000 shares of our common stock, with an option granted to the underwriter to sell an additional 450,000 shares of our common stock (the "overallotment"). The registration statement was declared effective on November 21, 2013. The offering closed on November 27, 2013 and the offering of the overallotment closed on December 5, 2013. The common stock was offered to the public at a price of $5 per share. All of the shares of common stock, including the overallotment, were sold. We raised a total of $17,250,000 in gross proceeds in the offering and received $15,015,985 in net cash proceeds after expenses.

Through December 31, 2013, we used approximately $1 million of the net cash proceeds from the offering. These funds were used as follows: $36,000 for protection of our intellectual property, $8,000 for purchase of equipment and software and the remainder for our operations, including research and development and general and working capital purposes. None of the proceeds were used for construction of plant, building and facilities, the purchase of real estate or the acquisition of any business.

On November 27, 2013 we issued a total of 1,700,493 shares of common stock to holders of our secured convertible promissory notes and senior secured convertible promissory notes (collectively, the "Notes"). The principal amount of the Notes totaled $6,105,151and interest accrued through November 27, 2013 totaled $163,218. The shares of common stock paid the principal and interest in full and were issued in reliance on Section 3(a)(9) of the Securities Act of 1933 inasmuch as the shares were issued to existing security holders and no consideration, commissions or other remuneration was given paid or given for the exchange.

On December 23, 2013, we issued a warrant for the purchase of 84,000 shares of our common stock at an exercise price of $6.25 as compensation in connection with an agreement for consulting services. During the first 12 months of performance (the "Initial Vesting Period"), 4,000 warrant shares will vest at the end of each of month during which services are performed. Following the expiration of the Initial Vesting Period, during the next 12 month period, 3,000 warrant shares will vest at the end of each month during which services are provided to us. The warrant includes a cashless exercise provision and piggyback registration rights. The warrant will expire on November 27, 2016. Following the expiration of the term of the warrant, the warrant holder will have an additional period of 180 days during which to purchase the vested warrant shares. We relied on Section 4(a) (2) of the Securities Act of 1933, as amended, to issue the warrant inasmuch as the warrant holder represented that it was an accredited investor and there was no general solicitation or advertising done in connection with the offering.

On December 31, 2013, we issued 301,213 shares of our common stock to the State of Texas upon its exercise of purchase rights it had been granted pursuant to that certain Investment Unit dated October 1, 2010, as subsequently amended. The price per share was $0.001. We relied on Section 4(a)(2) of the Securities Act of 1933, as amended, to issue the common stock inasmuch as the State of Texas is an investor which does not require the protections of registration and there was no general solicitation or advertising done in connection with the offering.

ITEM 6: SELECTED FINANCIAL DATA.

As a smaller reporting company we are not required to provide this information.

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the audited financial statements and related notes included elsewhere in this Annual Report on Form 10-K. In addition to historical information, this discussion and analysis here and throughout this Form 10-K contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements.

Overview

We are located near Austin, Texas. We were formed to develop and commercialize our PPSA technology, which improves the performance, size, weight and manufacturing cost of electronic power converters for several large vertical markets.

We were founded on May 17, 2007. To date, our operations have been funded through the sale of our common stock and convertible debt, through U.S. Department of Energy grants and, to a lesser extent, through technology licensing revenue. Our total revenue generated from inception to date as of December 31, 2013 is $4,283,102, with the majority of that revenue coming from government grants and engineering fees. We have successfully applied these revenues to research and product development, reducing our capital requirements. We will continue to pursue research and development grants, where available, for the purpose of performing the necessary research and development of our products. We can make no assurances that additional grants will be available in the future.

We have completed development and industry certification of our first two products, a 30kW PV inverter and a 30kW battery converter, both using the same universal power converter hardware design with different embedded software. We are currently developing our third product, which is a 30kW 3-port hybrid converter.

These are products that we plan to use to promote long term licensing opportunities for the Company. As a result, we believe the revenue from our early product sales is not the most important metric of our growing success. We believe the quality and the level of interest from prospective customers and potential licensees is the most important metric, although we cannot provide any assurance that such prospective customers and potential licensees will materialize for us.

We are currently focused on three vertical markets — PV inverters, distributed grid energy storage, and EV DC charging. The PV inverter market is the largest and most mature, but it is also in a hypercompetitive state with slow growth and an increasing number of suppliers. Our initial PV inverter product was developed as the first implementation of PPSA in order to validate our technology. We continue to leverage the PV inverter market for valuable product refinement feedback, including feature and performance requirements as well as improving the quality and robustness of our product designs. We plan to integrate our proven PV inverter functionality with grid energy storage and/or DC charging functionality to create high value hybrid and micro-grid systems.

The distributed grid energy storage market is an evolving market. We believe that this market will grow quickly, but is currently limited by the lack of commercially available, certified solutions. We believe our battery converter is highly competitive in this market. We have achieved several design wins with customers that we believe can generate product sales and may be converted to licensing agreements longer term. Most of our initial battery converter sales have been made to potential customers as they evaluate our converters for possible integration into their commercial grid energy storage market products. We believe our ability to negotiate attractive licensing terms would improve if high market demand is established for our products.

We believe the EV DC charging market is an attractive market. Our approach to this market offers features to reduce installation costs, operational costs, and create new value-added capabilities. Similar to the distributed grid energy storage market, we are working with several customers to achieve design wins and help them integrate our product into their solutions. Our initial focus is on the California EV DC charging market, and we believe we can establish design wins and ecosystem relationships in this space.

We are also developing next generation products, including our 3-port hybrid converter, micro-grid converter, and new power switch components that we believe will further extend the differentiation and value of our products. We developed a new 3-port hardware design that will be used for both products, although we expect to make some incremental hardware design improvements based on initial hardware testing. Our next step will be to develop enhanced embedded control software for these products. When that step is complete, we plan to sell sample products to early customers, and then make incremental hardware and software improvements based on feedback from them. After these improvements are implemented, we expect to work with Intertek on industry certification, including UL1741 compliance. As discussed below, the development of new power switch components is being funded by the U.S. Department of Energy's $2.5 million ARPA-E grant. We believe the Department of Energy grant will be sufficient to prove this technology's capability and build a prototype PPSA product with these switches. After the bi-directional power switch technology is proven, we plan to redesign our growing number of products to use these new components.

Plan of Operation

Our strategy is to continue to commercialize our technology though the development of a variety of products and licensing. We have completed development of our first two products, we are developing additional products and, based on customer feedback from system installations, we will continue to improve our products. Our goal is to have these products validate our technology and lay the foundation for licensing our technology platform into applications across the global power converter marketplace.

We expect to use the net proceeds received from the initial public offering of our common stock to continue our new product research, continue our new product and existing product development and the commercialization of our existing products, protect our intellectual property, purchase equipment and software and for working capital and other general corporate purposes. The net cash proceeds from the initial public

offering of our common stock totaled approximately $15 million, which we expect to be sufficient to fund our activities through at least December 31, 2015. Our anticipated costs include employee salaries and benefits, compensation paid to consultants, capital costs for research and other equipment, costs associated with development activities including travel and administration, legal expenses, sales and marketing costs, general and administrative expenses, and other costs associated with an early stage, publicly-traded technology company. We anticipate increasing the number of employees by approximately 10 – 20 employees over the next two years; however, this is highly dependent on the nature of our development efforts. We anticipate adding employees in the areas of research and development and operations and, to a lesser extent, sales and marketing and general and administrative functions as required to support our efforts. We expect to incur consulting expenses related to technology development and other efforts as well as legal and related expenses to protect our intellectual property. We expect capital expenditures to be approximately $1.0 million for purchase of equipment and software during the next two years.

The amounts that we actually spend for any specific purpose may vary significantly and will depend on a number of factors including, but not limited to, the pace of progress of our commercialization and development efforts, actual needs with respect to product testing, development and research, market conditions, and changes in or revisions to our marketing strategies. In addition, we may use a portion of any net proceeds to acquire complementary products, technologies or businesses; however, we do not have plans for any acquisitions at this time.

We received an award of $2.5 million from ARPA-E. As of December 31, 2013, we recognized revenue of $1,923,000, leaving $577,000 of the award value remaining to be recognized over the next thirteen months. This award is being used to develop and commercialize our BD-IGBT power switch. While we currently successfully use commodity silicon IGBT and diode components in our products, we are developing BD-IGBT components that we believe could significantly improve the efficiency, weight, and manufacturing costs of our products. Research universities and commercial vendors are working under our direction and are receiving the majority of the ARPA-E program funding. We believe this funding will be sufficient to develop and demonstrate the BD-IGBT power switch in a PPSA prototype system.

Our second Department of Energy award was a $150,000 Phase I SBIR grant. This grant was used to develop early prototypes of a 3-port hybrid converter. We completed this project in May 2013, and we do not expect to receive future awards from the Department of Energy for this product.

While we received approximately $1.1 million in early revenues from LMC for subcontract work to develop hardware and provide technical support for LMC's Hybrid Intelligent Power development contract from the U.S. Army Communications-Electronics Research, Development and Engineering Center, we completed this work in early 2012 and do not expect additional revenues for subcontract development.

Critical Accounting Policies

The following discussion and analysis of financial condition and results of operations is based upon our financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America. Certain accounting policies and estimates are particularly important to the understanding of our financial position and results of operations and require the application of significant judgment by our management or can be materially affected by changes from period to period in economic factors or conditions that are outside of our control. As a result, they are subject to an inherent degree of uncertainty. In applying these policies, our management uses their judgment to determine the appropriate assumptions to be used in the determination of certain estimates. Those estimates are based on our historical operations, our future business plans and projected financial results, the terms of existing contracts, our observance of trends in the industry, information provided by our customers and information available from other outside sources, as appropriate. Please see Note 2 to our financial statements for a more complete description of our significant accounting policies.

Revenue Recognition. Revenue from product sales is recognized when the risks of loss and title pass to the customer, as specified in (1) the respective sales agreements and (2) other revenue recognition criteria as prescribed by Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements", as amended by SAB No. 104, "Revenue Recognition". We generally sell our products freight-on-board shipping and recognize revenue when products are shipped. Revenue from service contracts is recognized

using the completed-performance or proportional-performance method depending on the terms of the service agreement. When there are acceptance provisions based on customer-specified subjective criteria, the completed-performance method is used. For contracts where the services performed in the last series of acts is very significant, in relation to the entire contract, performance is not deemed to have occurred until the final act is completed. Once customer acceptance has been received, or the last significant act is performed, revenue is recognized. We use the proportional-performance method when a service contract specifies a number of acts to be performed and we have the ability to determine the pattern and value in which service is provided to the customer.

The Company was awarded a grant from ARPA-E on January 30, 2012. The purpose of the grant is to perform research and development on components that may improve the efficiency of the Company's technology. ARPA-E's share of the research and development project is $2.5 million out of a total approximate $2.8 million cost of the project. The Company works with ARPA-E's program manager to agree upon the specifications and work plans for the grant. The Company then directs all the work to be performed by ARPA-E approved subcontractors, which historically have been universities but may include commercial subcontractors. Upon completion of the work, the Company submits to ARPA-E for payment of ninety percent of the costs incurred by the Company. This has historically been done on a quarterly basis, but it may be as frequently as monthly. The Company bears responsibility for the remaining ten percent of the total costs incurred by the Company under the agreed work plans, which amount is included (less any costs that the applicable subcontractor has agreed to share) in our cost of revenues. All invoices are supported with copies of expenses and invoices that the Company has received from ARPA-E approved subcontractors. Notwithstanding the foregoing, the Company is the primary obligor of all the costs incurred under the work plans for the grant, except for any costs that the applicable subcontractor has agreed to share. The agreement with ARPA-E establishes "Go/No Go" milestones and deliverables. For each "Go/No Go" milestone and deliverable, the ARPA-E program director must review the Company's work under the previously agreed work plan, confirm in writing that the Company has achieved the "Go/No Go" milestone and deliverable, and authorize the Company to commence work on the next milestone and deliverable under a corresponding next work plan. If the project were to stop due to an ARPA-E determination that a milestone or deliverable had not been met, then the Company would not submit to ARPA-E for payment any further invoices (except for costs incurred under the previously agreed work plan).

The payment conditions of the $150,000 Phase I SBIR grant that we received are substantially similar to those of the ARPA-E grant, except that in the case of the SBIR grant, the Company receives payment from SBIR of one hundred percent of the costs incurred by the Company under the agreed work plans. Nevertheless, the Company is the primary obligor of all the costs incurred under the agreed work plans for the SBIR grant.

Revenues from government grants are recognized in accordance with the provisions of SAB No. 104 in the period during which the related costs are incurred, provided that the Company has incurred the costs in accordance with the specifications and work plans for the applicable grant. Expenses included in cost of revenues are directly related to research and development activities performed by our subcontractors in order to fulfill the specifications and work plans for the applicable grant. There are no contingencies or ongoing obligations of the Company related to these grant arrangements, other than the obligation of the Company to submit to the applicable government entity invoices for costs incurred by the Company under the agreed work plans for the applicable grant. Under no circumstances is the Company required to repay monies that it receives under any of its government grants, provided that the Company receives no more than the government's agreed share of the total cost of the project and, with respect to the ARPA-E grant, provided that the Company meets its obligation to cover its share of costs as described above. Costs incurred related to the grants are recorded as grant research and development costs.

The Company believes that recognizing the government grants as revenues is a better reflection of the economics of the arrangements as (i) there are no contingencies or ongoing obligations of the Company associated with its receipt of or right to retain the funds that it receives under its grants, (ii) the Company is the primary obligor of all the costs incurred under the work plans for the grants, and (iii) the Company has full discretion on the use of the monies that it receives under the grants. In addition, the Company earns the grant funding through the performance of research and development activities, which is one of the Company's

primary business activities. The Company also believes that this presentation provides transparency to users of the Company's financial statements of the business activities associated with these grants, specifically, grant revenues and grant costs.

Royalty income is recognized as earned based on the terms of the contractual agreements, and has no direct costs.

Research and Development. Grant research and development are costs incurred solely related to grant revenues, and are classified as a line item under cost of revenues. Other research and development costs are presented as a line item under operating expenses and are expensed as incurred.

Patents. The Company capitalizes legal costs and filing fees associated with obtaining patents on its new inventions. Once the patents have been issued, the Company amortizes these costs over the shorter of the legal life of the patent (generally a maximum of 20 years) or its estimated economic life using the straight-line method.

Income Taxes. We account for income taxes using an asset and liability approach that allows for the recognition and measurement of deferred tax assets based upon the likelihood of realization of tax benefits in future years. Under the asset and liability approach, deferred taxes are provided for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before we are able to realize their benefits, or that future deductibility is uncertain. Tax benefits from an uncertain tax position are recognized only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position.

Stock-Based Compensation. The Company applies Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 718, "Stock Compensation," when recording stock based compensation. The fair value of each stock option award is estimated on the date of grant using the commonly used Black-Scholes option valuation model. The assumptions used in the Black-Scholes model are as follows:

Grant Price — The grant price of the issuances are determined based on the estimated fair value of the shares at the date of grant.

Risk-free interest rate — The risk free interest rate for periods within the contractual life of the option is based on the U.S. treasury yield in effect at the time of grant

Expected lives — As permitted by SAB No. 107, due to the Company's insufficient history of option activity, the management utilizes the simplified approach to estimate the options expected term, which represents the period of time that options granted are expected to be outstanding

Expected volatility — is determined based on management's estimate or historical volatilities of comparable companies

Expected dividend yield — is based on current yield at the grant date or the average dividend yield over the historical period. The Company has never declared or paid dividends and has no plans to do so in the foreseeable future

The Company accounts for stock issued to non-employees in accordance with the provisions of FASB ASC 505-50 "Equity Based Payments to Non-Employees." FASB ASC 505-50 states that equity instruments that are issued in exchange for the receipt of goods or services should be measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The measurement date occurs as of the earlier of (a) the date at which a performance commitment is reached or (b) absent a performance commitment, the date at which the performance necessary to earn the equity instruments is complete (that is, the vesting date).

Convertible Promissory Notes and Warrants. The warrants and embedded conversion feature of convertible promissory notes are classified as equity under FASB ASC Topic 815-40 "Derivatives and Hedging — Contracts in Entity's Own Equity." The Company allocates the proceeds of the convertible

promissory notes between convertible promissory notes and the financial instruments related to warrants associated with convertible promissory notes based on their relative fair values at the commitment date. The fair value of the financial instruments related to warrants associated with convertible promissory notes is determined using the Black-Scholes option pricing model and the respective allocated proceeds to the warrants is recorded in additional paid-in capital. The Company utilized the Black-Scholes option valuation model using the same valuation assumptions as described above for stock-based compensation. The embedded beneficial conversion feature associated with convertible promissory notes is recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital in accordance with ASC Topic 470-20 "Debt — Debt with Conversion and Other Options".

The portion of debt discount resulting from the allocation of proceeds to the financial instruments related to warrants associated with convertible promissory notes is being amortized over the life of the convertible promissory notes. For the portion of debt discount resulting from the allocation of proceeds to the beneficial conversion feature, it is amortized over the term of the notes from the respective dates of issuance. The Company wrote-off the remaining unamortized debt discount upon the conversion of the convertible promissory notes to common stock immediately upon completion of the Company's initial public offering.

Results of Operations

Comparison of the year ended December 31, 2013 to the year ended December 31, 2012

Revenues. Revenues for the year ended December 31, 2013 of $1,892,424 were $765,517, or 68%, higher than the $1,126,907 we earned in revenues for the year ended December 31, 2012. The increase in revenue was due to a $667,599 increase in grant revenues and a $97,918 increase in the sale of products and services.

Total grant revenues for the year ended December 31, 2013 were $1,374,956, including $1,229,036 from the ARPA-E grant and $145,920 from a Department of Energy SBIR grant, as compared to grant revenues for the year ended December 31, 2012 of $707,357, including $693,938 from the ARPA-E grant and $13,419 from other grants. Revenues related to the ARPA-E grant increased because the project was fully underway for the full year ended December 31, 2013. In the year ended December 31, 2013, revenue from the sale of our products was $417,468. In the year ended December 31, 2012, revenue from the sale of products and services was $319,550, of which $265,650 was from the sale of our products and $53,900 was for engineering services. Revenues from royalties from Lockheed Martin Corporation for both years were $100,000.

Cost of Revenues. As a result of the increase in grant research and development costs and the cost of sales of our products, cost of revenues increased for the year ended December 31, 2013, to $2,146,973 from $1,123,864 for the year ended December 31, 2012, which is an increase of $1,023,109, or approximately 91%. The increase in cost of revenues was due to a $720,844 increase in grant research and development costs and a $302,265 increase in cost of revenues for the sale of product and services.

The increase in grant research and development costs arose from our increase in grant revenue primarily under our ARPA-E grant and SBIR grant. During the years ended December 31, 2013 and 2012, we recognized $1,229,036 and $693,938, respectively, in grant revenue and $1,284,878 and $709,954, respectively, in grant research and development costs from our ARPA-E grant. We have a cost-sharing arrangement with ARPA-E whereby we contribute ten percent of the total costs of the project (less any costs that our subcontractors have agreed to share), which results in our costs exceeding our revenue. During the year ended December 31, 2013, we recognized $145,920 in grant revenues and $145,920 in grant research and development costs from our SBIR grant. During the year ended December 31, 2012, we recognized $13,419 in grant revenues and $0 in grant research and development costs from our other grants.

In the year ended December 31, 2013, cost of revenues from the sale of products was $716,175. In the year ended December 31, 2012, the cost of revenues from the sale of products and services was $413,910 of which $393,058 was for the sale of products and $20,852 related to engineering services. The increase in cost of revenues from the sale of products and services was due to higher unit sales and personnel costs.

Gross Profit (Loss). Gross profit (loss) for the years ended December 31, 2013 and 2012 were $(254,549) and $3,043, respectively. Gross profit (loss) for the year ended December 31, 2013 was $257,592 lower than in the year ended December 31, 2012 primarily due to increased engineering personnel costs in

2013 as we added resources to support our existing products. We recognized $166,504 in higher compensation costs within cost of revenues in the year ended December 31, 2013 as compared to the year ended December 31, 2012. In addition, net losses on our grants were $53,245 higher in the year ended December 31, 2013 as compared to the year ended December 31, 2012 and we recognized gross profit of $0 and $33,048, respectively, on contract services for LMC in the years ended December 31, 2013 and 2012. In the year ended December 31, 2013, grant costs exceeded revenues by $55,842 while for the year ended December 31, 2012 revenues exceeded costs by $2,597.

General and Administrative Expenses. General and administrative expenses increased by $369,179, or 21%, to $2,139,036 in the year ended December 31, 2013 from $1,769,857 in the year ended December 31, 2012. The increase was due primarily to higher stock compensation expense of $340,638, personnel costs of $297,081, severance costs of $97,369, insurance costs of $45,378 and board fees of $37,500 partially offset by lower legal and professional fees of $512,026. Professional fees in the year ended December 31, 2012 included advisory warrants with a fair value of $670,947.

Research and Development Expenses. Research and development expenses increased by $162,141, or 15%, to $1,212,298 in the year ended December 31, 2013 from $1,050,157 in the year ended December 31, 2012. The increase was due primarily to higher stock compensation expense of $118,881 and personnel costs of $83,022.

Sales and Marketing Expenses. Sales and marketing expenses increased by $235,956, or 107%, to $457,292 in the year ended December 31, 2013 from $221,336 in the year ended December 31, 2012. The increase was due to higher personnel costs of $155,306, contract sales representative fees of $40,770 and stock compensation expense of $31,016.

Loss from Operations. Due to the increase in our operating expenses and the decrease in our gross profit (loss), our loss from operations for the year ended December 31, 2013 was $4,063,175 or 34% higher than the $3,038,307 loss from operations for year ended December 31, 2012.

Interest Expense. Interest expense increased from $1,608,912 for the year ended December 31, 2012 to $5,488,523 for the year ended December 31, 2013, an increase of $3,879,611, of which $3,845,353 was due to an increase in amortization of debt discount that related to the fair value of warrants and beneficial conversion feature in promissory notes issued in 2010 through 2013.

Net Loss. Primarily as a result of the increase in interest expense and operating expenses, our net loss for the year ended December 31, 2013, was $9,551,698 as compared to a net loss of $4,647,219 for the year ended December 31, 2012, an increase of $4,904,479.

Liquidity and Capital Resources

Although our revenues have increased every year from the date of our inception, we do not generate enough revenue to sustain our operations. Our revenues are derived from sales of our products and from grants we have received for the development of our technology. We have funded our operations through the sale of our common stock, including proceeds from our initial public offering, and preferred stock (later converted to common stock) and debt securities.

As of December 31, 2013 and 2012, we had cash and cash equivalents of $14,137,097 and $1,972,301, respectively.

Our net working capital increased from $528,603 as of December 31, 2012 to $14,140,317 as of December 31, 2013 due to the proceeds from our initial public offering.

Operating activities in the year ended December 31, 2013 resulted in cash outflows of $3,240,792, which were due primarily to the net loss for the period of $9,551,698, offset by amortization of debt discount of $5,318,257, stock-based compensation of $458,983 and other non-cash items of $527,871. Operating activities in the year ended December 31, 2012 resulted in cash outflows of $2,171,489, which were due primarily to the net loss for the period of $4,647,219, offset by amortization of debt discount of $1,472,904, the fair value of warrants issued for consulting services of $670,947 and other non-cash items of $362,436.

Investing activities in the year ended December 31, 2013 and 2012 resulted in cash outflows of $221,649 and $309,035, respectively, for development of patents and acquisition of fixed assets.

In the year ended December 31, 2013, we raised $17,250,000 in gross proceeds ($15,015,985 net of costs) from our initial public offering and $750,000 in gross proceeds ($611,256 net of costs) from the sale of convertible promissory notes. In the year ended December 31, 2012, we raised $4,695,150 in gross proceeds ($4,320,150 net of costs) from the sale of convertible promissory notes and $52,000 from the sale of stock and repaid a $20,000 line of credit.

Our long-term debt balance, including current portion, was $0 at December 31, 2013 due to the conversion of our convertible promissory notes to shares of our common stock following the closing of our initial public offering and the cancellation of our promissory note with the State of Texas upon its exercise of its rights under the Investment Unit issued on October 1, 2010, as amended.

Off-Balance Sheet Transactions

We do not have any off-balance sheet transactions.

Trends, Events and Uncertainties

Research and development of new technologies is, by its nature, unpredictable. Although we will undertake development efforts with commercially reasonable diligence, there can be no assurance that the net proceeds from the initial public offering of our common stock will be sufficient to enable us to develop our technology to the extent needed to create future sales to sustain operations as contemplated herein. If the net proceeds from the initial public offering of our common stock are insufficient for this purpose, we will consider other options to continue our path to commercialization, including, but not limited to, additional financing through follow-on stock offerings, debt financing, co-development agreements, curtailment of operations, suspension of operations, sale or licensing of developed intellectual or other property, or other alternatives.

We cannot assure you that our technology will be adopted, that we will ever earn revenues sufficient to support our operations, or that we will ever be profitable. Furthermore, since we have no committed source of financing, we cannot assure you that we will be able to raise money as and when we need it to continue our operations. If we cannot raise funds as and when we need them, we may be required to severely curtail, or even to cease, our operations.

Other than as discussed above and elsewhere in this report, we are not aware of any trends, events or uncertainties that are likely to have a material effect on our financial condition.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company we are not required to provide this information.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
of Ideal Power Inc.

We have audited the accompanying balance sheets of Ideal Power Inc. (the "Company") as of December 31, 2013 and 2012, and the related statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the two-year period ended December 31, 2013. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

/s/ Gumbiner Savett Inc.

March 28, 2014
Santa Monica, California

IDEAL POWER INC.

Balance Sheets

	December 31,	
	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,137,097	$ 1,972,301
Accounts receivable, net	252,406	485,674
Inventories, net	519,657	217,867
Prepayments and other current assets	231,495	28,468
Total current assets	15,140,655	2,704,310
Property and equipment, net	85,718	27,903
Patents, net	608,913	474,790
Total Assets	$ 15,835,286	$ 3,207,003
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Current portion of long-term debt, net of debt discount of $0 and $3,828,711 at December 31, 2013 and 2012, respectively	$ —	$ 1,313,146
Accounts payable	539,145	684,558
Accrued expenses	461,193	178,003
Total current liabilities	1,000,338	2,175,707
Long-term debt	—	1,132,690
Commitments		
Stockholders' equity (deficit):		
Common stock, $0.001 par value; 50,000,000 shares authorized; 6,931,968 and 1,480,262 shares issued and outstanding at December 31, 2013 and 2012, respectively	6,932	1,480
Common stock to be issued	151,665	—
Additional paid-in capital	31,431,220	7,100,297
Treasury stock	(2,657)	(2,657)
Accumulated deficit	(16,752,212)	(7,200,514)
Total stockholders' equity (deficit)	14,834,948	(101,394)
Total Liabilities and Stockholders' Equity (Deficit)	$ 15,835,286	$ 3,207,003

The accompanying notes are an integral part of these financial statements.

IDEAL POWER INC.

Statements of Operations

	For the Year Ended December 31,	
	2013	2012
Revenues:		
Products and services	$ 417,468	$ 319,550
Royalties	100,000	100,000
Grants	1,374,956	707,357
Total revenue	1,892,424	1,126,907
Cost of revenues:		
Products and services	716,175	413,910
Grant research and development costs	1,430,798	709,954
Total cost of revenue	2,146,973	1,123,864
Gross profit (loss)	(254,549)	3,043
Operating expenses:		
General and administrative	2,139,036	1,769,857
Research and development	1,212,298	1,050,157
Sales and marketing	457,292	221,336
Total operating expenses	3,808,626	3,041,350
Loss from operations	(4,063,175)	(3,038,307)
Interest expense, net (including amortization of debt discount of $5,318,257 and $1,472,904 for the years ended December 31, 2013 and 2012, respectively)	5,488,523	1,608,912
Net loss	$(9,551,698)	$ (4,647,219)
Net loss per share – basic and fully diluted	$ (4.90)	$ (3.17)
Weighted average number of shares outstanding – basic and fully diluted	1,950,171	1,465,755

The accompanying notes are an integral part of these financial statements.

IDEAL POWER INC.

Statement of Stockholders' Equity (Deficit)
For the Years Ended December 31, 2013 and 2012

	Common Stock		Common Stock Issuable		Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount				
Balances at December 31, 2011	1,453,209	$ 1,453	—	$ —	$ 1,383,602	$(2,657)	$ (2,553,295)	$(1,170,897)
Issuance of common stock	8,218	8	—	—	51,992	—	—	52,000
Issuance of common stock for services	18,835	19	—	—	78,975	—	—	78,994
Fair value of warrants issued in connection with promissory notes	—	—	—	—	3,088,944	—	—	3,088,944
Beneficial conversion feature – convertible promissory notes	—	—	—	—	1,761,241	—	—	1,761,241
Fair value of warrants issued in connection with consulting services	—	—	—	—	670,947	—	—	670,947
Stock-based compensation	—	—	—	—	64,596	—	—	64,596
Net loss for the year ended December 31, 2012	—	—	—	—	—	—	(4,647,219)	(4,647,219)
Balances at December 31, 2012	1,480,262	1,480	—	—	7,100,297	(2,657)	(7,200,514)	(101,394)
Shares issued in initial public offering	3,450,000	3,450	—	—	17,246,550	—	—	17,250,000
Issuance costs of initial public offering	—	—	—	—	(3,916,892)	—	—	(3,916,892)
Fair value of warrants issued in connection with initial public offering	—	—	—	—	1,682,877	—	—	1,682,877
Conversion of promissory notes	1,700,493	1,701	—	—	6,266,668	—	—	6,268,369
Contribution on cancellation of promissory note	—	—	—	—	1,205,096	—	—	1,205,096
Fair value of warrants issued in connection with promissory notes	—	—	—	—	655,800	—	—	655,800
Beneficial conversion feature – convertible promissory notes	—	—	—	—	674,066	—	—	674,066
Common stock issuable for services	—	—	32,525	151,665	—	—	—	151,665
Warrants issued for consulting services	—	—	—	—	37,145	—	—	37,145
Modification of warrants issued in connection with promissory notes	—	—	—	—	20,935	—	—	20,935
Cashless exercise of warrants	301,213	301	—	—	(305)	—	—	(4)
Stock-based compensation	—	—	—	—	458,983	—	—	458,983
Net loss for the year ended December 31, 2013	—	—	—	—	—	—	(9,551,698)	(9,551,698)
Balances at December 31, 2013	6,931,968	$ 6,932	32,525	$151,665	$31,431,220	$(2,657)	$(16,752,212)	$14,834,948

The accompanying notes are an integral part of these financial statements.

IDEAL POWER INC.

Statements of Cash Flows

	For the Year Ended December 31,	
	2013	2012
Cash flows from operating activities:		
Net loss	$ (9,551,698)	$ (4,647,219)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	29,711	52,139
Write-down of inventory	23,651	—
Stock-based compensation	458,983	64,596
Common stock issued and to be issued for services	151,665	78,994
Amortization of debt discount	5,318,257	1,472,904
Issuance of note payable in connection with services	213,293	86,707
Fair value of warrants issued for consulting services	37,145	670,947
Accrued interest – promissory note	72,406	80,000
Decrease (increase) in operating assets:		
Accounts receivable	233,268	(382,314)
Inventories	(325,441)	(87,849)
Prepaid expenses	(203,027)	(27,468)
Increase (decrease) in operating liabilities:		
Accounts payable	(145,413)	435,892
Accrued expenses	446,408	31,182
Net cash used in operating activities	(3,240,792)	(2,171,489)
Cash flows from investing activities:		
Purchase of property and equipment	(78,941)	(5,961)
Acquisition of patents	(142,708)	(323,074)
Certificate of deposit	—	20,000
Net cash used in investing activities	(221,649)	(309,035)
Cash flows from financing activities:		
Repayment of line of credit	—	(20,000)
Borrowings on notes payable, net of debt raising costs	611,256	4,320,150
Net proceeds from issuance of common stock	15,015,985	52,000
Exercise of warrants	(4)	—
Net cash provided by financing activities	15,627,237	4,352,150
Net increase in cash and cash equivalents	12,164,796	1,871,626
Cash and cash equivalents at beginning of year	1,972,301	100,675
Cash and cash equivalents at end of year	$14,137,097	$ 1,972,301
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$ —	$ 212

(Continued)

The accompanying notes are an integral part of these financial statements.

IDEAL POWER INC.

Statements of Cash Flows (Continued)

Non cash activities for the year ended December 31, 2013:

The Company issued 256,849 warrants valued at $251,800 in connection with notes payable.

The Company recorded $404,000 for a change in estimate related to warrants issued in connection with a promissory note.

The Company recorded a debt discount of $674,066 for the intrinsic value of the embedded conversion feature associated with notes payable.

The Company recorded a contribution of capital of $1,205,096 in connection with the cancellation of a promissory note.

The Company recorded $1,701 of common stock and $6,266,668 of additional paid-in capital in connection with the conversion of notes payable to equity.

The Company recorded $1,682,877 for the fair value of warrants issued in connection with its initial public offering and for issuance costs of its initial public offering as offsetting amounts within additional paid-in capital.

Non cash activities for the year ended December 31, 2012:

The Company issued 886,556 warrants valued at $3,088,944 in connection with notes payable.

The Company recorded $1,761,241 as additional paid-in capital in connection with the beneficial conversion feature of convertible promissory notes.

The accompanying notes are an integral part of these financial statements.

Ideal Power Inc.

Notes to Financial Statements

Note 1 — Organization and Description of Business

Ideal Power Inc. (the "Company") was incorporated in Texas on May 17, 2007 under the name Ideal Power Converters, Inc. The Company changed its name to Ideal Power Inc. on July 8, 2013 and re-incorporated in Delaware on July 15, 2013. With headquarters near Austin, Texas, it develops power converter solutions for commercial and industrial grid storage, electric vehicle charging and photovoltaic generation. The principal products of the Company are battery converters and photovoltaic inverters.

Since its inception, the Company has generated limited revenues from the sale of products and has financed its research and development efforts and operations primarily through the issuance of convertible debt, governmental grants and, recently, proceeds from its initial public offering.

Note 2 — Summary of Significant Accounting Policies

Basis of Presentation

On November 21, 2013, the Company effected a 1-for-2.381 reverse stock split of its issued common stock. All applicable share date, per share amounts and related information in the financial statements and notes thereto have been adjusted retroactively to give effect to the 1-for-2.381 reverse stock split. Certain prior year amounts have been reclassified to conform to the current year presentation. These changes had no impact on total revenue, loss from operations or net loss.

Use of Estimates

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

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Trade accounts receivable are stated net of an allowance for doubtful accounts. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from its customers or interest on past due amounts. Management estimates the allowance for doubtful accounts based on review and analysis of specific customer balances that may not be collectible and how recently payments have been received. Accounts are considered for write-off when they become past due and when it is determined that the probability of collection is remote. There was no allowance for doubtful accounts at December 31, 2013 and 2012.

Inventories

Inventories are stated at the lower of cost (first in, first out method) or market value. Inventory quantities on hand are reviewed regularly and a write-down for excess and obsolete inventory is recorded based primarily on an estimated forecast of product demand, market conditions and anticipated production requirements in the near future. There was no reserve for excess and obsolete inventory at December 31, 2013 and 2012.

Ideal Power Inc.

Notes to Financial Statements

Note 2 — Summary of Significant Accounting Policies – (continued)

Property and Equipment

Property and equipment are stated at historical cost less accumulated depreciation and amortization. Major additions and improvements are capitalized while maintenance and repairs that do not improve or extend the useful life of the respective asset are expensed. Depreciation and amortization of property and equipment is computed using the straight-line method over the estimated useful lives. Leasehold improvements are amortized over the shorter of the life of the asset or the related leases. Estimated useful lives of the principal classes of assets are as follows:

Leasehold improvements	2 years
Machinery and equipment	5 years
Furniture, fixtures and computers	3 – 5 years

Patents

Patents are recorded at cost. The Company capitalizes third party legal costs and filing fees associated with obtaining patents on its new discoveries. Once the patents have been issued, the Company amortizes these costs over the shorter of the legal life of the patent or its estimated economic life, generally 20 years, using the straight-line method.

Impairment of Long-Lived Assets

The long-lived assets held and used by the Company are reviewed for impairment no less frequently than annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the event that facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of recoverability is performed. Management has determined that there was no impairment in the value of long-lived assets during the years ended December 31, 2013 and 2012.

Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities measured at fair value are categorized based on whether or not the inputs are observable in the market and the degree that the inputs are observable. The categorization of financial assets and liabilities within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The Company's financial instruments primarily consist of cash and cash equivalents, accounts receivable and accounts payable. As of the balance sheet dates, the estimated fair values of the financial instruments were not materially different from their carrying values as presented on the balance sheets. This is primarily attributed to the short maturities of these instruments. The Company did not identify any other non-recurring assets and liabilities that are required to be presented in the balance sheets at fair value.

Convertible Promissory Notes and Warrants

The warrants and embedded conversion feature of convertible promissory notes are classified as equity under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 815-40 "Derivatives and Hedging — Contracts in Entity's Own Equity". The Company allocates the proceeds of the convertible promissory notes between convertible promissory notes and the financial instruments related to warrants associated with convertible promissory notes based on their relative fair values at the commitment date. The fair value of the financial instruments related to warrants associated with convertible promissory notes is determined utilizing the Black-Scholes option pricing model and the respective allocated proceeds to the warrants is recorded in additional paid-in capital. The Company utilized the Black-Scholes option valuation model using the same valuation assumptions as described herein for Stock Based Compensation. The embedded beneficial conversion feature associated with convertible promissory

Ideal Power Inc.

Notes to Financial Statements

Note 2 — Summary of Significant Accounting Policies – (continued)

notes is recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital in accordance with ASC Topic 470-20 "Debt — Debt with Conversion and Other Options".

The portion of debt discount resulting from the allocation of proceeds to the financial instruments related to warrants associated with convertible promissory notes is being amortized over the life of the convertible promissory notes. For the portion of debt discount resulting from the allocation of proceeds to the beneficial conversion feature, it is amortized over the term of the notes from the respective dates of issuance. The Company wrote-off the remaining unamortized debt discount upon the conversion of the convertible promissory notes to common stock immediately upon completion of the Company's initial public offering.

Revenue Recognition

Revenue from product sales is recognized when the risks of loss and title pass to the customer, as specified in (1) the respective sales agreements and (2) other revenue recognition criteria as prescribed by Staff Accounting Bulletin ("SAB") No. 101 (SAB 101), "Revenue Recognition in Financial Statements," as amended by SAB No. 104, "Revenue Recognition". The Company generally sells its products FOB shipping and recognizes revenue when products are shipped. Revenue from service contracts is recognized using the completed-performance or proportional-performance method depending on the terms of the service agreement. When there are acceptance provisions based on customer-specified subjective criteria, the completed-performance method is used. For contracts where the services performed in the last series of acts is very significant, in relation to the entire contract, performance is not deemed to have occurred until the final act is completed. Once customer acceptance has been received, or the last significant act is performed, revenue is recognized. The Company uses the proportional-performance method when a service contract specifies a number of acts to be performed and the Company has the ability to determine the pattern and related value in which service is provided to the customer.

The Company receives payments from government entities in the form of government grants. Government grants are agreements that generally provide the Company with cost reimbursement for certain type of research and development activities over a contractually defined period. Revenues from government grants are recognized in the period during which the Company incurs the related costs, provided that the Company has incurred the cost in accordance with the specifications and work plans determined between the Company and the government entity. Costs incurred related to the grants are recorded as grant research and development costs. Government grants amounted to $1,374,956 and $707,357 for the years ended December 31, 2013 and 2012, respectively. At December 31, 2013 and 2012, grants receivable amounted to $211,063 and $348,647, respectively, and were included in accounts receivable.

Royalty income is recognized as earned based on the terms of the contractual agreements and has no direct costs.

Product Warranties

The Company generally provides a ten year manufacturer's warranty covering product defects. Accruals for product warranties are estimated based upon historical warranty experience and are recorded in cost of sales at the time revenue is recognized in order to match revenues with related expenses. The Company assesses the adequacy of its warranty liability quarterly and adjusts the reserve, included in accrued expenses, as necessary.

Research and Development

Grant research and development are costs incurred solely related to grant revenues, and are classified as a line item under cost of revenues.

Other research and development costs are presented as a line item under operating expenses and are expensed as incurred. Total research and development costs incurred during the years ended December 31,

Ideal Power Inc.

Notes to Financial Statements

Note 2 — Summary of Significant Accounting Policies – (continued)

2013 and 2012 amounted to $2,643,096 and $1,760,111, respectively, of which $1,430,798 and $709,954, respectively, was included in cost of revenues.

Income Taxes

The Company accounts for income taxes using an asset and liability approach which allows for the recognition and measurement of deferred tax assets based upon the likelihood of realization of tax benefits in future years. Under the asset and liability approach, deferred taxes are provided for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefits, or that future deductibility is uncertain. At December 31, 2013 and 2012, the Company has established a full reserve against all deferred tax assets.

Tax benefits from an uncertain tax position are recognized only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate resolution.

Net Loss Per Share

The Company applies FASB ASC 260, “Earnings per Share.” Basic earnings (loss) per share is computed by dividing earnings (loss) available to common stockholders by the weighted-average number of common shares outstanding. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the denominator is increased to include additional common shares available upon exercise of stock options and warrants using the treasury stock method, except for periods for which no common share equivalents are included because their effect would be anti-dilutive.

Stock Based Compensation

The Company applies FASB ASC 718, “Stock Compensation,” when recording stock based compensation. The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option valuation model. The assumptions used in the Black-Scholes valuation model are as follows:

Grant Price — The grant price of the issuances are determined based on the estimated fair value of the shares at the date of grant.

Risk-free interest rate — The risk free interest rate for periods within the contractual life of the option is based on the U.S. treasury yield in effect at the time of grant.

Expected lives — As permitted by SAB 107, due to the Company's insufficient history of option activity, the management utilizes the simplified approach to estimate the options expected term, which represents the period of time that options granted are expected to be outstanding.

Expected volatility — is determined based on management's estimate or historical volatilities of comparable companies.

Expected dividend yield — is based on current yield at the grant date or the average dividend yield over the historical period. The Company has never declared or paid dividends and has no plans to do so in the foreseeable future.

The Company accounts for stock issued to non-employees in accordance with the provisions of FASB ASC 505-50 “Equity Based Payments to Non-Employees.” FASB ASC 505-50 states that equity instruments that are issued in exchange for the receipt of goods or services should be measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The measurement date occurs as of the earlier of (a) the date at which a performance commitment

Ideal Power Inc.

Notes to Financial Statements

Note 2 — Summary of Significant Accounting Policies – (continued)

is reached or (b) absent a performance commitment, the date at which the performance necessary to earn the equity instruments is complete (that is, the vesting date).

Presentation of Sales Taxes

Certain states impose a sales tax on the Company's sales to nonexempt customers. The Company collects that sales tax from customers and remits the entire amount to the states. The Company's accounting policy is to exclude the tax collected and remitted to the states from revenues and cost of revenues.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash, accounts receivable and accounts payable. The Company maintains its cash with a major financial institution located in the United States. Balances are insured by the Federal Deposit Insurance Corporation up to $250,000. The Company maintains balances in excess of federally insured limits.

The Company encounters a certain amount of risk as a result of a concentration of revenue from a few significant customers. Credit is extended to customers based on an evaluation of their financial condition. The Company generally does not require collateral or other security to support accounts receivable. The Company performs ongoing credit evaluations of its customers and records an allowance for potential bad debts based on available information. The Company had revenue from a government entity that accounted for 65% of net revenue for the year ended December 31, 2013 and two customers, including a government entity, that accounted for 75% of net revenue for the year ended December 31, 2012. The Company had an accounts receivable balance from a government entity that accounted for 84% and 72% of total accounts receivable at December 31, 2013 and 2012, respectively.

Recent Accounting Pronouncements

Management does not believe that any recently issued, but not yet effective, accounting standards, if adopted, will have a material effect on the financial statements.

Note 3 — Inventories

Inventories consisted of the following:

	December 31,	
	2013	**2012**
Raw materials	$ 102,652	$ 144,842
Finished goods	417,005	73,025
	$ 519,657	$ 217,867

Note 4 — Prepayments and Other Current Assets

Prepayments and other current assets consisted of the following:

	December 31,	
	2013	**2012**
Prepaid insurance	$ 207,254	$ 22,186
Other	24,241	6,282
	$ 231,495	$ 28,468

Ideal Power Inc.

Notes to Financial Statements

Note 5 — Property and Equipment

Property and equipment consisted of the following:

	December 31,	
	2013	2012
Machinery and equipment	$ 46,733	$ 19,670
Building leasehold improvements	46,850	46,850
Furniture, fixtures, software and computers	107,769	58,379
	201,352	124,899
Accumulated depreciation and amortization	(115,634)	(96,996)
	$ 85,718	$ 27,903

Note 6 — Patents

Patents consisted of the following:

	December 31,	
	2013	2012
Patents	$621,964	$ 479,256
Accumulated amortization	(13,051)	(4,466)
	$608,913	$ 474,790

Amortization expense related to patents awarded amounted to $8,585 and $1,659 for the years ended December 31, 2013 and 2012, respectively. Estimated amortization expense for the succeeding five years and thereafter is $12,051 (2014); $12,051 (2015); $12,051 (2016); $12,051 (2017); $12,051 (2018); and $167,722 (thereafter).

At December 31, 2013 and 2012, the Company had capitalized approximately $381,000 and $426,000, respectively, for costs related to patents that have not been awarded.

Note 7 — Line of Credit

The Company had a credit agreement with a bank under which it could borrow up to $20,000 through March 16, 2012. Borrowings under the credit agreement were collateralized by a certificate of deposit of equal amount and guaranteed by officers of the Company. Interest was payable at a rate of 2.75% per annum. The amount outstanding under this credit agreement of $20,000 was repaid in April 2012.

Ideal Power Inc.

Notes to Financial Statements

Note 8 — Long-term Debt

		December 31, 2013	December 31, 2012
1)	The Company entered into the Texas Emerging Technology Fund (the "ETF") Award and Security Agreement (the "Agreement") with the State of Texas (the "State") on October 1, 2010 subsequently amended on May 20, 2011, April 16, 2013 and December 27, 2013. Under the Agreement, the Company received an initial award totaling $250,000 during the year ended December 31, 2010 and received an additional award totaling $750,000 during the year ended December 31, 2011 (collectively, the "Promissory Note"). The proceeds from the award had to be used to expedite commercialization intended to increase high-quality jobs in Texas through expenditures on working capital or development or acquisition of capital assets used to produce income and in meeting the Company's goal of introducing a 30KW solar inverter to the market. The Company was also required to meet certain milestones by specific dates, use Texas-based suppliers and establish a substantial percentage of its commercialization and manufacturing activities in Texas. The awards were collateralized by all owned or acquired assets of the Company. The ETF, in a subordination agreement dated August 30, 2012, agreed to subordinate the Promissory Note to secured convertible promissory notes to be issued by the Company of up to $5,000,000. At December 31, 2012 the Company had secured convertible promissory notes aggregating $4,000,000. See 4) and 5) below.		
	The Promissory Note accrued interest at an annual rate of 8% and could have been repaid at the option of the Company after April 1, 2012. On December 31, 2013, in connection with the State's exercise of warrants under the Agreement, the Promissory Note was cancelled and the Agreement terminated. At that time, the debt, including accrued interest, was forgiven and the Company was released from all obligations under the Agreement. The Company accounted for the cancellation of the Promissory Note as a contribution of equity.		
	In connection with the Promissory Note, in October 2010 and July 2011, the Company issued warrants to purchase shares of the Company's common stock. The fair value of the warrants was estimated to be $265,476, subsequently adjusted to $669,476 in 2013, and was recorded as debt discount. During the years ended December 31, 2013 and 2012, the Company incurred interest expense amounting to $404,000 and $77,430, respectively, related to the accretion of the debt discount. Interest on the Promissory Note, including accretion of debt discount, amounted to $476,406 and $157,430 for the years ended December 31, 2013 and 2012, respectively. Effective interest rate on this Promissory Note was 48% and 16% per annum for the years ended December 31, 2013 and 2012, respectively. Accrued interest amounted to $132,690 at December 31, 2012 and was included in the outstanding amount of Promissory Note.	$—	$1,132,690

Ideal Power Inc.

Notes to Financial Statements

Note 8 — Long-term Debt – (continued)

		December 31, 2013	December 31, 2012
2)	Unsecured convertible promissory notes with principal and interest due at maturity at 6% per annum, subordinate to the line of credit, and maturing on the earlier of: 1) December 31, 2013, or 2) closing of initial public offering of the Company's common stock in which the Company raises at least $10 million, or 3) closing of qualified financing, as defined in the promissory notes, or 4) occurrence of event of default, as defined in the promissory notes. The promissory notes converted into 82,079 shares of the Company's common stock immediately following the closing of the Company's initial public offering. The embedded beneficial conversion feature associated with these convertible promissory notes had no intrinsic value. Interest on these notes amounted to $19,588 and $21,600 for the years ended December 31, 2013 and 2012, respectively.	—	360,000
3)	Unsecured convertible promissory notes aggregating $695,150 with principal and interest due at maturity at 6% per annum and maturing on the earlier of: 1) December 31, 2013, or 2) closing of initial public offering of the Company's common stock in which the Company raises at least $10 million, or 3) closing of qualified financing, as defined in the promissory notes, or 4) occurrence of event of default, as defined in the promissory notes. The promissory notes converted into 152,256 shares of the Company's common stock immediately upon completion of the Company's initial public offering. The embedded beneficial conversion feature associated with these convertible promissory notes had no intrinsic value.		
	In connection with these promissory notes, the Company issued warrants to purchase 109,860 shares of the Company's common stock. The fair value of the warrants was determined to be $419,840 and was recorded as debt discount. During the years ended December 31, 2013 and 2012, the Company incurred interest expense amounting to $262,129 and$157,711, respectively, related to the accretion of the debt discount. Interest on these promissory notes, including accretion of debt discount, amounted to $299,953 and $185,874, respectively, for the years ended December 31, 2013 and 2012. Unamortized debt discount amounted to $0 and $262,129, respectively, at December 31, 2013 and 2012. Effective interest rate on these notes was 48% and 35%, respectively, per annum for the years ended December 31, 2013 and 2012.	—	433,021
4)	Convertible promissory notes aggregating $750,000 secured by substantially all assets of the Company with principal and interest due at maturity at the higher of: a) 1% per annum or b) at the lowest rate that may accrue without causing the imputation of interest under the Internal Revenue Code, and maturing on the earlier of: 1) January 6, 2014, 2) event of default, as defined in the agreement, or 3) the closing of an initial public offering of the Company's common stock. The promissory notes converted into 218,463 shares of the Company's common stock immediately upon completion of the Company's initial public offering. The intrinsic value of embedded beneficial conversion feature associated with these convertible promissory notes was determined to be $321,429 and was recorded as debt discount.		
	In connection with these promissory notes, the Company issued warrants to purchase 215,749 shares of the Company's common stock. The fair value of the warrants was determined to be $754,264 and was recorded as debt discount.		

Ideal Power Inc.

Notes to Financial Statements

Note 8 — Long-term Debt – (continued)

		December 31,	
		2013	2012
	During the years ended December 31, 2013 and 2012, the Company incurred interest expense amounting to $554,418 and $521,275, respectively, related to the accretion of the debt discount. Interest on these promissory notes, including accretion of debt discount, amounted to $561,314 and $523,796, respectively, for the years ended December 31, 2013 and 2012. Unamortized debt discount amounted to $0 and $550,000, respectively, at December 31, 2013 and 2012. Effective interest rate on these notes was 83% and 210%, respectively, per annum for the years ended December 31, 2013 and 2012.	—	200,000
5)	Convertible promissory notes aggregating $3,250,000 secured by substantially all assets of the Company with principal and interest due at maturity at the higher of: a) 1% per annum or b) at the lowest rate that may accrue without causing the imputation of interest under the Internal Revenue Code, and maturing on the earlier of: 1) January 6, 2014, 2) event of default, as defined in the agreement, or 3) the closing of an initial public offering of the Company's common stock. The promissory notes converted into 944,564 shares of the Company's common stock immediately upon completion of the Company's initial public offering. The intrinsic value of the embedded beneficial conversion feature associated with these convertible promissory notes was determined to be $1,402,397 and was recorded as debt discount.		
	In connection with these promissory notes, the Company issued warrants to purchase 467,456 shares of the Company's common stock. The fair value of the warrants was determined to be $1,634,794 and was recorded as debt discount.		
	In connection with these promissory notes the Company issued underwriter warrants to purchase 93,491 shares of the Company's common stock. The fair value of the warrants was determined to be $299,981 and was recorded as debt discount. The Company also incurred debt raising cost of $375,000 in connection with these promissory notes which was recorded as debt discount.		
	During the years ended December 31, 2013 and 2012, the Company incurred interest expense amounting to $2,995,685 and $716,488, respectively, related to the accretion of the debt discount. Interest expense on these promissory notes, including accretion of debt discount, amounted to $3,025,791 and $720,099, respectively, for the years ended December 31, 2013 and 2012. Unamortized debt discount amounted to $0 and $2,979,167, respectively, at December 31, 2013 and 2012. The effective interest rate on these notes was 103% and 133%, respectively, per annum for the years ended December 31, 2013 and 2012.	—	270,833

Ideal Power Inc.

Notes to Financial Statements

Note 8 — Long-term Debt – (continued)

		December 31, 2013	December 31, 2012
6)	Unsecured convertible promissory note amounting to $86,707 with principal and interest due at maturity at the higher of: a) 1% per annum or b) at the lowest rate that may accrue without causing the imputation of interest under the Internal Revenue Code, and maturing on the earlier of: 1) December 31, 2013, 2) event of default, as defined in the agreement, or 3) the closing of an initial public offering of the Company's common stock. The promissory note converted into 25,172 shares of the Company's common stock immediately upon completion of the Company's initial public offering. The intrinsic value of embedded beneficial conversion feature associated with these convertible promissory notes was determined to be $37,415 and was recorded as debt discount.		
	During the years ended December 31, 2013 and 2012, the Company incurred interest expense amounting to $37,415 and $0, respectively, related to the accretion of the debt discount. Interest expense, including accretion of the debt discount, amounted to $38,212 and $0, respectively, for the years ended December 31, 2013 and 2012. Unamortized debt discount amounted to $0 and $37,415, respectively, at December 31, 2013 and 2012. The effective interest rate on these notes was 49% and 0%, respectively, for the years ended December 31, 2013 and 2012.	—	49,292
7)	Convertible promissory notes aggregating $750,000 secured by substantially all assets of the Company with principal and interest due at maturity at the higher of: a) 1% per annum or b) at the lowest rate that may accrue without causing the imputation of interest under the Internal Revenue Code, and maturing on the earlier of: 1) July 29, 2014, 2) event of default, as defined in the agreement, or 3) the closing of an initial public offering of the Company's common stock, at which time the notes would mandatorily convert into shares of the Company's common stock. The promissory notes converted into 216,474 shares of the Company's common stock immediately upon the completion of the Company's initial public offering. The intrinsic value of the embedded beneficial conversion feature associated with these convertible promissory notes was determined to be $580,568 and was recorded as a debt discount.		
	In connection with these promissory notes, the Company issued warrants to purchase 107,875 shares of the Company's common stock. The fair value of the warrants was determined to be $251,800 and was recorded as a debt discount. The Company also incurred debt raising cost of $138,744 in connection with these promissory notes which was recorded as a debt discount. The Company immediately recorded a charge to interest expense of $221,112 to write-off the excess of the debt discount over the principal amount of the notes.		
	During the year ended December 31, 2013, the Company incurred interest expense amounting to $971,112 related to the accretion of the debt discount. Interest expense, including accretion of the debt discount, amounted to $973,633 for the year ended December 31, 2013. The effective interest rate was 392% per annum for the year ended December 31, 2013.	—	—

Ideal Power Inc.

Notes to Financial Statements

Note 8 — Long-term Debt – (continued)

	December 31, 2013	December 31, 2012
8) Unsecured convertible promissory note amounting to $213,293 with principal and interest due at maturity at the higher of: a) 1% per annum or b) at the lowest rate that may accrue without causing the imputation of interest under the Internal Revenue Code, and maturing on the earlier of: 1) December 31, 2013, 2) event of default, as defined in the agreement, or 3) the closing of an initial public offering of the Company's common stock. The promissory note converted into 61,485 shares of the Company's common stock immediately upon completion of the Company's initial public offering. The intrinsic value of embedded beneficial conversion feature associated with these convertible promissory notes was determined to be $93,498 and was recorded as debt discount.		
During the year ended December 31, 2013, the Company incurred interest expense amounting to $93,498 related to the accretion of debt discount. Interest expense, including accretion of debt discount, amounted to $93,942 for the year ended December 31, 2013. The effective interest rate on this note was 214% per annum for the year ended December 31, 2013.	—	—
	$ —	$2,445,836
Less current portion of long-term debt, net of debt discount of $3,828,711 at December 31, 2012	—	1,313,146
Long-term debt	$ —	$1,132,690

Note 9 — Accrued Expenses

Accrued expenses consisted of the following:

	December 31, 2013	December 31, 2012
Accrued compensation	$ 249,160	$ —
Warranty reserve	113,078	103,129
Accrued interest	—	65,041
Other	98,955	9,833
	$ 461,193	$ 178,003

The changes in warranty reserve were as follows:

	2013	2012
Balance, beginning of the year	$103,129	$ 123,979
Provisions for warranty and beta replacements	32,991	18,900
Warranty payments or beta replacements	(23,042)	(39,750)
Balance, end of the year	$113,078	$ 103,129

Note 10 — Common Stock

All shares of common stock have a par value of $0.001. Each holder of common stock is entitled to one vote per share outstanding.

Ideal Power Inc.

Notes to Financial Statements

Note 10 — Common Stock – (continued)

Common Stock

During the year ended December 31, 2013, the Company recognized an award of 32,525 shares of its common stock for services performed by directors and recorded $151,665 in expense for compensation for the shares to be issued. The shares to be issued included 25,333 shares at an estimated fair value of $5.00 per share, the Company's best estimate of the expected share price for its initial public offering, for the Company's current directors and 7,192 shares at an estimated fair value of $3.48 per share, the Company's best estimate of the its share price in November 2012, for a former director of the Company who was appointed in November 2012, had shares vest through May 2013 and resigned in August 2013. The shares had not been issued as of December 31, 2013 and are excluded from the weighted average total shares outstanding for the year ended December 31, 2013.

In November and December 2013, the Company completed an initial public offering (IPO) whereby 3,450,000 shares of common stock were issued at $5.00 per share, which included the exercise of the overallotment allowance by the underwriters, MDB Capital Group LLC (MDB), the Managing Underwriter, and Northland Capital Markets, the Co-Managing Underwriter. Gross proceeds from the IPO totaled $17.25 million and net cash proceeds approximated $15 million. Expenses of the offering approximated $2.2 million, including underwriters' fees of approximately $1.5 million paid to MDB, underwriter expenses of $187,500, issuer legal fees of $440,736 and other expenses of $148,154.

Immediately following the IPO, convertible promissory notes in the principal amount of $6.1 million and $163,218 in accrued interest were converted into 1,700,493 shares of the Company's common stock.

On December 31, 2013, the State of Texas exercised, on a cashless basis, its warrants to purchase 301,273 shares of the Company's common stock. The State of Texas received 301,213 shares and 60 shares were used to cover the exercise price. The Company recorded $404,000 in interest expense related to the warrants as the estimated number of warrants was adjusted based on the IPO price.

During the year ended December 31, 2013, stockholders' equity activity also consisted of the following common stock transactions: (1) the issuance of 345,000 underwriter warrants with a fair value of $1,682,877 in connection with the IPO and (2) the issuance of 84,000 warrants with a fair value of $237,719 in connection with consulting services to be rendered for a period of 24 months effective November 1, 2013. The Company expensed $22,640 related to this warrant in the year ended December 31, 2013.

During the year ended December 31, 2012, stockholders' equity activity consisted of the following common stock transactions: (1) the issuance to investors in a private placement, in consideration of $52,000, of an aggregate of 8,218 shares of the Company's common stock, (2) the issuance of an aggregate 18,835 shares of the Company's common stock with a fair value of $78,994 for services, (3) the issuance of 886,556 warrants with a value of $3,088,944 in connection with debt and (4) the issuance of 200,393 warrants with a fair value of $670,947 in connection with consulting services.

Note 11 — Stock Option Plan

On May 17, 2013, the Company adopted the 2013 Equity Incentive Plan (the "Plan") and reserved 487,932 shares of common stock for issuance under the Plan, including stock options, stock awards and stock bonuses. The maximum number of shares that may be granted under the Plan will be increased effective the first day of each of the Company's fiscal quarters provided that the number of shares that may be granted under the Plan does not exceed 839,983 shares. The Plan is administered by the Compensation Committee of the Company's board of directors. The persons eligible to participate in the Plan are employees, non-employee members of the board of directors, consultants and other independent advisors who provide services to the Company. Options issued under the Plan may have a term of up to ten years and may have variable vesting.

On July 19, 2013, the Company granted 346,813 stock options to various employees to purchase shares of common stock at an exercise price of $5.00 per share. The options vest in equal installments on

Ideal Power Inc.

Notes to Financial Statements

Note 11 — Stock Option Plan – (continued)

December 31, 2013, 2014 and 2015. During November and December 2013, the Company granted 40,500 stock options to newly hired employees and 69,859 stock options in connection with separation agreements. The exercise price of the stock options issued to new employees was the closing price of the Company's stock on the date of grant and the options vest in equal annual installments over 4 years. The exercise price and vesting term of the separation options was set in accordance with the separation agreements. The options granted in 2013 were valued at $1,508,832 using the Black-Scholes option pricing model.

Awards Granted Outside the Plan

During the year ended December 31, 2012, the Company granted 18,965 stock options to purchase shares of common stock at an exercise price of $6.328 to an executive employee. The options were scheduled to vest over a period of 4 years commencing from the date of grant. During 2013, these options were forfeited upon termination of the employee. The options were valued at approximately $85,000 using the Black-Scholes option pricing model. Approximately $15,943 and $12,400, respectively, relating to these options was charged to expense during the years ended December 31, 2013 and 2012.

As permitted by SAB 107, due to the Company's insufficient history of option activity, management utilizes the simplified approach to estimate the expected term of stock options, which represents the period of time that options granted are expected to be outstanding. The risk free interest rate for periods within the contractual life of the option is based on the U.S. treasury yield in effect at the time of grant. The volatility is determined based on management's estimate or historical volatilities of comparable companies. The Company has never declared or paid dividends and has no plans to do so in the foreseeable future.

The assumptions used in the Black-Scholes model are as follows:

	For the year ended December 31,	
	2013	2012
Risk-free interest rate	1.46 to 1.86%	1.41%
Expected dividend yield	0%	0%
Expected lives	5.58 to 6.25 years	5.25 years
Expected volatility	90%	90%

A summary of the Company's stock option activity and related information is as follows:

	2013			2012		
	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)
Outstanding at January 1	158,108	$ 2.716	7.8	155,420	$ 2.654	8.9
Granted	457,172	$ 4.769		18,965	$ 6.328	
Exercised	—	—		—	—	
Forfeited/Expired/Exchanged	(129,707)	$ 4.249		(16,277)	$ 6.328	
Outstanding at December 31	485,573	$ 4.240	8.2	158,108	$ 2.716	7.8
Exercisable at December 31	202,718	$ 3.699	8.0	137,157	$ 2.281	8.0

Ideal Power Inc.

Notes to Financial Statements

Note 11 — Stock Option Plan – (continued)

The following table sets forth additional information about stock options outstanding at December 31, 2013:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Life (in years)	Weighted Average Exercise Price	Options Exercisable
$0.09 – $1.99	39,753	7.7	$ 0.3562	13,010
$2.00 – $4.99	99,390	6.6	$ 2.9715	99,390
$5.00 – $7.00	346,430	8.7	$ 5.0494	90,318
	485,573			202,718

The estimated aggregate pretax intrinsic value (the difference between the Company's stock price on the last day of the year ended December 31, 2013 and the exercises price, multiplied by the number of in-the-money options) is approximately $326,000. This amount changes based on the fair value of the Company's stock.

As of December 31, 2013, there was $772,514 of unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted average period of 2 years.

Note 12 — Warrants

During the year ended December 31, 2013, the Company issued 107,875 warrants to purchase shares of the Company's common stock to various promissory note holders with an exercise price of $3.47626. The warrants became exercisable upon the closing of the Company's IPO. The warrants were valued at approximately $379,000 using the Black-Scholes option pricing model and the Company recorded a debt discount of $251,800 upon issuance of the warrants based on their relative fair value in accordance with ASC 470-20-25-2.

During the year ended December 31, 2013, the Company issued a warrant for the purchase of 84,000 shares of the Company's common stock for consulting services, with an exercise price of $6.25. The warrant shares vest in increments of 4,000 warrant shares at the end of each month beginning with November 2013 and ending with October 2014 with the remainder vesting in increments of 3,000 warrant shares at the end of each month beginning with November 2014 and ending with October 2015. Upon termination of the consulting agreement by either party, all unvested warrant shares are terminated. The warrant was valued at approximately $237,719 using the Black-Scholes option pricing model. For the year ended December 31, 2013, the Company recorded $22,640 in expense related to vested warrant shares.

During the year ended December 31, 2013, the Company issued a warrant for the purchase of 345,000 shares of the Company's common stock to MDB Capital Group LLC, for its services as Managing Underwriter of the Company's IPO, with an exercise price of $6.25. The warrant becomes exercisable 180 days after November 21, 2013. The warrant was valued at $1,682,877 using the Black-Scholes option pricing model.

During the year ended December 31, 2013, the State of Texas exercised its right to purchase 301,273 shares of the Company's common stock via a cashless exercise at an exercise price of $0.001 whereby it received 301,213 shares and a cash payment of $3.59 for a fractional share. The Company recorded a charge of $404,000 to interest expense upon the cashless exercise of the right to purchase in accordance with ASC 470-20-25-2 as the final number of shares was calculated based on the IPO price. These shares are shown in the Summary of Warrant Activity as "Change in Estimate".

Ideal Power Inc.

Notes to Financial Statements

Note 12 — Warrants – (continued)

During the year ended December 31, 2012, the Company issued warrants for the purchase of 886,556 shares of the Company's common stock to various promissory note holders with exercise prices ranging from $3.47626 to $6.3276. The warrants were fully vested at December 31, 2013. The warrants were valued at $3,088,944 using the Black-Scholes option pricing model. See Note 8.

During the year ended December 31, 2012, the Company issued a warrant to purchase 200,393 shares of the Company's common stock to a consultant in connection with consulting services. The warrant has a per share exercise price of $3.47626. The warrant vested immediately. The warrant was valued at $670,947 using the Black-Scholes option pricing model which was charged to expense during 2012.

The shares underlying the warrants have not been registered.

The assumptions used in the Black-Scholes model are as follows:

	For the year ended December 31,	
	2013	2012
Risk-free interest rate	0.83% - 1.35%	0.46% - 0.69%
Expected dividend yield	0%	0%
Expected lives	3.6 - 5 years	3.5 - 4 years
Expected volatility	90%	90%

A summary of the Company's warrant activity and related information is as follows:

	2013		2012	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Outstanding at January 1	1,179,956	$ 3.5367	93,007	$ 0.0010
Granted	536,875	$ 5.6927	1,086,949	$ 3.8392
Change in Estimate	244,364	$ 0.0010	—	—
Exercised	(301,273)	$ 0.0010	—	—
Forfeited/Expired	—	—	—	—
Outstanding at December 31	1,659,922	$ 4.3552	1,179,956	$ 3.5367

Note 13 — Income Taxes

Income taxes are disproportionate to income due to net operating loss carryforwards, which are fully reserved. As of December 31, 2013, the Company has federal net operating loss carryforwards of approximately $8,966,000 which will begin to expire in 2031. Management has concluded that it is more likely than not that the Company will not have sufficient foreseeable taxable income within the carryforward period permitted by current law to allow for the utilization of certain of the deductible amounts generating the deferred tax assets; therefore, a full valuation allowance has been established to reduce the net deferred tax assets to zero at December 31, 2013 and 2012.

Ideal Power Inc.

Notes to Financial Statements

Note 13 — Income Taxes – (continued)

The following is a summary of the significant components of the Company's net deferred income tax assets and liabilities as of December 31, 2013 and 2012:

	Year ended December 31,	
	2013	2012
Current deferred income tax assets:		
Inventory – uniform capitalization	$ 59,000	$ 18,000
Less valuation allowance	(59,000)	(18,000)
	$ —	$ —
Non-current deferred income tax assets and (liabilities):		
Net operating loss	$ 3,048,000	$ 1,806,000
Research and development credit	18,000	18,000
Warranty reserve	38,000	35,000
Depreciation and amortization	—	7,000
Other	(188,000)	(139,000)
Less valuation allowance	(2,916,000)	(1,727,000)
Net non-current deferred tax assets	$ —	$ —

The Company has applied the provisions of FASB ASC 740, "Income Tax" which clarifies the accounting for uncertainty in tax positions. FASB ASC 740 requires the recognition of the impact of a tax position in the financial statements if that position is more likely than not of being sustained on a tax return upon examination by the relevant taxing authority, based on the technical merits of the position. At December 31, 2013 and 2012, the Company had no unrecognized tax benefits.

The Company recognizes interest and penalties related to income tax matters in interest expense and operating expenses, respectively. As of December 31, 2013 and 2012, the Company has no accrued interest and penalties related to uncertain tax positions.

The Company is subject to tax in the United States ("U.S.") and files tax returns in the U.S. federal and state jurisdictions. The Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2009. The Company currently is not under examination by any tax authority.

The reconciliation between the statutory income tax rate and the effective tax rate is as follows:

	For the year ended December 31,	
	2013	2012
Statutory federal income tax rate	(34)%	(34)%
Debt discount	20	12
Other	2	—
Valuation allowance	12	22
	—%	—%

Note 14 — Commitments

Lease

The Company leases its facility in Spicewood, Texas under a non-cancelable operating lease expiring on May 31, 2014. Rent expense incurred for the years ended December 31, 2013 and 2012 amounted to $37,930 and $34,932, respectively.

Ideal Power Inc.

Notes to Financial Statements

Note 14 — Commitments – (continued)

Employment Agreement

The Company has entered into employment agreements with executive management personnel that provide for severance payments upon termination without cause. Consequently, if the Company had released executive management personnel without cause or due to a change in control, as defined in the employment agreements, the severance expense due would be a minimum six months of salary of approximately $312,000, or, for two members of executive management, the amount of compensation for the remaining term of their employment contract, whichever is higher, plus any pro-rated bonuses and vacation days earned but unused as of the date of termination.

The following table summarizes the Company's minimum obligation in the event of no early termination under the employment agreements:

Year	Amount
2014	$ 423,000
2015	149,000
	$ 572,000

Termination of Employment Agreement

Effective October 25, 2013, the employment agreement for one member of executive management was terminated. The related separation agreement included severance of $87,500, accrued but unpaid wages of $58,835 and paid time-off of $9,019. These amounts were paid in November 2013. The separation agreement also includes the grant of an option to purchase 36,116 shares of common stock which may be exercised for a period of 12 months following the first anniversary of the consummation of the Company's initial public offering. Of the 36,116 shares of common stock covered by the option agreement, 29,399 may be purchased at a per share price of $5.00 and 6,717 may be purchased at a per share price of $6.3276. Options to purchase 81,964 shares of common stock previously granted to the executive were forfeited either at the time of separation or at the time his separation agreement became irrevocable with both events occurring in the fourth quarter of 2013. The option grant was treated as a modification and the Company recorded a charge of $70,634 for this modification.

Note 15 — Consulting Services

During the years ended December 31, 2013 and 2012, the Company incurred $92,857, and $50,069 respectively, on account of consulting services and fixed asset purchases from a company which is owned by one of the major shareholders of the company who from May 2007 to November 2012 was also a director of the Company.

Note 16 — Retirement Plan

The Company has adopted a defined contribution retirement plan covering all of its employees. Under the plan, the Company contributions are discretionary. The Company's discretionary contributions amounted to $0 and $4,198, respectively, for the years ended December 31, 2013 and 2012, respectively.

Note 17 — Subsequent Events

Employment Agreement

On January 8, 2014, the Company entered into an employment agreement with its Chief Executive Officer. The employment agreement has a term of three years. The agreement provides for severance payments upon termination without cause. Consequently, if the Company releases the executive without cause or due to a change in control, as defined in the employment agreement, the severance due would be a minimum one year's salary of $300,000, plus any pro-rated bonus and vacations days earned but unused. The executive will be entitled to continue to participate in employee benefit plans, at the Company's sole expense, for a period of one year following the termination of his employment.

Ideal Power Inc.

Notes to Financial Statements

Note 17 — Subsequent Events – (continued)

The Company issued a non-qualified stock option to the executive (the "Inducement Option") to purchase 250,000 shares of the Company's common stock at a per share exercise price of $7.14, equal to the closing price of the Company's common stock on January 8, 2014, the date of grant. The right to purchase the shares subject to the Inducement Option will vest in equal increments over a period of four years, beginning on December 31, 2014 and continuing thereafter on each subsequent December 31st through the end of the vesting period. The Inducement Option has a term of 10 years and will not be subject to the terms of the Company's 2013 Equity Incentive Plan.

Lease Agreement

On March 24, 2014, the Company entered into a lease for 14,782 square feet of office and laboratory space located at 4120 Freidrich Lane, Suite 100, Austin, Texas 78744. The triple net lease has a term of 48 months and the Company expects the commencement date of the lease to be approximately June 1, 2014. The annual base rent in the first year of the lease is $154,324 and increases by $3,548 in each succeeding year of the lease. In addition, the Company will be required to pay its proportionate share of operating costs for the building. The Company has a one-time option to terminate the lease on May 31, 2017 with a termination payment of approximately $99,000 if it elects to exercise this option.

ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A: CONTROLS AND PROCEDURES

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the "Act") is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Report on Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer (principal executive officer) and our Chief Financial Officer (principal financial and accounting officer), of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. The evaluation was undertaken in consultation with our accounting personnel. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Report on Internal Control over Financial Reporting

This annual report does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of the company's registered public accounting firm due to a transition period established by rules of the Securities and Exchange Commission for newly public companies.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rule 13a-15(d) or 15d-15(d) of the Act during the period covered by this Annual Report on Form 10-K that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B: OTHER INFORMATION

Not applicable.

PART III

ITEM 10: DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table sets forth the names and ages of all of our directors and executive officers. Our officers are appointed by, and serve at the pleasure of, the board of directors.

Name	Age	Position
R. Daniel Brdar	54	Chief Executive Officer and Chairman of the Board
Paul Bundschuh	52	President and Chief Commercial Officer
William C. Alexander	58	Chief Technology Officer and Director
Timothy W. Burns, CPA	39	Chief Financial Officer, Secretary and Treasurer
Mark L. Baum, J.D.	41	Director
Lon E. Bell, Ph.D.	73	Director
David B. Eisenhaure	68	Director

Biographical information with respect to our executive officers and directors is provided below. There are no family relationships between any of our executive officers or directors.

R. Daniel Brdar, Chief Executive Officer and Chairman of the Board of Directors

Mr. Brdar joined Ideal Power on January 8, 2014. He has over 25 years of experience in the power systems and energy industries and has held a variety of leadership positions during his career. Prior to joining the Company, Mr. Brdar was Chief Operating Officer of Petra Solar Inc. from March 2011 to May 2013. From January 2006 to February 2011, Mr. Brdar was Chief Executive Officer of FuelCell Energy, Inc., a publicly traded company, President from August 2005 to February 2011 and Chairman of the Board of Directors from January 2007 until April 7, 2011. Prior to his employment with FuelCell Energy, Inc., which began in 2000, Mr. Brdar held management positions at General Electric Power Systems from 1997 to 2000 where he focused on new product introduction programs and was product manager for its gas turbine technology. Mr. Brdar was Associate Director, Office of Power Systems Product Management at the U.S. Department of Energy where he held a variety of positions from 1988 to 1997 including directing the research, development and demonstration of advanced power systems including gas turbines, gasification systems and fuel cells. Mr. Brdar received a B.S. in Engineering from the University of Pittsburgh in 1981. Mr. Brdar's experience as an executive officer of a publicly traded company and his knowledge of the innovative renewable energy market led us to believe that he should serve as a director.

Paul Bundschuh, President and Chief Commercial Officer

Mr. Bundschuh joined Ideal Power in May 2009. Since January 8, 2014, he has held the positions of President and Chief Commercial Officer. Prior to that date, from September 2012 until January 7, 2014, he was the Chief Executive Officer and Chairman of our board of directors. From May 2009 through September 2012, Mr. Bundschuh was Vice President of Business Development, where he focused on financing activities, including obtaining various grants and industry awards and securing customers. Prior to joining our company, Mr. Bundschuh was a renewable energy technology and marketing consultant from September 2008 through May 2009, during which time he consulted with various renewable energy firms on their marketing and business development efforts. From January 2008 through July 2008, Mr. Bundschuh was Vice President of Marketing and Technology for Electromagnetic Power Solutions, an inverter company start-up leveraging IP licensed from Virginia Tech University. Mr. Bundschuh developed the business and marketing plans for the company and identified potential investors. From October 2000 through March 2007, Mr. Bundschuh was Vice President of Sales and Marketing of the Semi & Licensing division of Waves Audio, where he began a new division for audio IP licensing and custom semiconductor solutions to the consumer audio OEM market. Prior to Waves Audio, Mr. Bundschuh held various roles with Motorola Semiconductor and Advanced Micro Devices. Mr. Bundschuh has a Master of Business Administration from the University of Texas at Austin, a Masters of Engineering in Computer and Systems Engineering as well as a Bachelor of Science in Electrical Engineering from Rensselaer Polytechnic Institute.

William C. Alexander, P.E., Chief Technology Officer, Founder and Director

Mr. Alexander founded Ideal Power in 2007 and joined us full time in January 2010 as the Chief Technology Officer. Mr. Alexander oversees the technology development of all of our products and inventions. Mr. Alexander is also the lead engineer working with clients to collaboratively develop solutions based on our technology. Mr. Alexander was a director of Ideal Power from 2007 through 2012 and re-joined our board as a director on January 8, 2014. Prior to joining the company, Mr. Alexander was a Principal Engineer II for BAE Systems in Austin, Texas from June 1999 through January 2010. Mr. Alexander was the lead engineer developing various weapons systems including LIDAR seekers for air-to-air and air-to-ground applications. Before BAE, Mr. Alexander held various technology and engineering roles with Symtx, Inc., Tracor Aerospace, Inc. and Croft and Company. Mr. Alexander has 27 patents granted with over 50 patents pending. He has a Master of Science in Mechanical Engineering and a Bachelor of Science in Mechanical Engineering from the University of Texas at Austin. Mr. Alexander's technological experience, his demonstrated ability to commercialize inventions and his historical relationship with Ideal Power led us to believe that he should serve as a director.

Timothy W. Burns, CPA, Chief Financial Officer, Secretary and Treasurer

On October 21, 2013, Timothy W. Burns joined Ideal Power as our Chief Financial Officer and on November 18, 2013 he was appointed as our Secretary. Prior to accepting this position, Mr. Burns was employed by Rainmaker Systems, Inc., a publicly traded company, from November 2010 until February 2013, first as the company's Controller and, beginning in April 2011, as its Chief Financial Officer. Prior to his employment with Rainmaker Systems, Inc., Mr. Burns was employed by Dean Foods Company, a publicly traded company, from 2001 until November 2010. Mr. Burns began with Dean Foods Company as a Financial Analyst, was made Senior Financial Analyst in 2003, SEC Reporting Manager in 2006, Assistant Controller in 2007 and was promoted to Director of Corporate Accounting in 2008. From 1998 to 2001, Mr. Burns was employed by Deloitte & Touche, LLP as an auditor. Mr. Burns has a Master's Degree in Professional Accounting from the University of Texas and a Bachelor's Degree in Accounting from the University of Southern California. He is a public accountant certified in Texas.

Mark L. Baum, J.D., Director

Mark L. Baum joined our board of directors in November 2012. Mr. Baum is also director, since December 2011, of Imprimis Pharmaceuticals, Inc., a publicly traded company, where he also serves as Chief Executive Officer effective April 1, 2012. Mr. Baum has served as the principal of The Baum Law Firm, P.C. (now TBLF, LLC) since 1998, and has more than 15 years of experience in financing, operating and advising small capitalization publicly traded enterprises, with a particular focus on restructured or reorganized businesses. As a manager of capital, he has completed more than 125 rounds of financing for more than 40 publicly traded companies. As a securities attorney, Mr. Baum has focused his practice on U.S. securities laws, reporting requirements and public company finance-related issues that affect small capitalization public companies. Mr. Baum has actively participated in numerous public company spin-offs, restructurings/recapitalizations, venture financings, private-to-public mergers, asset acquisitions and divestitures. In addition to his fund management and legal experience, Mr. Baum has operational experience in the following industries: life science and diagnostics, closed door pharmacies, cleaner and renewable energy and retail home furnishings. Mr. Baum has served on numerous boards of directors of publicly traded companies, including Chembio Diagnostic Systems, Inc., Applied Natural Gas Fuels, Inc. (formerly AGAS), Shrink Nanotechnologies, Inc., You on Demand, Inc. and CoConnect, Inc., as well as boards of advisors for domestic and international private and public companies. Mr. Baum founded and capitalized the Mark L. Baum Scholarship, which has funded tuition grants to college students in Texas. Mr. Baum is a published inventor and a licensed attorney in California and Texas. Mr. Baum's years of public company executive experience, including knowledge of securities laws, reporting requirements and public company finance-related issues, led us to believe that he should serve as a director.

Lon E. Bell, Ph.D., Director

Dr. Bell joined our Board of Directors in November 2012. He founded Amerigon Inc. (now Gentherm) in 1991. Dr. Bell has served many roles in Amerigon, Inc., including Chief Technology Officer until December 2010, Director of Technology until 2000, Chairman and Chief Executive Officer until 1999, and President until 1997. Dr. Bell served as the Chief Executive Officer and President of BSST LLC, a subsidiary of Amerigon from September 2000 to December 2010. He served as a Director of Amerigon from 1991 to 2012. Previously, Dr. Bell co-founded Technar Incorporated, which developed and manufactured automotive components, and served as Technar's Chairman and President until selling majority ownership to TRW Inc. in 1986. Dr. Bell continued managing Technar, then known as TRW Technar, as its President until 1991. He co-founded Mahindra REVA Electric Vehicle Co Ltd. in 1994 and serves on its Board of Directors and Chairman of its Intellectual Property Committee. He currently serves on the Board of Directors of ClearSign Combustion Corporation. He is a member of advisory boards at California Institute of Technology Mechanical Engineering Department since 2008, Michigan State University and University of Santa Barbra Energy Frontiers Research Centers since 2010 and Alphabet Energy since 2011. Dr. Bell is a leading expert in the design and mass production of thermoelectric products. He has authored more than 30 publications in the areas of thermodynamics of thermoelectric systems, automotive crash sensors, and other electronic and electromechanical devices. Five of his inventions have gone into mass production and dominated their target markets. Dr. Bell received a BSc. in Mathematics, an MSc. in Rocket Propulsion, and a Ph.D. in Mechanical Engineering from the California Institute of Technology. Dr. Bell's demonstrated ability to commercialize inventions led us to conclude that he should serve as a director.

David B. Eisenhaure, Director

Mr. Eisenhaure joined our board of directors in August 2013. From February 1985 until May 2008, Mr. Eisenhaure served as the President and Chief Executive Officer of SatCon Technology Corporation, a public corporation, which he founded. He was also a director of that company from February 1985 until his resignation in July 2009. After his resignation as an executive officer from SatCon Technology Corporation, Mr. Eisenhaure assisted that company with the transition to a new management team. He retired from active employment in March 2009. SatCon Technology Corporation developed products that contributed to the advancement of the utility, hybrid vehicle, ship building, industrial automation, semiconductor processing, and defense markets. Prior to founding SatCon Technology Corporation, Mr. Eisenhaure was the Technical Director of the Energy Systems Division at Draper Laboratory, where the research of his group included magnetic bearings, flywheels, energy storage, advanced solid state power converters, advanced motors and generators, and adaptive control systems for highly dynamic and otherwise unstable systems. Prior to his employment with Draper Laboratory, Mr. Eisenhaure worked at the Massachusetts Institute of Technology Instrumentation Laboratory, first as a graduate student research assistant and then as a staff engineer, designing and developing electromagnetic and thermal control systems to support the national space and defense programs. From 1985 to 1997 he held the position of Lecturer in the Mechanical Engineering Department at the Massachusetts Institute of Technology, where he collaborated with faculty and students on research, especially thesis-related research at both the Master's and Ph.D. levels. He has been awarded over 20 patents from the U.S. Patent and Trademark Office covering inventions in magnetic suspensions, motor drives and controls, flywheel systems, automotive components, energy storage, and solid state power converters. Mr. Eisenhaure holds a Bachelor of Science degree, a Master of Science degree, and an Engineer's Degree in Mechanical Engineering from the Massachusetts Institute of Technology. Mr. Eisenhaure's years of public company executive experience, his extensive experience in the field of electrical technology, and his educational background led us to believe that he should serve as a director.

To the best of our knowledge, none of our directors or executive officers has, during the past ten years, been involved in any legal proceedings described in subparagraph (f) of Item 401 of Regulation S-K.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to us during our most recent fiscal year and Forms 5 and amendments thereto furnished to us with respect to our most recent fiscal year, and any written representation made to us, we have determined that Peter Appel, the beneficial owner of more than 10% of our common stock, filed his Form 3 one day late.

Code of Business Conduct and Ethics

The Board of Directors has adopted a code of business conduct and ethics (the Code) designed to deter wrongdoing and to promote honest and ethical conduct. The Code applies to all of our directors, executive officers and employees. The Code may be found on our website at *www.idealpower.com-Investors/Corporate Governance/Governance Documents*.

Procedures by which Security Holders may Recommend Nominees to the Board of Directors

There have been no material changes to the procedures by which security holders may recommend nominees to our board of directors.

Information on the Company's Audit Committee

The Company's board of directors has a standing Audit Committee. Our three independent directors, Lon E. Bell, Mark Baum and David B. Eisenhaure, are the members of the Audit Committee. The determination of independence is made in accordance with the rules of The NASDAQ Stock Market. We believe that both Mark Baum and David Eisenhaure are audit committee financial experts, within the meaning of Item 407(d)(5) of Regulation S-K.

Compensation Committee Interlocks and Insider Participation

In November 2012, three of the members of our board of directors resigned and Dr. Lon Bell, Mr. Mark Baum and Mr. Rick Rutkowski, all of whom were determined to be independent using the criteria set forth in Rule 5605(a)(2) of the rules of The NASDAQ Stock Market, were appointed to our board. In January 2013, our board created an Audit Committee, a Nominating and Corporate Governance Committee and a Compensation Committee. Dr. Bell and Messrs. Baum and Rutkowski were appointed to these committees. In August 2013, Mr. Rutkowski resigned as a member of our board of directors and Mr. Eisenhaure, who we determined was independent, was appointed in his place. None of our executive officers served on the Compensation Committee during the 2013 year and there were no relationships during the 2013 year that are required to be disclosed pursuant to Item 407(d)(4)(iii) of Regulation S-K.

ITEM 11: EXECUTIVE COMPENSATION

The following summary compensation table covers all compensation awarded to, earned by or paid to our principal executive officer, each of the other two highest paid executive officers, if any, whose total compensation exceeded $100,000 during the years ended December 31, 2013 and 2012 and up to two additional individuals for whom disclosure would have been provided but for the fact that the individual was not serving as an executive officer of Company at the end of the last completed fiscal year. These individuals are sometimes referred to in this report as the "Named Executive Officers".

Summary Compensation Table

Name and Principal Position		Salary	Bonus[1]	Stock Awards[2]	Option Awards[3]	All Other Compensation[4]	Total
Paul Bundschuh	2013	$186,154	$105,336	$ 0	$379,883	$ 0	$671,373
President and Chief Commercial Officer, Former Chief Executive Officer	2012	139,999	0	0	0	0	139,999
Christopher Cobb	2013	$148,078	$ 2,802	$ 0	$ 70,634	$ 97,369	$318,883
Former President, Chief Operating Officer and Chief Executive Officer	2012	13,462	41,250	48,993	85,049	0	188,754
William Alexander	2013	$223,267	$ 51,932	$ 0	$151,953	$ 0	$427,152
Chief Technology Officer	2012	238,253	0	0	0	0	238,253
Timothy Burns	2013	$ 27,885	$ 2,099	$ 0	$113,124	$ 0	$143,108
Chief Financial Officer, Secretary and Treasurer							
Charles De Tarr	2013	$154,926	$ 1,160	$ 0	$ 23,868	$ 0	$179,954
Former Vice President, Finance, Chief Financial Officer and Secretary	2012	115,895	35,000	0	0	0	150,895

(1) Bonus in 2013 includes annual performance bonus of $100,000 and $50,000 for Mr. Bundschuh and Mr. Alexander, respectively. Other amounts shown in 2013 relate to bonus paid to executives for deferring base salary payments in advance of the Company's initial public offering.

(2) The amounts included in this column are the aggregate grant date fair value of stock awards granted in 2012.

(3) This amount reflects the aggregate grant date fair value for this award and does not correspond to the actual value that may be recognized by the individual upon option exercise. For information on the valuation assumptions used to determine the grant date fair value of stock options, see Notes 1 and 11 to our audited financial statements included elsewhere in this report.

(4) This amount includes an $88,350 severance payment and $9,019 payment for unused vacation.

Current and Future Compensation Practices

Currently, compensation for our employees consists of base salary, cash bonuses and awards of stock options through the Company's 2013 Equity Incentive Plan. We believe that a combination of cash and options for the purchase of common stock will allow us to attract and retain the services of individuals who will help us achieve our business objectives, thereby increasing value for our stockholders. We believe that share ownership by our employees is an effective method to deliver superior stockholder returns by increasing the alignment between the interests of our employees and our stockholders. No employee is required to own common stock in our Company.

In setting the compensation for our officers, we look primarily at the person's responsibilities, at the person's experience and education and at our ability to replace the individual. We expect the base salaries of our executive officers to remain relatively constant unless the person's responsibilities are materially changed. We also expect that we may pay bonuses to reward exceptional performance or the achievement by the Company or an individual of targets to be agreed upon. During 2013 and 2012, because we had limited cash resources, we periodically accrued salaries for our executive officers.

Employment Agreements

On January 8, 2014, R. Daniel Brdar entered into an employment agreement with us. The term of Mr. Brdar's employment will be three years. Before the expiration of the second year, the Compensation Committee will review his performance and, assuming that his performance is satisfactory, the term of his employment will be extended for an additional year. During the third year and each subsequent year of his

employment, the Compensation Committee will review Mr. Brdar's performance and, assuming it is satisfactory, extend his employment for an additional year.

As compensation for his services, Mr. Brdar will receive an annual salary of $300,000 per year. Each year, Mr. Brdar and the Compensation Committee will meet to discuss performance objectives and targets for him, personally, and for the Company for the year (the "Performance Goals"). If the Performance Goals are satisfactorily achieved during the period or periods designated, as determined by the Compensation Committee, Mr. Brdar will be eligible to receive a target performance bonus in the amount of 60% of his annual salary. For the first year of his employment, he will receive a bonus that is no less than 25% of his annual salary.

The Company has issued a non-qualified stock option to Mr. Brdar (the "Inducement Option") to purchase 250,000 shares of the Company's common stock at a per share exercise price of $7.14, equal to the closing price of the Company's common stock on January 8, 2014, the date of grant. The right to purchase the shares subject to the Inducement Option will vest in equal increments over a period of four years, beginning on the first anniversary of the date of grant and continuing thereafter on each subsequent anniversary date. The Inducement Option will have a term of 10 years and will not be subject to the terms of the Company's 2013 Equity Incentive Plan. Beginning with the 2015 calendar year and continuing through the 2018 calendar year, Mr. Brdar will also receive, for each year in which the Performance Goals are met, an additional option to purchase 50,000 shares of the Company's common stock (the "Target Option"). The per share exercise price of each Target Option will be equal to the closing price of the common stock on the first business day of the calendar year. The right to purchase the shares subject to each Target Option will vest in equal increments over a period of four years, beginning on the 31st day of December in the year in which the Performance Goals are met. The Target Option will have a term of 10 years and will be subject to the terms of the Company's 2013 Equity Incentive Plan.

If Mr. Brdar's services are terminated at the election of the Company he will be entitled to receive (i) his accrued but unpaid annual salary and the value of unused paid time off through the effective date of the termination; (ii) his accrued but unpaid bonus, if any; (iii) business expenses incurred prior to the effective date of termination; and (iv) severance (the "Severance Payment") consisting of one year of his annual salary, less legal deductions. The Company may elect in its sole discretion whether to pay the Severance Payment in one lump sum or on regular pay days for the one year period following termination of Mr. Brdar's employment. Mr. Brdar will be entitled to continue to participate in employee benefit plans, at the Company's sole expense, for a period of one year following the termination of his employment.

If Mr. Brdar's services are terminated as a result of a change in control, he will be entitled to receive (i) his accrued but unpaid annual salary and the value of unused paid time off through the effective date of the termination; (ii) his accrued but unpaid bonus, if any; (iii) business expenses incurred prior to the effective date of termination; and (iv) an amount equal to his annual salary for one year. In addition, any equity award that was scheduled to vest following the termination of his employment will vest immediately.

Mr. Brdar will be entitled to receive the same benefits and opportunities to participate in any of the Company's employee benefit plans which may now or hereafter be in effect on a general basis for executive officers or employees. During his employment, the Company will provide, at the Company's sole expense, health insurance benefits for Mr. Brdar, his spouse and his children under the same policy or policies generally available to other executive officers of the Company. Additional benefits, such as life insurance coverage, may be provided to him, if approved by the Compensation Committee.

On December 10, 2013, we entered into an Employment Agreement with Timothy W. Burns, our Chief Financial Officer, Secretary and Treasurer. Pursuant to the terms of the Employment Agreement, Mr. Burns received a salary of $150,000 per year from the date his employment began (October 21, 2013) through December 6, 2013. From and after December 6, 2013, Mr. Burns' salary was increased to $200,000 per year. At least annually, Mr. Burns is to meet with the members of the Compensation Committee to establish performance standards and goals to be met by Mr. Burns and cash bonus targets based on the performance standards and goals that are achieved. The standards and goals and the bonus targets will be mutually agreed to by Mr. Burns and the Compensation Committee. For the year 2014, Mr. Burns and the Compensation Committee agreed that performance standards and goals, which have not yet been finally determined, will

support a cash bonus target of $50,000. Mr. Burns will also receive an annual cost of living increase and he is entitled to participate in any of our employee benefit plans which may now be, or in the future will be, in effect on a general basis for our executive officers or employees. We will provide, at the Company's sole expense, medical and dental benefits for Mr. Burns, his spouse and his children unless Mr. Burns waives such benefits. Mr. Burns will receive four weeks paid-time-off each year.

In accordance with the terms of the Employment Agreement, Mr. Burns was granted an incentive stock option award from the Company's 2013 Equity Incentive Plan for the purchase of 30,000 shares of the Company's common stock at a price of $5.00 per share. The term of the option is 10 years. The right to purchase the shares vests annually over a four year period.

The Employment Agreement will be terminated if Mr. Burns is disabled or voluntarily resigns from his employment. We may terminate Mr. Burns' employment for cause or on 30 days written notice. If his employment is terminated by us without cause, Mr. Burns will receive his accrued but unpaid salary and the value of unused paid time off through the effective date of the termination, any accrued but unpaid bonus, business expenses incurred prior to the effective date of the termination, and severance (the "Severance Payment") consisting of six months' salary, less legal deductions. We may elect, in our sole discretion, whether to pay the Severance Payment in one lump sum or on regular pay days for the six months following termination of Mr. Burns' employment. Mr. Burns will also be entitled to continue to participate in employee benefit plans, at the Company's sole expense, for six months following the termination of his employment.

If Mr. Burns' employment is terminated as a result of a change in control, as defined in the Employment Agreement, he will be entitled to receive his accrued but unpaid salary and the value of unused paid time off through the effective date of the termination, any accrued but unpaid bonus, business expenses incurred prior to the effective date of the termination, and an amount equal to one-half of his salary. In addition, any equity award that was scheduled to vest during the two year period following the termination of his employment will vest immediately upon the termination of Mr. Burns' employment as a result of a change in control. Mr. Burns' employment will be deemed to have been terminated as a result of a change in control if the termination occurs during the period that begins when negotiations for the change in control begin and ends on the six month anniversary of the closing of the change in control transaction and such termination is not a termination for cause or a termination as a result of his death, disability or election.

On May 7 and May 8, 2013, Paul Bundschuh and William Alexander entered into employment agreements with us. With the exception of the annual compensation, the material terms of the employment agreements of these two executives are substantially the same.

The employment agreements entered into by Messrs. Bundschuh and Alexander have initial terms of two years, but will be renewed on an annual basis following the expiration of the initial term, unless otherwise terminated. Mr. Bundschuh is compensated at an annual rate of $200,000 and Mr. Alexander is compensated at an annual rate of $223,267.

Each executive will be entitled to receive a cost of living adjustment on January 1st of each year and will be entitled to participate in any employee benefit plans we offer. During each executive's employment, the Company will provide, at the Company's sole expense, medical and dental benefits for each executive, his spouse and his children. Each executive is entitled to four weeks of paid time off each year. Following the initial public offering of our common stock, each executive became eligible for an annual bonus, in an amount to be determined by the Compensation Committee, based upon standards and goals agreed to by the Compensation Committee and the executive, and each executive may receive awards of stock grants or stock options at the discretion of the Compensation Committee. For the year ended December 31, 2013, the Compensation Committee awarded Messrs. Bundschuh and Alexander bonuses of $100,000 and $50,000, respectively.

Our board of directors may terminate the services of the executive for "cause," as defined in the employment agreement or upon 30 days written notice to the executive. The employment agreements may also be terminated by the executive's death or disability, by the election of the executive or due to a change in control, as defined in the employment agreements.

If an executive is terminated as a result of death, disability or the executive's election, he will receive his accrued but unpaid salary and the value of unused paid time off through the effective date of his termination, his accrued but unpaid annual bonus, if any, and his business expenses incurred prior to the effective date of his termination (the "Termination Payment"). The executive will be entitled to continue to participate in any employee benefit plan to the extent provided for in the plan or as may be required by law. If we terminate the executive's employment other than for cause, the executive will receive the Termination Payment and severance consisting of the greater of (i) the salary that would be due to the executive if his employment had not been terminated or (ii) six months annual salary. The executive will also be entitled to continue to participate in any employee benefit plan for a period of six months following the termination of his employment. If an executive is terminated as a result of a change in control, he will receive the Termination Payment and severance in an amount equal to the annual salary due to the executive for the balance of the term. In no event will this severance payment be less than the amount of the executive's annual salary.

Outstanding Equity Awards at December 31, 2013

The following table sets forth certain information concerning outstanding equity awards for our Named Executive Officers at December 31, 2013. No options were exercised by our Named Executive Officers during the last two fiscal years.

	Option Awards			
Name	**Number of securities underlying unexercised options (#) Exercisable**	**Number of securities underlying unexercised options (#) Unexercisable**	**Option exercise price ($)**	**Option expiration date**
Paul Bundschuh	1,229	—	$0.8133	5/12/2022
Paul Bundschuh	1,281	—	$0.7953	8/25/2022
Paul Bundschuh	11,781	—	$2.9715	6/30/2020
Paul Bundschuh	5,890	—	$2.9715	9/30/2020
Paul Bundschuh	5,890	—	$2.9715	12/31/2022
Paul Bundschuh	69,999	34,999	$5.0000	7/19/2023
Christopher Cobb	—	6,717	$6.3276	11/26/2015
Christopher Cobb	—	29,399	$5.0000	11/26/2015
William Alexander	14,000	27,999	$5.0000	7/19/2023
Timothy Burns	—	30,000	$5.0000	11/21/2023
Charles De Tarr	—	26,743	$0.4167	1/31/2022
Charles De Tarr	—	7,000	$5.0000	11/26/2015

Director Compensation

Members of our board of directors did not receive compensation for their service as directors for the year ended December 31, 2012. On June 30, 2013, our board of directors approved annual compensation to be paid to the independent directors, effective from their date of appointment to the Board, as follows: each of the independent directors will receive $50,000 in cash and $50,000 in value of shares of common stock. The cash component of the compensation was to begin to accrue when the Company completed its initial public offering. All directors are reimbursed ordinary and reasonable expenses incurred in exercising their responsibilities. The following table illustrates the compensation paid to members of our board of directors as of December 31, 2013:

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Mark Baum	$12,500	$54,305	—	—	—	—	$66,805
Lon E. Bell	$12,500	$54,305	—	—	—	—	$66,805
David B. Eisenhaure	$12,500	$18,055	—	—	—	—	$30,555
Richard Rutkowski	$ —	$25,000	—	—	—	—	$25,000

On January 3, 2014 the compensation to be paid to our independent directors was changed. Beginning in 2014, our independent directors will receive cash compensation of $50,000 and an option to purchase shares of our common stock having a value of $50,000.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

We have set forth in the following table certain information regarding our common stock beneficially owned by (i) each stockholder we know to be the beneficial owner of 5% or more of our outstanding common stock, (ii) each of our directors and named executive officers, and (iii) all executive officers and directors as a group. Generally, a person is deemed to be a "beneficial owner" of a security if that person has or shares the power to dispose or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which the person has the right to acquire beneficial ownership within 60 days pursuant to options, warrants, conversion privileges or similar rights. Unless otherwise indicated, ownership information is as of March 26, 2014, and is based on 7,010,959 shares of common stock outstanding on that date.

Names and Address of Beneficial Owner[1]	Number of Shares Beneficially Owned[2]	% of Shares Owned
Directors and Officers:		
R. Daniel Brdar, Chief Executive Officer and Chairman of the Board	—	0.0%
Paul Bundschuh, President and Chief Commercial Officer	113,759[3]	1.6%
William Alexander, Chief Technology Officer and Director	484,996[4]	6.9%
Timothy Burns, Chief Financial Officer, Secretary and Treasurer	10,000	0.2%
Mark Baum, Director	102,667[5]	1.5%
Lon E. Bell, Director	136,463[6]	1.9%
David B. Eisenhaure, Director	7,871[7]	0.1%
All Directors and Officers as a Group	855,756	12.2%
5% Owners		
Peter A. Appel[8]	882,826[9]	12.6%
Austin W. Marxe, David M. Greenhouse and Adam C. Stettner[10]	1,146,935	16.3%

(1) The address of each officer and director is 5004 Bee Creek Rd., Suite 600, Spicewood, Texas 78669.

(2) Beneficial ownership is determined in accordance with Rule 13d-3 under the Exchange Act, as amended, and is generally determined by voting powers and/or investment powers with respect to securities. Unless otherwise noted, the shares of common stock listed above are owned as of March 26, 2014, and are owned of record by each individual named as beneficial owner and such individual has sole voting and dispositive power with respect to the shares of common stock owned by each of them.

(3) Includes 50,635 shares of common stock, warrants for the purchase of 2,054 shares of common stock and 61,070 shares subject to vested options to purchase common stock.

(4) Includes 470,996 shares of common stock and 14,000 shares subject to a vested option to purchase common stock.

(5) Includes 54,961 shares of common stock held in Mr. Baum's name, 29,063 shares of common stock held by Series E-1 of Larrem Smitty, LLC, of which Mr. Baum is the beneficial owner, 4,260 shares subject to an option to purchase common stock exercisable within 60 days of March 26, 2014 and 14,383 shares of common stock issuable upon the exercise of warrants held by Series E-1 of Larrem Smitty, LLC.

(6) Includes 30,861 shares of common stock held in Dr. Bell's name, 58,192 shares of common stock held by the Bell Family Trust, of which Dr. Bell is the trustee and has sole voting and investment control with respect to the shares of common stock, 4,260 shares subject to an option to purchase common stock exercisable within 60 days of March 26, 2014 and 43,150 shares of common stock issuable upon the exercise of warrants held by the Bell Family Trust.

(7) Includes 3,611 shares held in Mr. Eisenhaure's name and 4,260 shares subject to an option to purchase common stock exercisable within 60 days of March 26, 2014.

(8) Mr. Appel's address is 77 Oregon Road, Bedford Corners, New York 10549.

(9) Includes 580,777 shares of common stock and 302,049 shares of common stock issuable upon the exercise of warrants.

(10)The address for Messrs. Marxe, Greenhouse and Stettner is 527 Madison Avenue, New York, New York, 10022.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Our common stock is listed on the NASDAQ Capital Market, therefore, our determination of the independence of directors is made using the definition of "independent" contained in the listing standards of the NASDAQ Stock Market. On the basis of information solicited from each director, the board has determined that each of Mr. Baum, Mr. Eisenhaure and Dr. Bell has no material relationship with the Company and is independent within the meaning of such rules.

SEC regulations define the related person transactions that require disclosure to include any transaction, arrangement or relationship in which the amount involved exceeds the lesser of $120,000 or one percent of the average of our total assets at year end for the last two completed fiscal years in which we were or are to be a participant and in which a related person had or will have a direct or indirect material interest. A related person is: (i) an executive officer, director or director nominee, (ii) a beneficial owner of more than 5% of our common stock, (iii) an immediate family member of an executive officer, director or director nominee or beneficial owner of more than 5% of our common stock, or (iv) any entity that is owned or controlled by any of the foregoing persons or in which any of the foregoing persons has a substantial ownership interest or control.

For the period from January 1, 2012, through the date of this report (the "Reporting Period"), described below are certain transactions or series of transactions between us and certain related persons.

On May 22, 2012, we issued convertible promissory notes together with common stock purchase warrants to Charles De Tarr and Christopher Cobb, respectively. Mr. De Tarr was formerly our Chief Financial Officer, Secretary and Treasurer and Vice-President, Finance. Mr. Cobb was formerly our President and Chief Operating Officer, Chief Executive Officer and a member of our board of directors. The note issued to Mr. De Tarr was in the principal amount of $150,000 and included a series of advances made to us by Mr. De Tarr from February 28, 2012 through May 22, 2012. The note issued to Mr. Cobb was in the principal amount of $200,000. The convertible notes accrued interest at the rate of 6% per year and all principal and interest were

due and payable on the maturity date, December 31, 2014, unless earlier paid by the Company. The promissory notes converted into 33,061 and 43,643 shares of the Company's common stock for Mr. De Tarr and Mr. Cobb, respectively, immediately upon completion of the Company's initial public offering. No payments were made toward the principal amount or accrued interest of either note prior to conversion, therefore, during the Reporting Period, the highest principal amounts owed pursuant to the promissory notes were $150,000 and $200,000, respectively. In conjunction with these promissory notes, we issued 23,706 and 31,608 warrants to Mr. De Tarr and Mr. Cobb, respectively. The warrants have terms of seven years and the per share exercise price is $6.3276.

On August 31, 2012, we closed an offering of $750,000 in principal amount of senior secured convertible promissory notes (the "August Notes") together with warrants to purchase shares of our common stock. On November 21, 2012, we closed an offering of $3.25 million in principal amount of senior secured convertible promissory notes (the "November Notes") together with warrants to purchase shares of our common stock. On July 29, 2013, we closed an offering of $750,000 in aggregate principal amount of senior secured convertible promissory notes (the "July Notes") together with warrants for the purchase of our common stock. The August Notes, the November Notes and the July Notes are collectively referred to in this discussion as the "Notes." The Notes accrued interest at the higher of (i) 1% per annum or (ii) or the lowest rate that may accrue without causing the imputation of interest under the Internal Revenue Code. The principal amount of the August Notes and the November Notes, together with accrued interest, were due and payable on the earlier to occur of (i) January 6, 2014, (ii) an Event of Default (as defined in the Notes) or (iii) the closing of an IPO Financing (as defined in the Notes). The principal amount of the July Notes, together with accrued interest, were due and payable on the earlier to occur of (i) July 29, 2014, (ii) an Event of Default (as defined in the Notes) or (iii) the closing of an IPO Financing (as defined in the Notes). The notes were converted into shares of the Company's common stock immediately upon completion of the Company's initial public offering. No payments were made toward the principal amount or accrued interest of either note prior to conversion. The warrants issued in conjunction with the Notes have a term of seven years and an exercise price of $3.47626. The number of shares of common stock covered by the warrants for the August Note is equal to the original principal amount of the August Note divided by $3.47626. and the number of shares of common stock covered by the warrants issued in conjunction with the November Notes and July Notes is calculated identically to the August Notes, except on one-half the principal amount. The following officers, directors and beneficial owners of 5% of our common stock invested in these offerings:

Name and Title	Investment Amount
August 31, 2012	
Lon E. Bell, director (Investment made through the Bell Family Trust dated 2/2/95)	$ 100,000
Peter Appel, beneficial owner of more than 5% of our common stock	$ 100,000
November 21, 2012	
Lon E. Bell, director (Investment made through the Bell Family Trust dated 2/2/95)	$ 100,000
Mark Baum, director (Investment made through Series E-1 of the Larrem Smitty, LLC)	$ 100,000
Peter Appel, beneficial owner of more than 5% of our common stock	$ 1,625,000
MDB Capital Group, LLC, beneficial owner of more than 5% of our common stock on the transaction date	$ 395,000
July 29, 2013	
Peter Appel, beneficial owner of more than 5% of our common stock	$ 275,000

On July 24, 2012, we entered into engagement agreements with MDB Capital Group, LLC (the "Engagement Agreements"). In exchange for services that were provided and pursuant to the terms of our Engagement Agreements, on November 21, 2012, we issued to MDB Capital Group, LLC a warrant to purchase 200,393 shares of common stock and a warrant to purchase 93,491 shares of common stock. The warrants expire seven years from the date of issuance. The exercise price of the warrant to purchase 200,393 shares of common stock is $3.47626. The exercise price of the warrant to purchase 93,491 shares of common

stock is $4.345325. The warrants will become exercisable on the earlier of the Calendar Due Date, as defined in the warrants, or 180 days following an IPO.

During the years ended December 31, 2013 and 2012, we incurred $92,857 and $50,920, respectively, for IT services and equipment provided by DataCorp, a company that is owned by Hamo Hacopian, a former director.

Our executive officers have executed employment agreements with us and have received shares of common stock or options to purchase common stock as compensation. Our independent directors also receive compensation for their services to us. See the section of this report titled “Executive Compensation” for a discussion of these transactions.

On November 6, 2013 we entered into a Separation and Release Agreement with Christopher Cobb, whereby he resigned as our President, Chief Operating Officer and director. Mr. Cobb’s separation package included the following: (i) a severance payment in the amount of $87,500, accrued but unpaid wages in the amount of $58,835 and paid-time-off in the amount of $9,019, all of which was paid within six days from the date the agreement becomes irrevocable; (ii) grant of an option covering 36,116 shares of common stock which may be exercised for a period of 12 months beginning on November 27, 2014; (iii) an agreement to provide consulting services as requested through December 31, 2013; and (iv) a mutual release of all claims and covenant not to sue. Of the 36,116 shares of common stock covered by the option agreement, 29,399 shares may be purchased at a per-share price of $5.00 and 6,717 shares may be purchased at a per-share price of $6.3276.

On November 27, 2013 we entered into a Separation and Release Agreement with Charles De Tarr whereby he resigned as our Vice-President, Finance. Mr. De Tarr’s separation package included the following: (i) grant of an option covering the purchase of an aggregate 33,743 shares of our common stock which may be exercised beginning on November 27, 2014; (ii) an agreement to provide consulting services on a full-time basis for a period of up to six months; and (iii) a mutual release of all claims and covenant not to sue. We agreed to pay Mr. De Tarr $14,583 per month for the consulting services. We could terminate the consulting arrangement upon 60 days notice to Mr. De Tarr. If we terminated the consulting arrangement, during the notice period Mr. De Tarr would not be required to provide consulting services for more than 15 hours per week. We provided 60 days’ notice of termination of the consulting arrangement to Mr. De Tarr on December 20, 2013 and his consulting services under the agreement ceased on February 18, 2014. Of the 33,743 shares covered by the option agreement, 26,743 shares have an exercise price of $0.416675 per share and 7,000 shares have an exercise price of $5.00 per share.

ITEM 14: PRINCIPAL ACCOUNTANT FEES AND SERVICES

	2013	2012
Gumbiner Savett Inc.		
Audit Fees	148,000	—
Audit Related Fees	—	—
Tax Fees	7,950	—
All Other Fees	53,649	—
Maxwell, Locke & Ritter		
Audit Fees	—	33,500
Audit Related Fees	—	—
Tax Fees	—	7,968
All Other Fees	—	—

Gumbiner Savett Inc. provided customary agreed upon procedures in connection with our initial public offering. These fees are shown as “All Other Fees” in the above table.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Exhibits

The exhibits filed as part of this Annual Report on Form 10-K are listed in the Exhibit Index immediately preceding the exhibits. We have identified in the Exhibit Index each management contract and compensation plan filed as an exhibit to this Annual Report on Form 10-K in response to Item 15(a) (3) of Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Spicewood, State of Texas, on this 28th day of March, 2014.

IDEAL POWER INC.

By: /s/ R. Daniel Brdar
R. Daniel Brdar,
Chief Executive Officer

By: /s/ Timothy Burns
Timothy Burns,
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Dated: March 28, 2014

/s/ R. Daniel Brdar
R. Daniel Brdar,
Chief Executive Officer
(principal executive officer) and director

Dated: March 28, 2014

/s/ Timothy Burns
Timothy Burns,
Chief Financial Officer
(principal financial and accounting officer),
Secretary and Treasurer

Dated: March 28, 2014

/s/ William C. Alexander
William C. Alexander,
Chief Technology Officer and director

Dated: March 28, 2014

/s/ Lon E. Bell
Lon E. Bell, Ph.D., director

Dated: March 28, 2014

/s/ Mark Baum
Mark Baum, director

Dated: March 28, 2014

/s/ David B. Eisenhaure
David B. Eisenhaure, director

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EXHIBIT INDEX

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3.1	Delaware Certificate of Conversion including Certificate of Incorporation[1]
3.2	Bylaws of Ideal Power Inc.[1]
4.1	Underwriter's Warrant[1]
10.1	Consulting Agreement dated July 24, 2012 between the registrant and MDB Capital Group, LLC[1]
10.2	Consulting Agreement dated August 8, 2012 between the registrant and MDB Capital Group, LLC[1]
10.3	Form of Lock-Up Agreement[1]
10.4	Form of Subscription and Stock Purchase Agreement by and between the registrant and investors for an offering completed in October 2010[1]
10.5	Form of Subscription Agreement and Stock Purchase Agreement by and between the registrant and investors for an offering completed on May 4, 2012[1]
10.6	Form of Convertible Promissory Note issued by the registrant to investors in the offering completed on October 9, 2011[1]
10.7	Form of Convertible Promissory Note issued by the registrant to investors in the offering completed on July 17, 2012[1]
10.8	Form of Amendment to Convertible Promissory Notes issued on July 17, 2012[1]
10.9	Form of Warrant issued by the registrant to investors in the offering completed on July 17, 2012[1]
10.10	Form of Securities Purchase Agreement between the registrant and investors for an offering completed on August 31, 2012[1]
10.11	Form of Registration Rights Agreement between the registrant and investors for an offering completed on August 31, 2012[1]
10.12	Form of Senior Secured Convertible Promissory Note issued by the registrant to investors in the offering completed on August 31, 2012[1]
10.13	Form of Security Agreement between the registrant and investors for an offering completed on August 31, 2012[1]
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10.15	Form of Replacement Senior Secured Convertible Promissory Note issued by the registrant to investors in the offering completed on August 31, 2012[1]
10.16	Form of Replacement Warrant issued by the registrant to investors in the offering completed on August 31, 2012[1]
10.17	Form of Securities Purchase Agreement between the registrant and investors for an offering completed on November 21, 2012[1]
10.18	Form of Registration Rights Agreement between the registrant and investors for an offering completed on November 21, 2012[1]
10.19	Form of Senior Secured Convertible Promissory Note issued by the registrant to investors in the offering completed on November 21, 2012[1]
10.20	Form of Security Agreement between the registrant and investors for the offering completed on November 21, 2012[1]
10.21	Form of Warrant issued by the registrant to investors in the offering completed on November 21, 2012[1]

Exhibit No.	Description of Document
10.21	Form of Warrant issued by the registrant to investors in the offering completed on November 21, 2012[1]
10.22	Subordination Agreement dated August 30, 2012 between the registrant and Office of the Governor Economic Development and Tourism of the State of Texas[1]
10.23	Lease Agreement between the Company and Texas Public Employees Association dated May 7, 2013[1]
10.24	Employment Agreement between the Company and William Alexander dated May 7, 2013[1]+
10.25	Employment Agreement between the Company and Paul Bundschuh dated May 7, 2013[1]+
10.26	Employment Agreement between the Company and Christopher Cobb dated May 8, 2013[1]+
10.27	Form of Indemnification Agreement entered into in December 2010 between the Company and William Alexander, Charles De Tarr, David Breed and Hamo Hacopian[1]+
10.28	Form of Securities Purchase Agreement between the registrant and investors for an offering completed on July 29, 2013[1]
10.29	Form of Registration Rights Agreement between the registrant and investors for an offering completed on July 29, 2013[1]
10.30	Form of Senior Secured Convertible Promissory Note issued by the registrant to investors in the offering completed on July 29, 2013[1]
10.31	Form of Security Agreement between the registrant and investors for the offering completed on July 29, 2013[1]
10.32	Form of Warrant issued by the registrant to investors in the offering completed on July 29, 2013[1]
10.33	Ideal Power Converters, Inc. 2013 Equity Incentive Plan[1]
10.34	Warrant issued to MDB Capital Group, LLC (MDB-1) dated November 21, 2012[1]
10.35	Addendum to Warrant issued to MDB Capital Group, LLC (MDB-1) dated July 10, 2013[1]
10.36	Warrant issued to MDB Capital Group, LLC (MDB-2) dated November 21, 2012[1]
10.37	Addendum to Warrant issued to MDB Capital Group, LLC (MDB-2) dated July 10, 2013[1]
10.38	Form of Lock-Up Agreement with MDB Capital Group, LLC (180 Days)[1]
10.39	Form of Lock-Up Agreement with MDB Capital Group, LLC (One Year)[1]
10.40	Offer Letter dated October 15, 2013 to Timothy W. Burns[1]
10.41	Amendment to Promissory Note[1]
10.42	Form of Addendum to Stock Purchase Warrant (Series A)[1]
10.43	Form of Addendum to Stock Purchase Warrant (Series B)[1]
10.44	Separation and Release Agreement between the registrant and Christopher Cobb[1]+
10.45	Separation and Release Agreement (including amendment) between the registrant and Charles De Tarr[2]+
10.46	Employment Agreement between the registrant and Timothy W. Burns[3]+
10.47	Employment Agreement between the registrant and R. Daniel Brdar[4]+
10.48	Non-Qualified Stock Option Award Agreement issued to R. Daniel Brdar[4]+
10.49	Lease Agreement between the Company and Agellan Commercial REIT U.S. L.P. dated March 24, 2014*
31.1	Certification of Principal Executive Officer, pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*

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Exhibit No.	Description of Document
31.2	Certification of Principal Financial and Accounting Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification of Principal Executive Officer and Principal Financial and Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
101.INS**	XBRL Instance Document*
101.SCH**	XBRL Taxonomy Extension Schema*
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase*
101.DEF**	XBRL Taxonomy Extension Definition Linkbase*
101.LAB**	XBRL Taxonomy Extension Label Linkbase*
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase*

* Included herein.

** In accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, except as expressly set forth by specific reference in such filing.

\+ Indicates a contract with management.

(1) Incorporated by reference to the registrant's registration statement on Form S-1, file no. 333-190414, originally filed with the Securities and Exchange Commission on August 6, 2013, as amended.

(2) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 10, 2013.

(3) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 2013.

(4) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 8, 2014.

Exhibit 10.49

Texas Form 2/13

LEASE AGREEMENT

BETWEEN

AGELLAN COMMERCIAL REIT U.S. L.P.,
LANDLORD

and

IDEAL POWER INC.,
TENANT

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DATA SHEET

DATE OF LEASE:	March 24, 2014
LANDLORD:	AGELLAN COMMERCIAL REIT U.S. L.P., a Delaware limited partnership
LANDLORD'S ADDRESS FOR RENT:	Agellan Commercial REIT U.S. L.P. c/o Stream Realty Partners – Austin, L.P. 515 Congress Avenue, Suite 1300 Austin, Texas 78701
TEMANT:	IDEAL POWER INC., a Delaware corporation
PREMISES:	Approximately 14,782 rentable square feet, as designated on Exhibit A, located at 4120 Freidrieh Lane, Suite 100, Austin, Texas, 78744
COMMENCEMENT DATE:	June 1, 2014, as the same may be modified pursuant to the terms of this lease agreement.
EXPIRATION DATE:	May 31, 2018, as the same may be modified pursuant to the terms of this lease agreement.
TERM:	Approximately forty-eight (48) months (together with the partial calendar month in which the Commencement Date occurs in case the Commencement Date is a date other than the first day of a calendar month), beginning on the Commencement Date, and ending on the Expiration Date, unless earlier terminated as provided in the lease agreement, and as may be modified pursuant to the terms of this lease agreement.
BASE RENT:	Base Rent shall be due hereunder as follows:

Period	Monthly Base Rent	Annual Base Rent
Commencement Date – May 31, 2015	$ 12,860.34	$ 154,324.08
June 1, 2015 – May 31,2016	$ 13,155.98	$ 157,871.76
June 1, 2016 – May 31,2017	$ 13,451.62	$ 161,419.44
June 1, 2017 – Expiration Date of Term	$ 13,747.26	$ 164,967.12

USE:	Office/lab
ADDRESSES FOR NOTICES:	Landlord: Agellan Commercial REIT U.S. L.P. c/o Agellan Capital Partners Inc. 156 Front Street West, Suite 303 Toronto, Ontario, CANADA M5J 2L6 Attention: Frank Camenzuli with a copy to Landlord's Managing Agent: Stream Realty Partners Austin – L.P. 515 Congress Avenue, Suite 1300 Austin, Texas 78701 Tenant: Ideal Power Inc. 4120 Freidrich Lane, Suite 100 Austin, Texas 78744
SECURITY DEPOSIT:	$35,840.44 (subject to reduction per the last sentence of Subsection 2(c) below)
BUILDING:	4120 Freidrich Lane, Austin, Texas, the building in which the Premises are located.
PROJECT:	Southpark M
TENANT'S PROPORTIONATE SHARE:	Twenty percent (20%), calculated as a fraction, the numerator of which is 14,782, being the rentable area of the Premises and the denominator of which is 72.550, being the rentable area of the Building.

TENANT'S BROKER: Don Cox Company

The information in this Data Sheet is incorporated in and made a part of this lease agreement.

LEASE AGREEMENT

THIS LEASE AGREEMENT ("Lease") is between Landlord and Tenant as of the Date of Lease.

WITNESETH:

1. Premises and Term. In consideration of the obligation of Tenant to pay Rent (as defined in Paragraph 4(g)), and in consideration of the other terms, provisions and covenants hereof, Landlord hereby leases to Tenant, and Tenant hereby takes from Landlord the Premises designated on the Data Sheet, as shown crosshatched on the plan attached hereto as Exhibit A, which Premises are located in the Building, together with all rights, privileges, easements, appurtenances, and immunities belonging to or in any way pertaining to the Premises.

(a) TO HAVE AND TO HOLD the same for the Term, provided however, that in the event the Commencement Date is a date other than the first day of a calendar month, the Term shall be extended for the number of days required to ensure that the last month of the Term shall always be a full calendar month, notwithstanding that, as a result thereof, number of months in the Term set forth in the Data Sheet shall be increased.

(b) If Tenant begins to conduct business in all or any portion of the Premises before the date set for the Commencement Date on the Data Sheet, the Commencement Date shall be accelerated to be the date Tenant begins to conduct business in all or any portion of the Premises.

(c) Notwithstanding the foregoing, if the Premises shall, on the scheduled Commencement Date of the Term, not be ready for occupancy by the Tenant due to the possession or occupancy thereof by any person not lawfully entitled thereto, or because construction by Landlord has not yet been substantially completed, or by reason of any Building operations, repair or remodeling to be done by Landlord, Landlord shall use good faith efforts to complete such construction, Building operations, repair or remodeling and to deliver possession of the Premises to Tenant. Landlord, using such good faith efforts, shall not in any way be liable for failure to obtain possession of the Premises for Tenant or to timely complete such construction, Building operations, repair or remodeling, but the Rent payable by Tenant under this Lease shall abate until the date Landlord is able to tender possession of the Premises to Tenant, which date shall be deemed the "Commencement Date;" and the Term shall be automatically extended so as to include the full number of months stated on the Data Sheet except that if the Commencement Date is other than the first day of a calendar month, such Term shall also be extended for the remainder of the calendar month in which possession is tendered.

(d) The taking of possession by Tenant shall be deemed conclusively to establish that the Premises (a) are in good and satisfactory condition and (b) consist of the number of rentable square feet stated on the Data Sheet. Upon delivery of the Premises, Tenant shall execute and deliver to Landlord a letter accepting the Premises and confirming the Commencement Date, such letter to be in the form attached hereto as Exhibit C.

2. Base Rent, Late Payment Charges and Security Deposit.

(a) Base Rent. Tenant agrees to pay to Landlord Base Rent for the Premises in equal monthly installments on or before the first day of each calendar month during the Term, in advance, without demand, deduction or set off, for the entire Term in accordance with the Base Rent Schedule on the Data Sheet, except that the monthly installment of Base Rent (and Operating Costs) otherwise due and payable on the Commencement Date shall be due and paid by Tenant on the Date of Lease first set forth above.

(b) Late Charge; Interest. If Tenant fails to pay any installment of Rent, including any amount treated as Additional Rent (as defined in Paragraph 4(g)) of this Lease, or other sums hereunder prior to the date such installment or other charge becomes delinquent pursuant to Paragraph 18, Tenant shall pay to Landlord on demand a late charge of five percent (5%) of the amount of each late installment or other charge to help defray the additional cost to Landlord for processing such late payments, and such late charge shall be Additional Rent. In addition to the foregoing, to the extent Rent is not paid on or before the date the same becomes delinquent pursuant to Paragraph 18, all unpaid Rent shall accrue interest from the first day of each month at a rate which is the lesser of (i) eighteen percent (18%) per annum; or (ii) the highest amount permitted by applicable law and such interest shall constitute Additional Rent and shall be payable with the next installment of Base Rent falling due. The provision for the payment of such late charge and interest shall be in addition to all of Landlord's other rights and remedies hereunder or at law and shall not be construed as liquidated damages or as limiting Landlord's remedies in any manner.

(c) Security Deposit. Tenant agrees to deposit with Landlord on the date hereof, and hereby grants to Landlord a security interest in, the Security Deposit as stated on the Data Sheet, which Security Deposit shall be held by Landlord, without interest, as security for the performance of Tenant's covenants and obligations under this Lease, it being expressly understood and agreed that such deposit is not an advance rental deposit or a measure of Landlord's damages in case of Tenant's default. Upon the occurrence of any Event of Default (as defined below) by Tenant, Landlord may, from time to time, without prejudice to any other remedy provided herein or provided by law, apply such Security Deposit to any arrears of Rent or other payments due Landlord under this Lease, and any other damage, injury, expense or liability caused by such Event of Default without waiving such Event of Default, and Tenant shall pay to Landlord on demand the amount so applied in order to restore the Security Deposit to its original amount. Although the Security Deposit shall be deemed the property of Landlord, subject to the provisions of Paragraph 27(a), any remaining balance of such Security Deposit shall be returned by Landlord to Tenant within thirty (30) days after all of Tenant's obligations under this Lease have been fulfilled following the termination of this Lease. Provided that Tenant is not in default of any of its obligations on the last day of the eighteenth (18^{th}) full calendar month of the Term of this Lease, Landlord shall return a portion of the Security Deposit equal to $17,920.00 to Tenant within fifteen (15) days following the expiration of said 18^{th} full calendar month of this Lease.

3. Use. The Premises shall be used only for the Use stated on the Data Sheet and for such other lawful purposes as may be incidental thereto. Outside storage, including without limitation, trucks and other vehicles, garbage containers and outdoor furniture are prohibited without Landlord's prior written consent. Tenant shall, at its own cost and expense, obtain any and all licenses and permits necessary for Tenant's Use. Tenant shall comply with all governmental laws, ordinances and regulations applicable to the Use of the Premises, and shall promptly comply with all governmental orders and directives for the correction, prevention and abatement of nuisance in or upon, or connected with, the Premises, all at Tenant's sole expense. Tenant shall not receive, store or otherwise handle on the Premises any product, material or merchandise which is explosive or highly flammable. Tenant will not permit the Premises to be used for any purpose or in any manner (including without limitation any method of storage) which would render the insurance on the Building or the Project void or the insurance risk more hazardous or cause the State Board of Insurance or other insurance authority to disallow any sprinkler credits. If any increase in the fire and extended coverage insurance premiums paid by Landlord for the Building or the Project is caused by Tenant's use and occupancy of the Premises, then Tenant shall pay to Landlord the amount of such increase, upon demand, as Additional Rent.

4. Operating Costs; Additional Rent.

(a) Operating Costs. Commencing upon the Commencement Date and continuing for the entire Term, Tenant shall pay to Landlord, without demand, deduction or setoff, Tenant's proportionate share of Operating Costs, as defined below, calculated on the basis of Tenant's Proportionate Share stated on the Data Sheet, it being understood and agreed that Landlord, in its sole and absolute discretion, will have the right to determine whether any particular or specific item of Operating Costs shall be payable based on Tenant's proportionate share of Operating Costs for the Building.

As used in this Lease, the term "Operating Costs" shall mean any and all expenses, costs and disbursements of any kind and nature whatsoever incurred by Landlord in connection with the ownership, management, maintenance, operation and repair of the Building which Landlord shall pay or become obligated to pay in respect of a calendar year (regardless of when such Operating Costs were incurred). Operating Costs shall include, without limitation, the costs of maintenance, repairs, and replacements to the Building, including, downspouts, gutters, painting, sprinkler systems, roof and walls; the costs of maintaining and repairing parking lots, parking structures and easements; property management fees, salaries, fringe benefits and related costs payable to employees of Landlord's Managing Agent whose duties are connected with the Building; insurance costs, including, without limitation, Landlord's insurance costs as described in Paragraph 14(a) below, all heating and air conditioning costs, electricity, sewer and water and other utility costs not separately metered to tenants, landscape maintenance, trash and snow removal, Taxes, as defined in Paragraph 4(f), and costs and expenses incurred by Landlord in protesting any assessments, levies or the tax rate, provided, however, that Operating Costs shall not include the following: (i) costs of alterations of any tenant's premises, including the Premises; (ii) costs of curing construction defects to the base Building; (iii) depreciation; (iv) interest and principal payments on mortgages, and other debt costs; (v) real estate brokers' leasing commissions or compensation; (vi) any cost or expenditure (or portion thereof) for which Landlord is reimbursed, whether by insurance proceeds or otherwise; and (vii) cost of any service furnished to any other occupant of the Building which Landlord does not provide to Tenant hereunder. Notwithstanding anything contained herein to the contrary, the cost of capital improvements to the Building shall be included in Operating Costs only to the extent of the monthly amortization of the capital improvement cost. The monthly amortization of any given capital improvement cost shall be the sum of the (i) quotient obtained by dividing the cost of the capital improvement by Landlord's estimate of the number of months of useful life of such improvement plus (ii) an amount equal to the cost of the capital improvement times 1/12 of the lesser of 12% or the maximum annual interest rate permitted by law.

(b) Estimated Operating Costs. Promptly after the commencement of this Lease and during January of each year or as soon thereafter as practicable. Landlord shall give Tenant written notice of its estimate of amounts payable under Paragraph 4(a) for such calendar year. On or before the first day of each month thereafter, Tenant shall pay to Landlord one/twelfth (1/12th) of such estimated amounts, provided that if such notice is not given in January, Tenant shall continue to pay on the basis of the prior year's estimate until the first day of the month after the month in which such notice is given, at which time, in addition to paying the first installment of the estimated amount provided by Landlord for such year, Tenant shall also pay the difference, if any, between the current year's estimate and the previous year's estimate for the period from January 1 of such year through the last day of the month in which the notice was given. If at any time it appears to Landlord that the amounts payable under Paragraph 4(a) for the then current calendar year will vary from its estimate by more than five percent (5%), Landlord may, by written notice to Tenant, revise its estimate for such year, and subsequent payments by Tenant for such year shall be based upon such revised estimate.

Within ninety (90) days after the end of each calendar year or as soon thereafter as practicable, Landlord shall deliver to Tenant a summary of the total Operating Costs for the previous calendar year and Tenant's proportionate share thereof which shall be based upon Tenant's Proportionate Share for the Building, as applicable, as stated in the Data Sheet. If such summary shows an amount due from Tenant that is less than the estimated payments previously paid by Tenant (the "Excess Amount"), Landlord shall, at Landlord's election, either pay to Tenant the Excess Amount or credit the Excess Amount against Operating Costs next falling due hereunder until the Excess Amount is exhausted; provided however, that if the summary shows an Excess Amount for the year in which this Lease expired, the summary shall be accompanied by a refund of the Excess Amount to Tenant. If such summary shows an amount due from Tenant that is more than the estimated payments previously paid by Tenant, Tenant shall pay the deficiency to Landlord, as Additional Rent, within thirty (30) days after delivery of the summary.

Notwithstanding the foregoing, if Landlord shall at any time and from time to time reasonably determine that Tenant's use of any utility, material or service provided, directly or indirectly, by Landlord is disproportionate to the use of other tenants or to Tenant's Proportionate Share thereof. Landlord may adjust Tenant's share of the cost thereof from a date reasonably determined by Landlord to take equitable account of the disproportionate use.

(c) Right to Audit. Tenant or its representatives, at their sole cost and expense, shall have the right to examine Landlord's books and records of Operating Costs during normal business hours at Landlord's property manager's office, currently located in Austin, Texas, within thirty (30) days following the furnishing of the summary to Tenant. If Tenant takes exception to any item, Tenant shall deliver written notice specifying the exception in adequate detail to Landlord not later than the fortieth day following the furnishing of the summary to Tenant. Unless Tenant so notifies Landlord of any such exception within forty (40) days following the furnishing of the summary to Tenant (which item shall be paid in any event), such summary shall be considered as final and accepted by Tenant. Landlord and Tenant will attempt to negotiate a resolution of such item(s) for ten (10) days after Landlord's receipt of the written exception notice which is timely delivered. If the parties are not able to come to a resolution, then Landlord shall, acting in good faith, choose a person reasonably acceptable to Tenant, experienced in commercial real estate, knowledgeable about commercial real estate operating expenses regarding industrial properties, inclusive of mixed use office/lab properties in the Austin, Texas market and unrelated to any of Landlord, Tenant, Landlord's property manager or Tenant's Broker and shall refer the matter to such person (the "Operating Cost Expert"), who shall be deemed to be acting as an expert and not as an arbitrator or appraiser. The Operating Cost Expert shall make a determination of as to the correctness of the item(s) to which Tenant took exception as expeditiously as possible, but in no event later than thirty (30) days after referral of the matter to him or her, which determination shall be conclusive and binding on the parties. Any adjustment required as a result of the determination of the Operating Cost Expert shall be made within thirty (30) days after the Operating Cost Expert provides its determination. The party required to make payment pursuant to the decision of the Operating Cost Expert shall pay the costs of the Operating Cost Expert; provided however, if there is a net downward adjustment in Operating Costs required by the Operating Cost Expert's determination which is greater than five percent (5%) of the Operating Costs included in Landlord's summary to Tenant, Landlord shall pay the cost of the Operating Cost Expert; in all other instances, Tenant shall pay the Operating Cost Expert.

(d) Accrual Accounting. If Landlord selects the accrual accounting method rather than the cash accounting method for operating expense purposes, Operating Costs shall be deemed to have been paid when such expenses have accrued.

(e) Taxes.

(i) Landlord agrees to pay before they become delinquent all taxes, including, without limitation any so-called "margin tax'' payable by Landlord on Landlord's income, installments of special assessments and governmental charges of any kind and nature whatsoever, (herein collectively referred to as "Taxes'') lawfully due and payable by Landlord. In addition. Tenant shall be liable for all taxes levied or assessed against personal property, furniture or fixtures placed by Tenant in the Premises. If any such taxes for which Tenant is liable are levied or assessed against Landlord or Landlord's property and if Landlord elects to pay the same or if the assessed value of Landlord's property is increased by inclusion of personal property, furniture or fixtures placed by Tenant in the Premises, and Landlord elects to pay the taxes based on such increase, Tenant shall pay to Landlord upon demand that part of such taxes.

(ii) Tenant may deliver to the Landlord a written request that Landlord protest ad valorem taxes. Landlord, following such request or at any time during the term of this Lease, may elect to protest ad valorem taxes; provided, such election will be made in Landlord's sole and absolute discretion; it being acknowledged that Landlord may determine that it will not protest any ad valorem taxes without liability to Tenant therefor. In the event Landlord elects not to protest ad valorem taxes following a request from Tenant, Landlord will provide Tenant an explanation of the reasons why Landlord is electing not to protest taxes.

(f) Change in Method of Taxation. If at any time during the Term, the present method of taxation shall be changed so that in lieu of the whole or any pan of any Taxes (including personal property taxes described in Paragraph 4(c) hereof), assessments or governmental charges levied, assessed or imposed on real estate and the improvements thereon, there shall be levied, assessed or imposed on Landlord a capital levy or other tax directly on the Rent or any portion thereof and/or a franchise tax, assessment, levy or charge measured by or based, in whole or in part, upon such Rent or any portion thereof for the present or any future building or buildings on the Property, or any so-called "'margin tax" on Landlord's income, then all such taxes, assessments, levies or charges, or the part thereof so measured or based, shall be deemed to be included within the term "Taxes" for the purposes hereof.

(g) Definition of "Rent". Any amounts in addition to Base Rent and Operating Costs, chargebacks for work performed by Landlord for the benefit of Tenant, if any, and other costs payable by Tenant to Landlord hereunder, if any, (collectively the "Additional Rent") shall be an obligation of Tenant hereunder and all such Additional Rent shall be due and payable upon demand. Base Rent, Operating Costs and Additional Rent may be referred to collectively as "Rent."

5. Landlord's Responsibilities. Except for reasonable wear and tear and any casualty against which Tenant was obligated to insure under this Lease, and subject to Landlord's right of reimbursement from Tenant through Tenant's payment of its Proportionate Share of Operating Costs or otherwise, Landlord shall maintain in good condition and working order, reasonable wear and tear and casualty excepted, the parking lot and sidewalks, including snow removal for sidewalks and the parking lot (provided, however, that Tenant shall be responsible for snow and ice removal from sidewalks located in front of and immediately adjacent to all entrances to the Premises); the foundation, exterior walls and other load bearing walls and roof of the Building and the landscaping around the Building. Tenant shall immediately give Landlord written notice of any defect or need for repairs. Landlord's liability with respect to any defeats, repairs or maintenance for which Landlord is responsible under any of the provisions of this Lease shall be limited to the cost of such repairs or maintenance or the curing of such defect. The term "exterior walls" as used in this Lease shall not include windows, glass or plate glass, doors, special store fronts or office entries.

6. Tenant's Responsibilities.

(a) Maintenance of Premises. Tenant shall, at its own cost and expense, keep and maintain all parts of the Premises (except to the extent Landlord is expressly responsible therefor as provided in Paragraph 5) in good condition, promptly making all necessary repairs and replacements, including but not limited to, windows, glass and plate glass, doors, any special entry, interior walls and finish work, floors and floor covering, heating and air conditioning systems, electrical systems, dock boards, truck doors, dock bumpers, dock seals, plumbing work and fixtures, termite and pest extermination, regular removal of trash and debris and keeping the parking areas, driveways, alleys and the whole of the Premises in a clean and sanitary condition, and Tenant shall comply with the ADA. Tenant shall not be obligated to repair any damage caused by fire, tornado or other casualty covered by the insurance to be maintained by Landlord pursuant to Paragraph 12(a), except that Tenant shall be obligated to repair all wind damage to glass unless caused by a tornado. Notwithstanding the foregoing to the contrary, in the event any window is defective on the date possession of the Premises is delivered to Tenant, Tenant shall not have the obligation to replace such window to the extent replacement is required by reason of that pre-existing defect; provided, all windows in the Premises shall be deemed in good condition (i.e., not defective), except to the extent that Tenant delivers to Landlord written notice within five (5) days following the Commencement Date specifically describing which windows and components thereof are defective as of the Commencement Date. Notwithstanding the foregoing, Tenant shall be and remain responsible for any replacement of windows required or arising directly or indirectly by reason of any negligent act or misuse of such windows by Tenant, its agents, employees, contractors, customers or invites.

(b) Damage to Demising Walls. Tenant shall not damage any demising wall or disturb the integrity and support provided by any demising wall and shall, at its sole cost and expense, promptly repair any damage or injury to any demising wall caused by Tenant or its employees, agents or invitees.

(c) Parking. Tenant and its employees, customers and licensees shall have the nonexclusive right to use, in common with the other parties occupying the Building, common parking areas, if any (exclusive of any parking or work load areas designated or to be designated by Landlord for the exclusive use of Tenant or other tenants occupying or to be occupying other portions of the Building), driveways and alleys adjacent to the Building, subject to such reasonable rules and regulations as Landlord may from time to time prescribe. Tenant shall be allocated its proportionate share of the Building's parking which is estimated at 4 spaces for every 1,000 square feet of rentable space

(d) Preventive Maintenance. Tenant shall, at its own cost and expense, enter into a regularly scheduled preventive maintenance/service contract with a maintenance contractor for servicing all hot water, heating and air conditioning systems and equipment serving the Premises. The maintenance contractor and the contract must be approved by Landlord. The service contract must include all services suggested by the equipment manufacturer in the operation/maintenance manual and must become effective (and a copy thereof delivered to Landlord) within thirty (30) days after the date Tenant takes possession of the Premises. Notwithstanding the foregoing to the contrary and not in limitation of other rights of Landlord under this Lease, Landlord may, by delivery of notice to Tenant at any time and from time to time, elect to administer either or both of the maintenance of the aforesaid hot water and HVAC systems and equipment serving the Premises, the cost of which shall remain Tenant's responsibility, payable as Additional Rent within thirty (30) days following receipt of an invoice therefor from Landlord.

(e) Security Measures.

(i) Tenant acknowledges and agrees that the Building is an industrial building, and, accordingly, the level of security services, if any, provided by Landlord are only those commonly provided for industrial buildings. Specifically, and without limitation of the foregoing, Landlord does not provide, and the Rent payable hereunder does not include, the cost of a guard service, an alarm service or other security measures.

(ii) Notwithstanding the foregoing, to the extent Landlord provides any security measures at any time, such security measures are not intended to be and shall not be treated as a guaranty against crime, property damage, personal or bodily injury or death. Landlord does not make, and Tenant hereby waives any right to make a claim that Landlord has made any guaranty or warranty, express or implied, with respect to security at the Building or the Project or, if any security measures exist, that the same will prevent the occurrence of and/or the consequences of criminal or other unlawful activity. Without limiting the generality of the foregoing, it is the intent of this Lease that Tenant assume full and complete responsibility for claims, actions, judgments, damages, costs and expenses, including, without limitation, attorneys' fees through all appellate levels, arising from or related to bodily injury, personal injury, property damage or death occurring on or about the Premises from any cause whatsoever, including, without limitation, loss to or of Tenant's personal property after a casualty and/or criminal activity (and including, without limitation, such claims for which Landlord may be, or may be argued to be, liable).

(iii) The parties agree that Landlord shall not be liable to Tenant for any injury, damage or loss from any cause whatsoever which is caused (A) in whole or in part arising from any problem, defect, malfunction or failure of any security measure (if any is provided); or (B) by criminal activity.

(iv) Tenant assumes full responsibility for protecting the Premises and Tenant's employees, licensees, invitees and personal property and from, among other things, theft, robbery, and pilferage, taking such measures as Tenant determines are necessary or desirable.

(f) Costs Payable by Tenant. Upon demand by Landlord. Tenant shall pay, as Additional Rent, the cost and expense of repairing any damage to the Premises resulting from and/or caused in whole or in part by the negligence or misconduct of Tenant, its agents, servants, employees, contractors, patrons, customers, or any other person entering upon the property as a result of Tenant's business activities or caused by Tenant's default hereunder to the extent the cost of repairing such damage is not reimbursed by the insurance to be maintained by Landlord under Paragraph 12(a).

7. Alterations; Condition of Premises Upon Expiration. Tenant shall not make any alterations, additions or improvements to the Premises (including but not limited to roof and wall penetrations) without the prior written consent of Landlord, which shall not be unreasonably withheld; provided Landlord may grant or withhold its approval to any alteration, addition or improvement that involves any wall or roof penetration or which may impact the roof, any building system or any structural component of the Building, in Landlord's sole discretion. Tenant may, without the consent of Landlord, but at its own cost and expense and in a good workmanlike manner creet such shelves, bins, machinery and trade fixtures as it may deem advisable; provided they do not affect (a) any Building system or the structural components of the Building, including the roof, (b) the Basic character of the Building, or (e) overload or damage the Building, and in each case complying with all applicable laws, ordinances, regulations and other requirements. Prior to commencing any such alterations, additions or improvements Tenant shall provide such assurances to Landlord, including, without limitation, waivers of lien, surety company performance and payment bonds and/or personal guaranties of persons of substance, as Landlord shall require to assure payment of the costs thereof and to protect Landlord against any loss from mechanics', laborers', materialmen's or other liens. All alterations, additions, installations, improvements and partitions erected by Tenant, including, without limitation, all telephone and data communications cabling ("Cabling"), shall be and remain the property of Tenant during the Term and Tenant shall, unless Landlord otherwise elects as provided below, remove all alterations, additions, installations, improvements and partitions, including, without limitation, the Cabling, erected or installed by Tenant and put the Premises in the condition required by the terms of Exhibit D by the earliest of (a) the Expiration Date, (b) the date of termination of this Lease prior to the Expiration Date or (c) the vacating of the Premises without termination of this Lease (said earliest date may be referred to as the "Restoration Date"); provided, however, that if Landlord so elects, in writing, prior to the Restoration Date, such alterations, additions, installations, improvements, partitions and Cabling (other than trade fixtures and personal property of Tenant) shall become the property of Landlord as of the Restoration Date and shall be delivered to the Landlord with the Premises (excepting the Solar Panels under paragraph 33). All shelves, bins, machinery and trade fixtures installed by Tenant shall be removed by Tenant by the Restoration Date if required by Landlord, and upon any such removal Tenant shall restore the Premises to their original condition. All such removals and restoration shall be accomplished in a good and workmanlike manner and shall not damage the primary structural qualities of the Building.

8. Signs/Window Coverings. All signage visible from the exterior of the Premises shall, at all times, be subject to Landlord's prior written approval. Tenant shall not, without the prior written consent of Landlord, install or affix any window coverings, draperies, signs, window or door lettering or advertising media of any type on the Building or in or on the Premises which are visible from the exterior of the Building. Tenant shall remove any permitted signs and window coverings, but not blinds, not later than the Restoration Date. Any such installations and removals shall be made in such manner as to avoid injury or defacement of the Building and other improvements, and Tenant shall repair any injury or defacement, including, without limitation, discoloration caused by such installation and/or removal.

9. Inspection. Upon one (1) business days' prior written notice to Tenant (except the event of an emergency, in which case no such notice will be required) Landlord and Landlord's agents and representatives shall have the right to enter and inspect the Premises at any reasonable time for the purpose of ascertaining the condition of the Premises or in order to make such repairs and perform such actions as may be required or permitted to be made by Landlord under the terms of this Lease. Landlord and Landlord's agents and representatives shall have the right to enter the Premises at any reasonable time, upon one (1) business days' prior written notice to Tenant, for the purpose of showing the Premises and, during the period that is six (6) months prior to the end of the Term, Landlord and Landlord's agents shall have the right to erect a sign on the Premises indicating the Premises are available for lease.

10. Utilities. Tenant shall pay for all water, gas, heat, light, power, telephone, sewer and sprinkler charges and other utilities and services separately metered for the Premises, together with any taxes, penalties, surcharges or the like pertaining thereto and shall furnish and install all replacement electric light bulbs and tubes. Landlord shall not be liable for any interruption or failure of utility services, communications or data services serving the Building or the Premises arising from any cause whatsoever.

11. Assignment and Subletting.

(a) Assignment and Subletting. Tenant shall not have the right to assign or pledge this Lease or to sublet the whole or any part of the Premises, whether voluntarily or by operation of law, or permit the use or occupancy of the Premises by anyone other than Tenant, without the prior written consent of Landlord, and such restrictions shall be binding upon any assignee or subtenant to which Landlord has consented. The foregoing prohibition includes, without limitation, any subletting or assignment which would otherwise occur by merger, consolidation, reorganization, transfer or other change in Tenant's corporate, partnership or proprietary structure, subject to the terms of Subsection 11(e) below. Notwithstanding any permitted assignment or subletting, Tenant shall at all times remain directly, primarily and fully responsible and liable for the payment of the Rent and for compliance with all of its other obligations under the terms, provisions and covenants of this Lease. Upon the occurrence of an Event of Default, if the Premises or any part thereof are then assigned or sublet, Landlord, in addition to any other remedies herein provided or provided by law, may, at its option, collect directly from any assignee or subtenant all amounts due and becoming due to Tenant under such assignment or sublease and apply such amounts against any sums due to Landlord from Tenant hereunder, and no such collection shall be construed to constitute a novation or release of Tenant from the further performance of Tenant's obligations hereunder. Landlord's acceptance of any Rent following any assignment or other transfer prohibited by this Paragraph 11 shall not be deemed to be a consent by Landlord to such assignment or other transfer (including, without limitation, a prohibited sublease) nor shall the same be deemed a waiver of any right or remedy of Landlord hereunder for breach of this Paragraph 11.

If Landlord grants its consent to any sublease or assignment, Tenant shall pay Landlord, as Additional Rent (a) fifty percent (50%) of amounts payable by the subtenant or assignee to Tenant which are in excess of the Base Rent Operating Costs and Additional Rent payable by Tenant to Landlord under this Lease; and (b) Landlord's attorneys' fees incurred with respect to such assignment or sublease. In addition, if Tenant has any options to extend or renew the Term, such options shall not be available to any subtenant or assignee, directly or indirectly. If Tenant assigns this Lease or sublets all or a portion of the Premises without first obtaining Landlord's consent, as required by this Paragraph 11(a), said assignment or sublease shall be null and void and of no force or effect. Landlord's consent to an assignment sublease or other transfer of any interest of Tenant in this Lease or in the Premises shall not be deemed to be a consent to any subsequent assignment, transfer, use or occupation.

(b) Right of Recapture. In addition, but not in limitation of, Landlord's right to approve of any subtenant or assignee, Landlord shall have the option, in its sole discretion, in the event of any proposed subletting or assignment, to terminate this Lease, or in the case of a proposed subletting of less than the entire Premises, to recapture the portion of the Premises to be sublet, as of the date the subletting or assignment is to be effective. The option shall be exercised, if at all, by Landlord giving Tenant written notice thereof within twenty (20) days following Landlord's receipt of Tenant's written notice as required above. If this Lease shall be terminated with respect to the entire Premises pursuant to this subparagraph, the Term shall end on the date stated in Tenant's notice as the effective date of the sublease or assignment as if that date had been the Expiration Date. If Landlord recaptures only a portion of the Premises under this subparagraph, the Base Rent during the remainder of the Term shall abate proportionately based on the Base Rent payable hereunder as of the date immediately prior to such recapture.

(c) Permitted Transfers. Provided there is no then existing default by Tenant under this Lease or Event of Default outstanding, and notwithstanding the prohibition described in Subsection 11(a) above, Tenant shall have the right to (A) assign this Lease to an Affiliate (defined below) of Tenant; or (B) assign this Lease to a third party which acquires all or the majority of the ownership interests in Tenant, whether by merger, consolidation or otherwise (a "Merger Entity"); or (C) assign this Lease to a third party which acquires all or substantially all of the assets of Tenant (an "Asset Purchaser"); in each case, subject to and upon, Tenant's compliance with the following conditions;

(i) Tenant shall notify Landlord, in writing (the "Transfer Notice"), of such proposed assignment within thirty (30) days, but not less than ten (10) days, prior to the date of such assignment and provides therewith copies of the proposed assignment documents, which notice from Tenant to Landlord may include a requirement that the proposed transfer be kept confidential *by* Landlord, in which case Landlord shall, unless and until it otherwise becomes public information or the assignment is completed, whichever occurs first, keep such information confidential and not disclose it to any person except Landlord's attorneys, employees, lenders, tax and financial advisors (with regard to each of which Landlord will use commercially reasonable efforts to require they likewise keep the information confidential), courts of competent jurisdiction and as otherwise may be required by law;

(ii) The Affiliate, the Merger Entity or the Asset Purchaser, as the case may be, shall execute and deliver to Landlord on or before the date of the proposed assignment an instrument in form prepared by Landlord, whereby the Affiliate, the Merger Entity or the Asset Purchaser, as the case may be, assumes and agrees to perform this Lease and all of Tenant's obligations hereunder; and

(iii) If the assignment is to:

(A) an Affiliate of Tenant, Tenant shall deliver to Landlord prior to the effective date of such assignment, and in form prepared by Landlord, (i) a guaranty of Tenant's obligations under the Lease by the ultimate parent entity of Tenant and the assignee or by Tenant if the Tenant is the ultimate parent entity of the Affiliate, as the case may be, and (ii) an amendment to this Lease providing that the insolvency, bankruptcy or dissolution of such guarantor and a breach by such guarantor of its obligations under the guaranty shall each be an additional Event of Default under this Lease; or

(B) an Asset Purchaser or to a Merger Entity, Tenant shall provide, simultaneously with the delivery of the Transfer Notice, financial statements reasonably satisfactory to Landlord which show that the Asset Purchaser or Merger Entity, as applicable, immediately after completion of the asset purchase/sale transaction or merger or consolidation, as the case may be, will have a net worth equal to or greater than Thirty Million Dollars ($30,000,000.00).

Whether or not the proposed assignment is approved or effected, and notwithstanding any term of this Lease to the contrary, Tenant shall reimburse Landlord, as additional rent upon demand therefor, for all out-of-pocket costs and expenses, including reasonable attorneys' fees, incurred by Landlord in connection with this Subsection 11 (c).

For the purposes of this Lease, the term "Affiliate" shall mean with respect to a party, any person or entity that controls, is controlled by or is under common control with such party, with "control" and its derivatives meaning (I) an entity that controls, is controlled by, or is under common control with Tenant; or (II) any partnership in which Tenant's transferee is the general partner; or (III) any fund or entity in which Tenant's transferee has an ownership interest allowing such transferee to control such entity. For the purposes of this Lease, "control" and its derivatives shall mean the ability, directly or indirectly to direct or cause the direction of the management and policies of a person or entity, whether by percentage interest, voting securities, contract or otherwise

12. Fire and Casualty Damage.

(a) Notice of Casualty. If the Building should be damaged or destroyed by fire, tornado or other casualty, Tenant shall give immediate oral and written notice thereof to Landlord's Managing Agent.

(b) Termination of Lease. If the Premises or the Building should be damaged to such an extent that substantial alteration or reconstruction of the Premises or the Building is, in Landlord's sole opinion, required (whether or not the Premises are damaged), Landlord may, at its sole option, terminate this Lease upon written notice to Tenant within 75 days of the date of damage. If Landlord does not terminate this Lease under this Subparagraph 12(b), Landlord shall deliver to Tenant a non-binding estimate of the time needed to repair and restore the Premises or the Building within 90 days after the date of the damage. If Landlord's estimate states that repair and restoration will not be completed within 180 days after the date of the damage, Tenant may terminate this Lease by giving Landlord notice of termination within ten (10) business days after the date Tenant receives Landlord's estimate. Tenant's termination rights under this Subparagraph 12(b) shall not apply if the damage to the Premises or Building is the result of any act or omission of Tenant or of any of Tenant's agents, employees, customers, invitees or contractors ("Tenant Acts'"). Any damage resulting from a Tenant Act shall be promptly repaired by Tenant. Landlord, at its option, may, at Tenant's expense, repair any damage caused by Tenant Acts. Tenant shall continue to pay all rent and other sums due hereunder and shall be liable to Landlord for all damages that Landlord may sustain resulting from a Tenant Act, notwithstanding any term of this Lease to the contrary.

(c) Repair of Premises. If neither party terminates this Lease, Landlord shall, at its sole cost and expense, proceed with reasonable diligence to rebuild and repair the Building to substantially the condition in which it existed prior to such damage, except that Landlord shall not be required to rebuild, repair or replace any part of the partitions, fixtures, additions and other improvements which may have been placed in, on or about the Premises by Tenant. If the Premises are untenantable in whole or in part following such damage, Base Rent and Operating Costs payable hereunder during the period in which the Premises are untenantable shall be reduced to such extent as may be fair and reasonable under all of the circumstances.

(d) Application of Proceeds. Notwithstanding anything herein to the contrary, in the event the holder of any indebtedness secured by a mortgage or deed of trust covering the Premises or the Building requires that the insurance proceeds be applied to such indebtedness, the Landlord shall have the right to terminate this Lease by delivering written notice of termination to Tenant within fifteen (15) days after such requirement is made by any such holder, whereupon all rights and obligations of the parties to each other under this Lease shall cease and terminate.

(e) Removal of Personal Property. In the event of any damage to the Building or the Premises by any peril contemplated by this Paragraph 12, Tenant shall, promptly after the occurrence of such damage and at its sole cost and expense, remove from the Premises any personal property on the Premises belonging to any of Tenant, its agents, employees, contractors, licensees or invitees. Tenant hereby indemnifies, holds harmless and agrees to defend Landlord from any loss, liability, damage, judgment, cost or expense, including attorneys' fees through all appellate levels arising out of any claim of damage or injury by any of Tenant, its agents, employees, contractors, licensees or invitees as to itself or themselves or their respective properties arising as a result of the removal or failure to remove such personal property. Landlord and Tenant agree that Landlord shall have no obligation to secure the Building or the Premises in the event of a casualty and that the risk of loss, by destruction, theft or otherwise, to the personal property of Tenant, its agents, employees, contractors, licensees or invitees shall be borne, as between Landlord and Tenant, entirely by Tenant.

13. Indemnification, Waiver and Release.

(a) Indemnification. Tenant shall indemnify, defend, and hold Landlord harmless from and against any and all demands, claims, actions, proceedings, suits, judgments, damages, costs and expenses (including attorneys' fees and costs through all appellate levels) resulting from claims made by third parties arising from any cause whatsoever in connection with an occurrence in the Premises or otherwise arising from Tenant's use or occupancy of the Premises, including but not limited to those arising in connection with the Generator Complex referenced herein below. Subject to the foregoing sentence, Landlord shall indemnify, defend, and hold Tenant harmless from and against any and all demands, claims, actions, proceedings, suits, judgments, damages, costs and expenses Including attorneys' fees through all appellate levels) resulting from claims made by third parties arising from any cause whatsoever in connection with an occurrence in the common areas of the Building. A party's obligations under this provision shall only apply to the extent that party is provided with prompt notice of the claim, and is accorded the opportunity to handle the defense and settlement of such claim. An indemnitor shall not enter into any settlement of a claim that involves any payment by an indemnitee without the prior written consent of such indemnitee. Any indemnitee shall have the right to associate in the defense of any claim at its own expense.

(b) Waiver and Release.

(i) Tenant, for itself and for anyone claiming through or under it by way of subrogation or otherwise, hereby

(A) waives any claims against Landlord, its directors, officers, shareholders, employees, agents and contractors (the "Landlord Related Parties") relating to; and

(B) releases Landlord and the Landlord Related Parties from, any loss of or damage to any property interest or property of Tenant or any party claiming by or through Tenant and located in on or about the Premises, the Building due to any cause whatsoever, including, without limitation, the negligence of Landlord or the Landlord Related Parties. The foregoing release and waiver includes, without limitation:

(X) all personal property of Tenant including, without limitation, goods, equipment, inventory, fixtures installed in the Premises by Tenant and trade fixtures; and

(Y) any loss or damage associated with the loss of use of any such property, or of the Premises, and Tenant assumes all risks of loss of or damage to such property or property interest; provided, the waiver and assumption contemplated by this sentence shall apply only to the extent covered by insurance in place or required to be maintained by the terms of this Lease.

(ii) Landlord, for itself and for anyone claiming through or under it by way of subrogation or otherwise, hereby

(A) waives any claims against Tenant, its directors, officers, shareholders, employees, agents and contractors (the "Tenant Related Parties") relating to; and

(B) releases Tenant and the Tenant Related Parties from,

any loss of or damage to any property interest or property of Landlord or any party claiming by or through Landlord and located in on or about the Building due to any cause whatsoever, including, without limitation, the negligence of Tenant or the Tenant Related Parties The foregoing release and waiver includes, without limitation:

(X) all personal property of Landlord including, without limitation, goods, equipment, inventory, fixtures installed in the Building by Landlord and trade fixtures; and

(Y) any loss or damage associated with the loss of use of any such property, or of the Building, and Landlord assumes all risks of loss of or damage to such property or property interest; provided, the waiver and assumption contemplated by this sentence shall apply only to the extent covered by insurance in place or required to be maintained hy the terms of this Lease.

14. Insurance.

(a) Landlord's Insurance. Landlord shall maintain in effect at all times during the Term a policy or policies of insurance insuring the Building against loss or damage by Fire, explosion or other insurable hazards and contingencies for the full replacement value, and shall also carry such other insurance, including, without limitation, liability insurance, as it deems necessary or prudent or as required by Landlord's lender from time to time. Landlord shall not insure any personal property of Tenant or any additional improvements which Tenant may construct or install on the Premises. Subject to the provisions of Paragraphs 12(b), 12(c) and 12(d), such insurance shall be for the sole benefit of Landlord and under its sole control.

(b) Tenant's Insurance.

(i) Tenant shall, at its sole cost and expense, maintain in effect at all times during the Term a commercial general liability insurance policy, on an "occurrence" rather than on a "claims made" basis, with a total combined policy limit of at least $2,000,000.00. The policy shall include, but not be limited to, coverages for Bodily Injury, Property Damage, Personal Injury and Contractual Liability (applying to this Lease), or an equivalent form (or forms) affording coverage at least as broad. Landlord and Landlord's Managing Agent, property manager and lender shall be named as Additional Insureds under the policy.

(ii) Tenant shall, at its sole cost and expense, maintain in effect at all times during the Term, a policy or polices of insurance covering all of Tenant's improvements, fixtures, inventory and other personal property in the Premises against loss by fire and other hazards covered by an "all-risk" form of policy, in an amount equal to the full replacement cost thereof, without deduction for physical depreciation. Such insurance shall include Valuable papers and Records coverage providing for the Reproduction Costs measure of recovery and coverage for damage to Electronic Data Processing Equipment and Media, including coverage of the perils of mechanical breakdown and electronic disturbance.

(iii) Tenant shall, at its sole cost and expense, maintain in effect at all times during the Term, a policy of insurance covering business interruption for a period of at least 365 days.

(iv) If the use of the Premises by Tenant increases the premium rate for insurance carried by Landlord on the Building, Tenant shall pay Landlord, upon demand, as Additional Rent, the amount of such premium increase.

(v) Tenant, upon actual knowledge or receipt of written notice by Landlord, shall not carry any stock of goods, inventory, or Hazardous Substances (as defined in this Lease) or do anything in or about the Premises which will in any way impair or invalidate the obligation of the insurer under any policy of insurance required by this Lease.

(vi) Insurance policies required by this Paragraph 14(b) shall be in a form reasonably acceptable to Landlord, with an insurer or insurers having a Best rating of A-,X or better and qualified to do business in the State of Texas, and shall require at least thirty (30) days prior written notice to Landlord (and, if requested by Landlord, Landlord's mortgagee(s)), of termination, cancellation, non-renewal or material alteration. The liability insurance under subparagraph 14(b)(i) shall be primary with respect to Landlord and its agents and not participating with any other available insurance.

Prior to the Commencement Date, on each anniversary of the Commencement Date and at such other times as Landlord may request, Tenant shall deliver to Landlord a certificate evidencing such policies, or other evidence reasonably satisfactory to Landlord, confirming (A) the terms of the insurance, (B) that the premiums have been paid at least one (1) year in advance, and (C) that the policies are in full force and effect. If Tenant has a blanket insurance policy providing coverage for several properties of Tenant, including the Premises, Landlord will accept a certificate of such insurance, provided:

(1) the certificate states the amounts of insurance and types of coverage:
(2) the amounts are at least equal to the amounts that would be required in this Lease: and
(3) the policy complies with the other requirements in this Lease.

(a) Total Taking. If the whole or any substantial part of the Building is taken for any public or quasi-public use under governmental law, ordinance or regulation, or by right of eminent domain, or by private purchase in lieu thereof and the taking would prevent or materially interfere with the use of the Premises or the Building for the purpose of which they are being used, this Lease shall terminate and the Base Rent and Operating Costs shall be abated during the unexpired portion of this Lease effective when the physical taking of the Property shall occur.

(b) Partial Taking. If part of the Premises shall be taken for any public or quasi-public use under any governmental law, ordinance or regulation, or by right of eminent domain, or by private purchase in lieu thereof, and this Lease is not terminated as provided in the subparagraph above, this Lease shall not terminate but the Base Rent and Operating Costs payable hereunder during the unexpired portion of this Lease shall be reduced to such extent as may be fair and reasonable under all of the circumstances.

(c) Awards. In the event of any such taking or private purchase in lieu thereof, Landlord and Tenant shall each be entitled to receive and retain such separate awards and/or portion of lump sum awards as may be allocated to their respective interests in any condemnation proceedings, provided that Tenant shall not be entitled to receive any award for Tenant's loss of its leasehold interest or other property which would have become the property of Landlord upon termination of this Lease; the right to such award being hereby assigned to Landlord.

16. Holding Over. Tenant will, at the termination of this Lease by lapse of time or otherwise, yield up immediate possession to Landlord. If Tenant retains possession of the Premises or any part thereof after such termination, then, subject to the last sentence of this Paragraph, such holding over shall constitute creation of a month to month tenancy, upon the terms and conditions of this Lease; provided, however, that the monthly rental for such holding over shall, in addition to all other sums which are to be paid by Tenant hereunder, whether or not as Additional Rent, be equal to one hundred fifty percent (150%) of the Rent being paid monthly to Landlord under this Lease immediately prior to such termination. In addition to and not in limitation of the foregoing. Tenant shall also pay to Landlord all damages sustained by Landlord resulting from retention of possession by Tenant, including the loss of any proposed subsequent tenant for any portion of the Premises. The provisions of this Paragraph shall not constitute a waiver by Landlord of any right of re-entry as herein set forth; nor shall receipt of any rent or other sums or any other act in apparent affirmance of the tenancy operate (a) as an extension of the Term; (b) a waiver of Landlord's right to terminate Tenant's right to possession of the Premises; or (c) a waiver of the right to terminate this Lease for a breach of any of the terms, covenants, or obligations herein on Tenant's part to be performed.

17. Quiet Enjoyment. Landlord covenants that it now has, or will acquire before Tenant takes possession of the Premises, insurable title to the Premises. Landlord represents and warrants that it has full right and authority to enter into this Lease and that Tenant, upon paying the Rent and performing its other covenants and agreements under this Lease, shall peaceably and quietly have, hold and enjoy the Premises for the Term, subject to the terms and provisions of this Lease.

18. Events of Default. Each of the following events shall be deemed to be an Event of Default by Tenant under this Lease:

(a) Tenant shall fail to pay any installment or other payment of Rent required herein when due, and such failure shall continue for a period of five (5) business days after notice of failure to pay from Landlord; provided, however, Landlord shall not be required to furnish Tenant with notice of Tenant's failure to pay any amount due under this Lease more than once per calendar year and thereafter Tenant's failure to pay any amount due under this Lease as and when due shall constitute an Event of Default under this Lease without any requirement of notice;

(b) Tenant or any person or entity guaranteeing Tenant's obligations under this Lease (a "Guarantor") shall become insolvent, or shall make a transfer in fraud of creditors, or shall make an assignment for the benefit of creditors;

(c) Tenant or Guarantor shall file a petition under any section or chapter of the federal bankruptcy laws, or under any similar law or statute of the United States or any State, including, without limitation, a liquidation, rehabilitation or other insolvency statute, whether now or hereafter in effect; or an order for relief shall be entered against Tenant or Guarantor in any such bankruptcy or insolvency proceedings filed against Tenant or Guarantor thereunder or Tenant or Guarantor shall be adjudged bankrupt or insolvent in proceedings filed against Tenant or Guarantor thereunder;

(d) A receiver or trustee shall be appointed for all or substantially all of the assets of Tenant or Guarantor;

(e) Tenant or Guarantor shall generally not pay its debts as such debts become due;

(f) Tenant shall vacate or abandon all or a substantial portion of the Premises; provided however, that such vacation or abandonment shall not constitute a default hereunder unless, in Landlord's reasonable estimation. Tenant has failed to comply with its obligations to maintain the Premises as required under this Lease:

(g) Tenant shall fail to discharge any lien placed upon the Premises in violation of Paragraph 22 hereof;

(h) Tenant shall fail to insure and provide evidence of such insurance in accordance with Paragraph 14(b);

(i) Intentionally Omitted;

(j) Tenant shall fail to comply with any term, provision or covenant of this Lease (other than the foregoing in this Paragraph 18), and shall not cure such failure within twenty (20) days after written notice thereof from Landlord to Tenant; or

(k) Guarantor breaches or fails to comply with any term, provision or covenant of its guaranty and does not cure such failure within five (5) days after written notice thereof from Landlord to Guarantor.

19. Remedies. Upon the occurrence of any of such events of default described in Paragraph 18 hereof, Landlord shall have the option to pursue any one or more of the following remedies without any further notice or demand whatsoever.

(a) Upon the occurrence of any Event of Default, Landlord may, in addition to all other rights and remedies afforded Landlord hereunder or by Applicable Requirements, take any of the follow actions:

(i) Terminate this Lease by giving Tenant written notice thereof, in which even, Tenant shall pay to Landlord the sum of (A) all rent accrued hereunder through the date of termination, (B) all amounts due under subparagraph (b) below, and (C) an amount equal to (i) the total rent that Tenant would have been required to pay for the remainder of the Term discounted to a present value at a per annum rate equal to the "Prime Rate" as published on the date this Lease is terminated by The Wall Street Journal, Southwest Edition, in its listing of "Money Rents", minus (ii) the then present fair rental value of the Premises for such period, as determined by Landlord in good faith, similarly discounted; or

(ii) Terminate Tenant's right to possess the Premises and change the door locks to the Premises without terminating this Lease, with or without notice thereof to Tenant, and without judicial proceedings, in which event Tenant shall pay to Landlord (A) all rent and other amounts accrued hereunder to the date of termination of possession, (B) all amounts due from time to time under subparagraph (b) below, and (C) all rent and other sums required hereunder to be paid by Tenant during the remainder of the Term, diminished by any net sums thereafter received by Landlord through reletting the Premises during such period; however, except to the limited extent required by Applicable Requirements (as defined below), Landlord shall not be obligated to relet the Premises or otherwise mitigate damages and shall not be liable for, nor shall Tenant's obligations hereunder be diminished because of, Landlord's failure to relet the Premises or to collect rent due for a reletting. Tenant shall not be entitled to the excess of any consideration obtained by reletting over the rent due hereunder. Reentry by Landlord in the Premises shall not affect Tenant's obligations hereunder for the unexpired Term; rather, Landlord may, from time to time, bring action against Tenant to collect amounts due by Tenant, without the necessity of Landlord's waiting until the expiration of the Term. Unless Landlord delivers written notice to Tenant expressly stating that it has elected to terminate this Lease, all actions taken by Landlord to exclude or dispossess Tenant of the Premises shall be deemed to be taken under this Section (a)(ii). If Landlord elects to proceed under this Section (a)(ii), it may at any time elect to terminate this Lease under Section (a)(i) above. Landlord and Tenant hereby confirm that the terms and provisions of this Section supersedes 93.002 of the Texas Property Code to the extent of any conflict.

(b) In addition to the foregoing, Tenant shall pay to Landlord all costs and expenses incurred by Landlord (including court costs and reasonable attorneys' fees and expenses) in (i) obtaining possession of the Premises, (ii) removing and storing Tenant's or any other occupant's property, (iii) repairing, restoring, altering, remodeling, or otherwise putting the Premises into a condition acceptable to a new tenant, (iv) if Tenant is dispossessed of the Premises and this Lease is not terminated, reletting all or any part of the Premises (including brokerage commissions, cost of tenant finish work, and other costs incidental to such reletting), (v) performing Tenant's obligations which Tenant failed to perform, and (vi) enforcing and/or obtaining advice regarding Landlord's rights, remedies, and recourses. Landlord's acceptance of Rent following the occurrence of a default or Event of Default shall not waive Landlord's rights regarding such default or Event of Default. Landlord's receipt of Rent with knowledge of any default or Event of Default by Tenant hereunder shall not be a waiver of such default or Event of Default, and no waiver by Landlord of any provision of this Lease shall be deemed to have been

(b) In addition to the foregoing, Tenant shall pay to Landlord all costs and expenses incurred by Landlord (including court costs and reasonable attorneys' fees and expenses) in (i) obtaining possession of the Premises, (ii) removing and storing Tenant's or any other occupant's property, (iii) repairing, restoring, altering, remodeling, or otherwise putting the Premises into a condition acceptable to a new tenant, (iv) if Tenant is dispossessed of the Premises and this Lease is not terminated, reletting all or any part of the Premises (including brokerage commissions, cost of tenant finish work, and other costs incidental to such reletting), (v) performing Tenant's obligations which Tenant failed to perform, and (vi) enforcing and/or obtaining advice regarding Landlord's rights, remedies, and recources. Landlord's acceptance of Rent following the occurrence of a default or Event of Default shall not waive Landlord's rights regarding such default or Event of Default. Landlord's receipt of Rent with knowledge of any default or Event of Default by Tenant hereunder shall not be a waiver of such default or Event of Default, and no waiver by Landlord of any provision of this Lease shall be deemed to have been made unless set forth in writing and signed by Landlord. No waiver by Landlord of any violation or breach of any of the terms contained herein shall waive Landlord's rights regarding any future violation of such term or violation of any other term. If Landlord repossesses the Premises pursuant to the authority herein granted, then Landlord shall have the right to (i) keep in place and use; or (ii) remove and store, at Tenant's expense, all of the furniture, fixtures, equipment or other property, deemed abandoned by Tenant in the Premises, including that which is owned by or leased to Tenant at all times before any foreclosure thereon by Landlord or repossession thereof by any lessor thereof or third party having a lien thereon. Any such property of Tenant not retaken by Tenant from storage within thirty (30) days after removal from the Premises shall, at Landlord's option, be deemed conveyed by Tenant to Landlord under this Lease as by a bill of sale without further payment or credit by Landlord to Tenant. Landlord may relinquish possession of all or any portion of such furniture, fixtures, equipment and other property to any person (a "Claimant'') who presents to Landlord a copy of any instrument represented by Claimant to have been executed by Tenant (or any predecessor of Tenant) granting Claimant the right under various circumstances to take possession of such furniture, fixtures, equipment or other property, without the necessity on the part of Landlord to inquire into the authenticity or legality of the instrument. Upon the occurrence of an Event of Default, the amount of all abated rent and rent credits to which Tenant was entitled pursuant to the other terms of this Lease shall be immediately due and payable by Tenant to Landlord. The rights of Landlord herein stated are in addition to any and all other rights that Landlord has or may hereafter have at law or in equity, and Tenant agrees that the rights herein granted to Landlord are commercially reasonable. For the purposes of this Lease, "Applicable Requirements" shall mean laws, rules, regulations, ordinances, directives, covenants, easements and restrictions of record, permits, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Landlord's engineers and/or consultants, relating in any manner to the Premises (including but not limited to matters pertaining to (i) industrial hygiene, (ii) environmental conditions on, in, under or about the Premises, including soil and groundwater conditions, and (iii) the use, generation, manufacture, production, installation, maintenance, removal, transportation, storage, spill or release of any Hazardous Substance), now in effect or which may hereafter come into effect.

(c) If Landlord is deemed to have a duty to mitigate its damages arising from a default or Event of Default by Tenant under this Lease, then Landlord's duty to mitigate is limited to using objectively reasonable efforts to relet the Premises to a replacement tenant suitable under the circumstances, which duty to relet the Premises does not require Landlord to (i) give priority to the Premises over other premises owned or managed by Landlord or its affiliates, (ii) relet for less than market rent, or (iii) relet to a tenant (or for a use) that is not in keeping with the first class character of the Project. Further, any breach of Landlord's duty to relet the Premises does not give rise to a cause of action by Tenant, but rather, will reduce Landlord's recovery against Tenant to the extent that damages reasonably could have been avoided if Landlord was obligated to mitigate and had properly exercised its above-described duty.

20. Landlord's Lien. Landlord reserves (and Tenant hereby grants to Landlord) a security interest in all fixtures, equipment, personal property of Tenant now or hereafter located in or on the Premises to secure all sums due from and all obligations to be performed by Tenant hereunder, which lien and security interest may be enforced by Landlord in any manner provided by law, including, without limitation, under and in accordance with the Uniform Commercial Code, as enacted in the State of Texas, including without limitation the right to sell the property described in this Paragraph 20 at public or private sale upon five (5) days notice to Tenant.

21. Mortgages. This Lease is and shall be subject and subordinate to any mortgage(s) or deed(s) of trust now or at any time hereafter constituting a lien or charge upon the Project, the Building or the Premises, provided, however, that if the holder of any such mortgage or deed of trust elects to have Tenant's interest in this Lease superior to any such instrument, then by notice to Tenant from such holder, this Lease shall be deemed superior to such instrument, whether this Lease was executed before or after said instrument. Tenant shall at any time hereafter on demand execute any instruments, releases or other documents which may be required by any mortgagee for the purpose of subjecting and subordinating this Lease to the lien of any such mortgage or deed of trust.

22. Mechanic's Liens. Tenant shall keep the Premises, the Building and the Project free from any mechanics', materialmen's, contractors' or other liens arising from, or any claims for damages growing out of, any work performed, materials furnished or obligations incurred by or on behalf of Tenant. If such a lien is filed against the Premises, the Building or the Project or any portion thereof as a result of work performed, materials furnished or obligations incurred by or on behalf of Tenant, Tenant, at its sole cost and expense, shall cause such lien to be removed within ten (10) calendar days after Tenant becomes aware of the filing of such lien. Tenant hereby agrees to defend and indemnify Landlord and to hold Landlord harmless from and against any such lien or claim or action thereon, and shall reimburse Landlord, as Additional Rent for Landlord's costs of suit and all attorneys' fees and costs incurred in connection with the removal of any such lien, claim or action. Landlord hereby reserves the right, at any time and from time to time during the construction of the Premises or any subsequent alteration to enter onto the Premises and post and review notices in accordance with Applicable Requirements, as the same may be amended from time to time.

23. Notices. All Rent payments, bills, statements, notices or communications, required or desired to be given hereunder shall be in writing and shall be deemed effective and received (a) upon personal delivery; (b) five (5) days after deposit in the United States mail, certified mail, return receipt requested, postage prepaid; or (c) one (1) business day after deposit with a national overnight air courier, fees prepaid, to Landlord or Tenant, as the case may be, at the notice or Rent payment addresses for each party stated on the Data Sheet. Either party may designate an additional or another address upon giving written notice to the other party at the address for notices for such party stated on the Data Sheet pursuant to this Paragraph 23. Any return of any access cards or keys or other similar devices shall be made to Landlord's Managing Agent, at the address stated on the Data Sheet. Landlord's Managing Agent shall give and receive notices in the manner prescribed by this Section, and a copy of all notices given to Landlord shall be given to Landlord's Managing Agent in the manner prescribed by this Paragraph 23. For the purposes of this Lease, "Business Day" shall mean a day which is not a Saturday, a Sunday or a legal holiday (the term "legal holiday" meaning any state or federal holiday for which financial institutions or post offices are generally closed in the State of Texas for observance thereof..

If and when included within the term "Landlord," as used in this instrument, there are more than one person, firm or corporation, all shall jointly arrange among themselves for their joint execution of such a notice specifying some individual at some specific address for the receipt of notices and payments to Landlord; if and when included within the term "Tenant," as used in this instrument, there are more than one person, firm or corporation, all shall jointly arrange among themselves for their joint execution of such a notice specifying some individual at some specific address within the continental United States for the receipt of notices and payments to Tenant. All parties included within the terms ''Landlord" and "Tenant," respectively, shall be bound by notices given in accordance with the provisions of this paragraph to the same effect as if each had received such notice.

24. Hazardous Substances. Tenant shall at all times comply with all Applicable Requirements relating to Hazardous Substances. "Hazardous Substances" means (1) any oil, petroleum product, flammable substances, explosives, radioactive materials, hazardous wastes or substances, toxic wastes or substances, infectious wastes or substances or any other wastes, materials or pollutants that (A) pose a hazard to the Premises, Building or Property or to persons on or about the Premises, Building or Property or (B) cause the Premises, Building or Property to be in violation of any hazardous materials laws; (2) asbestos in any form which, area- formaldehyde foam insulation, transformers or other equipment that contains dielectric fluid containing polychlorinated biphenyl, or radon gas; (3) any chemical, materials or substance defined as or included in the definition of "hazardous substances," ''hazardous wastes," "hazardous materials," "extremely hazardous waste," "restricted hazardous waste," "infectious waste," or "toxic substances," or words of similar import under any applicable local, state or federal law or under the regulations adopted or publications promulgated pursuant thereto, including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. §§ 9601, et seq.; the Hazardous Materials Transportation Act, as amended, 42 U.S.C. §§ 6901, et seq.; the Federal Water Pollution Control Act, as amended, 33 U.S.C. §§ 1251, et seq.; (4) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority or may or could pose a hazard to the health and safety of the occupants of the Premises, Building or Project or the owners and/or occupants of property adjacent to or surrounding the Property, or any other person or entity coming upon the Property or adjacent property; and (5) any other chemical, material or substance that may or could pose a hazard to the environment. Tenant shall not: (i) use the Premises, Building or Project for the storage of Hazardous Substances except for such activities that are part of the course of tenant's ordinary business (the ''Permitted Activities"): provided, such Permitted Activities are conducted in accordance with all Applicable Requirements and have been approved in advance in writing by Landlord; (ii) use the Premises, Building or Project as a landfill or dump; or (iii) install any underground tanks of any type at the Project. Tenant shall, at its own expense, maintain in effect any and all permits, licenses or other governmental approvals, if any, required for Tenant's use of the Premises and require the same of any subtenants. Tenant shall make and cause any subtenant to make all disclosures required of Tenant by any laws, and shall comply and cause subtenant to comply with all orders concerning Tenant's use of the Premises issued by any governmental authority having jurisdiction over the Premises and take all action required by such governmental authorities to bring the Tenant's activities on the Premises into compliance with all Applicable Requirements affecting the Premises. If at any time Tenant shall become aware, or have reasonable cause to believe, that any Hazardous Substance has been released or has otherwise come to be located on or beneath the Building or the Project, Tenant shall give written notice of that condition to Landlord immediately after Tenant becomes so aware. Tenant shall be responsible for, and shall indemnify, defend and hold Landlord harmless from and against, all environmental claims, demands, damages and liabilities, including, without limitation, court costs and reasonable attorney fees, if any, arising out of, or in connection with, the generation, storage, disposal or other presence of any Hazardous Substance in, on or about the Premises, Building or Project during the Term or that Tenant or its subtenants caused or permitted. The indemnification provided by this Paragraph 24 shall survive the termination of this Lease Not by way of limiting Tenant's foregoing obligations under this Section 24 or otherwise under the Lease, the Landlord acknowledges that the Tenant may use batteries, including lithiumion batteries, within its lab as part of its Permitted Activities.

25. Expense of Enforcement. Tenant shall pay Landlord, upon demand therefor, for all reasonable costs and reasonable attorneys' fees and reasonable expenses incurred by Landlord in seeking enforcement against Tenant, any assignee or sublessee of Tenant, or any guarantor of Tenant's obligations under this Lease, of Tenant's or such party's obligations under this Lease, including, without limitation, the collection of Rent and the termination of Tenant's right to possession of the Premises. Such payment shall constitute Additional Rent payable in accordance with Paragraph 4. Notwithstanding the foregoing, if Landlord commences any action against Tenant, including, without limitation, an action in unlawful detainer, which action settles at or prior to any trial in connection therewith. Landlord shall be entitled to recover from Tenant Landlord's reasonable attorneys' fees and disbursements and the same shall be payable by Tenant to Landlord with the next installment of Rent falling due and shall constitute Additional Rent hereunder.

26. Intentionally Omitted.

27. Transfer of Landlord's Interest; Limitation of Liability.

(a) Transfer of Landlord's Interest. The term "Landlord" shall mean only the owner, at any time of the Building, and in the event of the transfer by such owner of its interest in the Building, such owner's grantee or successor shall upon such transfer, become "Landlord" under this Lease. If any owner transfers its interest in the Premises or the Building or any portion thereof, other than a transfer for security purposes, such owner shall automatically be relieved of any and all obligations and liabilities on the part of such owner as "Landlord" accruing after the date of such transfer, including, without limitation, such owner's obligation to return the Security Deposit following assignment or transfer thereof to such owner's transferee.

(b) Limitation of Landlord's Liability. If Landlord is ever adjudged by any court to be liable to Tenant, Tenant specifically agrees to look solely to Landlord's interest in the Building for the recovery of any judgment from Landlord, it being agreed that none of Landlord, its directors, officers, shareholders, managing agents, employees or agents shall be personally liable for any such judgment. In no event shall Landlord ever be liable to Tenant, Tenant's agents, servants or employees, or to any person or entity claiming by or through Tenant, for any consequential, indirect, special or similar types of damages.

28. Right of Landlord to Perform. If Tenant shall fail to pay any sum of money other than Rent required to be paid by it under this Lease, or shall fail to perform any other act on its part to be performed under this Lease, Landlord may, but shall not be so obligated, and without waiving or releasing Tenant from any obligations of Tenant, after the end of the fifth business day after notifying Tenant of Tenant's obligation to perform, make any such payment or perform any such other act on Tenant's part to be made or performed; provided, however, that in the event of emergency, Landlord shall have the right to perform Tenant's obligations prior to the expiration of the five business day period specified above. If Landlord performs Tenant's obligations pursuant to this Paragraph 28. Tenant shall pay Landlord as and for an administrative fee and payable as Additional Rent within 30 days following demand from Landlord, an amount equal to fifteen percent (15%) of the costs incurred by Landlord in performing said obligations. If Landlord performs Tenant's obligations pursuant to this Paragraph 28, Landlord shall have the right to use the Security Deposit to pay such expenses, or pay such expenses directly and reimburse itself from the Security Deposit or to the extent the cost of such performance exceeds the Security Deposit, Landlord may pay for the cost of such performance from its own funds, or from a combination of the Security Deposit and its own funds and all such amounts shall be repaid to Landlord by Tenant, payable with the next installment of Base Rent falling due.

29. Miscellaneous.

(a) Gender; etc. Words of any gender used in this Lease shall be held and construed to include any other gender, and words in the singular number shall be held to include the plural, unless the context otherwise requires.

(b) Binding Effect. The terms, provisions and covenants and conditions contained in this Lease shall apply to, inure to the benefit of, and be binding upon, the parties hereto and upon their respective heirs, legal representatives, successors and permitted assigns, execpt as otherwise herein expressly provided. Tenant agrees to furnish promptly upon demand, a corporate resolution, proof of due authorization by partners, or other appropriate documentation evidencing the due authorization of Tenant to enter into this Lease. "Nothing herein contained shall give any other tenant in the Building any enforceable rights either against Landlord or Tenant as a result of the covenants and obligations of either party stated herein.

(c) Captions. The captions inserted in this Lease are for convenience only and in no way define, limit or otherwise describe the scope or intent of this Lease, or any provision hereof, or in any way affect the interpretation of this Lease.

(d) Estoppel. Tenant agrees from time to time within ten (10) days after request of Landlord, to deliver to landlord, or Landlord's designee an estoppel certificate in a form designated by Landlord. It is understood and agreed that Tenant's obligation to furnish such estoppel certificates in a timely fashion is a material inducement for Landlord's execution of this Lease, and that, if Tenant fails timely to deliver any estoppel certificate contemplated by this subparagraph (d), Tenant shall be liable to Landlord for all losses incurred by Landlord as a result of such failure, including, without limitation, attorneys' fees and court costs through all appellate levels.

(e) Amendment. This Lease may not be altered, changed or amended except by an instrument in writing signed by both parties hereto.

(f) Survival of Obligations. All obligations of Tenant hereunder not fully performed as of the expiration or earlier termination of the Term shall survive the expiration or earlier termination of the Term, including without limitation, all payment obligations with respect to Operating Costs and all obligations concerning the condition of the Premises. Upon the expiration or earlier termination of the Term, Tenant shall pay to Landlord the amount as estimated by Landlord, necessary (i) to repair and restore the Premises as provided herein; and (ii) to discharge Tenant's obligation for Operating Costs or other amounts due Landlord. All such amounts shall be used and held by Landlord for payment of such obligations of Tenant, with Tenant being liable for any additional costs upon demand by Landlord, or with any excess to be returned to Tenant after all such obligations have been determined and satisfied. Any security deposit held by Landlord shall be credited against the amount payable by Tenant under this subparagraph.

(g) Joint and Several. If there be more than one Tenant, the obligations hereunder imposed upon Tenant shall be joint and several.

(h) Brokers. Tenant represents and warrants that it has dealt with no broker, agent or other person in connection with this transaction or that no broker, agent or other person brought about this transaction, other than Tenant's Broker, if any, listed on the Data Sheet, and Tenant agrees to defend, indemnify and hold Landlord harmless from and against any claims by any other broker, agent or other person claiming a commission or other form of compensation by virtue of having dealt with Tenant with regard to this leasing transaction.

(i) Severability. If any clause or provision of this Lease is illegal, invalid or unenforceable under present or future laws effective during the Term, then and in that event, it is the intention of the parties hereto that the remainder of this Lease shall not be affected thereby, and it is also the intention of the parties to this Lease that in lieu of each clause or provision of this Lease that is illegal, invalid or unenforceable, there be added as a part of this Lease a clause or provision as similar in terms to such illegal, invalid or unenforceable clause or provision as may be possible and be legal, valid and enforceable.

(j) Offer to Lease. Because the Premises arc on the open market and are currently being shown, this Lease shall be treated as an offer and shall not be valid or binding unless and until accepted by Landlord in writing.

(k) Waiver of Jury Trial: Jurisdiction. EACH OF LANDLORD AND TENANT HEREBY WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION RELATING TO THIS LEASE. At the option of Landlord, this Lease shall be enforced in any United States District Court for the Western District of Texas or state court of the State of Texas sitting in Travis County, and Tenant consents to the jurisdiction and venue of any such court and waives any argument that venue in such forums is not proper or convenient.

(1) Complete Agreement. This Lease contains all of the agreements and understandings relating to the leasing of the Premises and the obligations of Landlord and Tenant in connection with such leasing. Landlord has not made, and Tenant is not relying upon, any warranties or representations, promises or statements made by Landlord or any agent of landlord, except as expressly stated herein. This Lease supersedes any and all prior agreements and understandings between Landlord and Tenant and alone expresses the agreement of the parties.

(m) Governing Law. This Lease, the rights of the parties hereunder and the interpretation hereof shall be governed by, and construed in accordance with, the internal laws of the State of Texas, without giving effect to conflict of laws principles thereof.

(n) Construction. The parties agree that counsel for both parties have reviewed this Agreement. Accordingly, neither party shall be deemed to have drafted this Agreement and it shall not be construed against either party by virtue of the drafting thereof in the event of a dispute.

(o) Calculation of Charges. Tenant understands and accepts the methods of calculation for determining charges and amounts assessed against Tenant under this Lease, and agrees that they comply with Section 93.012 (Assessment of Charges) of the Texas Property Code, as amended or succeeded from time to time. Tenant waives, to the fullest extent permitted by applicable law, all rights and benefits of Tenant under Section 93.012 of the Texas Property Code, as amended or succeeded from time to time.

permitted by applicable law, all rights and benefits of Tenant under Section 93.012 of the Texas Property Code, as amended or succeeded from time to time.

(p) "As-Is", No Representation. Tenant acknowledges that neither Landlord nor its agents has made, and Tenant waives, any express or implied representation or warranty regarding the condition of the Premises, title thereto, the suitability of the Premises for Tenant's purposes or compliance of the Premises or Tenant's proposed use thereof with any applicable laws. Tenant accepts the Premises in an "AS-IS" condition; provided the foregoing does not supersede or limit Landlord's obligation to do the "Work" as and to the extent provided in Exhibit E. In furtherance the foregoing, Tenant acknowledges and agrees that Landlord has made, and makes, no representation or warranty whatsoever regarding any of the furniture and office cubicle partitions and any other personal property located in or about the Premises as of the Date of Lease, and as may be located therein as of the Commencement Date (collectively, the "FF&E"), and, not by way of limiting Tenant's other obligations under this Lease, Tenant hereby agrees to hold harmless and indemnify Landlord from and against any and all claims, damages, costs and expenses (including attorney's fees) arising in connection with such FF&E.

(q) Intentionally Omitted.

30. Exhibits. Exhibits A, B, C, D and E attached hereto are hereby incorporated by reference.

31. Right to Terminate. Tenant shall have a one-time option to terminate this Lease on May 31, 2017 (the "Termination Date"), subject to the following:

(a) To exercise the option, Tenant shall deliver to Landlord (the "Termination Notice") that Tenant desires to terminate the Lease on the Termination Date. The Termination Notice shall be delivered not later than November 30, 2016, TIME BEING OF THE ESSENCE.

(b) Concurrently with Tenant's delivery of a Termination Notice, Tenant shall pay to Landlord an amount equal to Ninety-Eight Thousand Seven Hundred Forty-One and 84/l00th Dollars ($98,741.84) ("Termination Notice Payment"). The Termination Notice Payment shall be paid by wire transfer or by cashier's check payable to Landlord's account or order, as the case may be.

(c) It shall be a condition precedent to Tenant's right to exercise its termination option and to the termination of this Lease by Tenant pursuant to such option that (i) Tenant shall not be in default under any of the terms and conditions of the Lease both on the date the Termination Notice is delivered to Landlord and on the Termination Date, and (ii) Tenant pay to Landlord the Termination Notice Payment in strict accord with the terms of this Section 31; it being agreed that, in case of such a default outstanding as of either of such dates or if said payment is not received by Landlord in strict accord with the terms hereof, Tenant's option to terminate, Tenant's Termination Notice and any termination by Tenant of this Lease otherwise to be effected pursuant to this Section 31 shall be void *ab initio* and of no force and effect and the Lease shall continue in full force and effect pursuant to its terms; provided, however, in case of such a default outstanding as of either of such dates, Landlord may, by written notice to Tenant, elect to waive the subject condition precedent concerning such default, in which case the Tenant's option to terminate. Tenant's Termination Notice and the termination by Tenant of this Lease pursuant thereto shall not be void and shall be effective in accordance with the other terms of this Section 31.

(f) If this Lease is duly terminated in accordance with the terms of this Section 31, Rent shall be paid through the Termination Date and neither Landlord nor Tenant shall have any rights, estates, liabilities or obligations accruing under the Lease after the Termination Date, except such rights and obligations which, by the terms of the Lease, expressly survive the expiration or termination of the Lease. The right of Tenant to terminate granted herein shall be personal to Tenant and shall not accrue to any assignee, sublessee or successor to the interest of Tenant under the Lease.

32. Furniture. It is agreed that the furniture, office cubicle partitions and any other personal property in the Premises as of the Commencement Date shall be deemed to be Tenant's personal property on the Commencement Date and Landlord shall have no liability or responsibility therefor whatsoever and said property shall be removed by Tenant, at its sole cost, from the Premises (and the Project) by the Restoration Date.

33. Solar Panels.

(a) So long as Tenant is in possession of the Premises pursuant to this Lease, and notwithstanding other provisions of this lease to the contrary, Tenant may, subject to the terms and conditions set forth herein, install, repair, maintain and replace Solar Panels providing electric power for consumption in the Premises only, together with associated wiring from the Solar Panels to the Premises (collectively **"Solar Panels"),** which Solar Panels shall be located on the roof of the Building in an area thereon situated above the Premises, as more specifically designated by Landlord (the **"Solar Panel Area").** The Solar Panels shall be used by Tenant solely for the above-described purpose.

(b) Installation of the Solar Panels shall be at Tenant's sole cost and expense and shall be completed in a good and workmanlike fashion by Tenant's contractor (to be approved in advance in writing by Landlord, which approval shall not be unreasonably withheld). The exact size and configuration of the Solar Panel Area, as well as the method of installation, specifications and design of the Solar Panels shall be subject to Landlord's prior written approval.

(c) Tenant shall be solely responsible for all repair, replacement and maintenance of the Solar Panels and Tenant waives all claims against Landlord for any damage or loss to the Solar Panels due to any cause whatsoever.

(d) Tenant shall indemnify and hold Landlord harmless from and against any and all losses, damages, claims, expenses (including reasonable attorneys' fees), and liabilities of any sort whatsoever, arising in connection with the installation, maintenance, replacement, removal or use of the Solar Panels, and shall repair, at its sole cost, any damage to the Building, including but not limited to the roof membrane, deck and structure caused by the installation, maintenance, replacement, removal or use of the Solar Panels.

(e) Upon termination of Tenant's possession of the Premises, or earlier if Tenant ceases to use the Solar Panels for the purpose set forth above, Tenant shall, at Tenant's cost, remove the Solar Panels and restore the affected portions of the Building to a good, safe condition at least as good as that existing prior to the installation of the Solar Panels, ordinary wear and tear not caused by the Solar Panels and casualty damage to the Building excepted.

(f) Tenant agrees that it shall not use the Solar Panel Area in any manner which will interfere with the operation, maintenance, repair or replacement of the Building and shall cease use of the Solar Panels if they are causing damage or extra wear and tear to the roof or a dangerous or unsafe condition to exist. Tenant shall, at its sole cost and expense, maintain the Solar Panels which may be located thereon from time to time in a clean, safe, orderly and otherwise first-class condition.

(g) Tenant shall be responsible at its sole cost and expense for obtaining and maintaining all permits and approvals necessary or associated with the installation, maintenance, repair, replacement and use of the Solar Panels and Solar Panel Area and shall comply with all laws, codes and ordinances, applicable to the Solar Panels, the Solar Panel Area or Tenant's use thereof.

(h) Tenant shall at its cost move or remove, as the case may be, the Solar Panels from time to time in accordance with Landlord’s direction therefor in connection with Landlord’s maintenance, repair or replacement of the Building or any part thereof, including without limitation, the roof.

34. Halon or Alternate Fire Suppression System.

(a) It is acknowledged that Tenant may wish to install a Halon or other alternative fire suppression system (the “Halon System’’) in the Premises.

(b) Installation of the Halon System shall be at Tenant's sole cost and expense and shall be completed in a good and workmanlike fashion by Tenant's contractor (to be approved in advance in writing by Landlord, which approval shall not be unreasonably withheld). The exact size, location and configuration of the Halon System, as well as the method of installation, specifications and design of the Halon System shall be subject to Landlord's prior written approval.

(c) Tenant shall be solely responsible for all repair, replacement and maintenance of the Halon System and Tenant waives all claims against Landlord for any damage or loss to the Halon System or arising in connection with the Halon System due to any cause whatsoever.

(d) Tenant shall indemnity and hold Landlord harmless from and against any and all losses, damages, claims, expenses (including reasonable attorneys’ fees), and liabilities of any sort whatsoever, arising in connection with the installation, maintenance, replacement, removal or use of the Halon System.

(e) Upon termination of Tenant's possession of the Premises, or earlier if Tenant ceases to use the Halon System for the purpose set forth above, Tenant shall, at Landlord’s direction and at Tenant's cost, remove the Halon System and restore the affected portions of the Building to a good, safe condition at least as good as that existing prior to the installation of the Halon System, ordinary wear and tear not caused by the Halon System and casualty damage to the Building excepted. At any time, Landlord may elect by delivery of written notice to Tenant for the Halon System to remain in the Premises after the Restoration Date in which case the Halon System shall become Landlord’s property after the Restoration Date.

(f) Tenant agrees that it shall not use the Halon System Area in any manner which will interfere with the operation, maintenance, repair or replacement of the Building. Tenant shall, at its sole cost and expense, maintain the Halon System which may be located thereon from time to time in a clean, safe, orderly and otherwise first-class condition.

(g) Tenant shall be responsible at its sole cost and expense for obtaining and maintaining all permits and approvals necessary or associated with the installation, maintenance, repair, replacement and use of the Halon System and Halon System Area and shall comply with all laws, codes and ordinances, applicable to the Halon System, the Halon System Area or Tenant's use thereof.

(h) The provisions of Paragraph 24 of this Lease regarding Hazardous Substances, and Tenant's obligations thereunder, shall apply to this Section 34.

35. Right to Extend Term. Tenant shall have a one-time option to extend the Term of the Lease upon the terms and conditions of this Section 35 if:

(a) Tenant is not, at the time such option is to be exerciscd as provided below, in default under this Lease and no Event of Default has previously occurred at the time such option is to be exercised as provided below; and

(b) Tenant gives Landlord written notice of the exercise of the extension option not earlier than October 1, 2017 and not later than November 30, 2017 (the "Extension Notice"), time being of the essence. Tenant's failure to notify Landlord of its intent to exercise the option to extend the Term granted herein with said period specified in this subsection (b) for such extension shall be deemed a waiver of Tenant's right to exercise its option to extend.

If Tenant extends the Lease under this Section 30, the following terms and conditions shall apply:

(x) the extension term in question shall commence immediately upon the expiration of the initial Term and continue thereafter for a period of forty-eight (48) months;

(y) Base Rent for the Premises for the renewal term shall be Market Rent (as defined in Section 36 of this Lease);

(z) all of the other terms and conditions contained in this Lease, as it may have been amended from time to time, shall be as set out in this Lease, provided, it is understood and agreed that (A) there shall be no rights of renewal or extension except as provided in this Section 35, and, upon the exercise of the right of extension granted by this Section 35, this Section 35 shall be of no further force or effect and Tenant shall have no right to further renew or extend the Term at the expiration of the extension term, and (B) Tenant shall accept the Premises in its then AS-1S condition.

Within fifteen (15) days after request therefor from Landlord, Tenant shall execute and deliver to Landlord those instruments which Landlord may request to evidence the extension described in this Section 35. The rights of Tenant under this Section 35 shall not be severed from this Lease or separately sold, assigned, or otherwise transferred. Notwithstanding the foregoing, the extension option contemplated by this Section 35 shall automatically terminate and become null and void and of no further force and effect upon the earliest to occur of (i) the expiration or termination of this Lease, (ii) the termination of the Tenant's right to possession of the Premises, (iii) the failure of Tenant to timely or properly exercise the rights granted by this Section 35; and (iv) the occurrence of an Event of Default by Tenant under this Lease. The right contemplated by this Section shall not be available to any assignee, sublessee, or successor to Tenant's interests hereunder

36. Market Rent. For purposes of determining Market Rent for the extension contemplated by Section 35 above only, "Market Rent" means the amount of base rent for extensions or renewals of lease, which may or may not include concessions, improvements and other matters (exclusive of Operating Costs) which Landlord would receive by then renting similar space in the Austin, Texas market (including similar square footage). Within forty-five (45) days after Tenant exercises its right to extend the Term pursuant to Section 35, Landlord shall give Tenant notice of Market Rent for the extension term for the Premises (the "Market Rent Notice"). If Tenant does not agree with Landlord's determination of Market Rent as set forth in the Market Rent Notice, Tenant shall so notify Landlord in writing within ten (10) days after Tenant's receipt of the Market Rent Notice ("Tenant's Notice"). Landlord and Tenant shall, for ten (10) days after Landlord's receipt of Tenant's Notice, negotiate in good faith to come to an agreement as to Market Rent for the extension term. If Landlord and Tenant arc unable to agree upon Market Rent within said ten (10) day period, then, within ten (10) days commencing on the day after the expiration of the ten-day negotiating period, Landlord shall, acting in good faith, choose a person reasonably acceptable to Tenant, experienced in commercial real estate, knowledgeable about commercial real estate rents regarding like properties in the Austin, Texas market and unrelated to any of Landlord, Tenant, or Tenant's Broker, if any, and shall refer the matter to such person (the "Expert"), who shall be deemed to be acting as an expert and not as an arbitrator or appraiser. The Expert shall make a determination of Market Rent as expeditiously as possible, but in no event later

than thirty (30) days after referral of the matter to him or her, which determination shall be conclusive and binding on the parties. The parties shall evenly split the costs of the Expert. Tenant's failure to give Tenant's Notice within the time period provided above shall be deemed an acceptance of Landlord's determination of Market Rent, and the Term shall be deemed extended pursuant to the Extension Notice and the Market Rent Notice.

37. Final Lease Form. Tenant represents and warrants to Landlord that this lease instrument is in final form prepared by Landlord and submitted to Tenant for execution and that Tenant has made no changes to the document so submitted by Landlord. Tenant agrees that Landlord is entitled to, and will, rely on such representation and warranty of Tenant in accepting and countersigning this lease instrument. In furtherance hereof, any change made by Tenant to the document so submitted by Landlord shall be invalid and it is the intention of the parties hereto that the remainder of this lease instrument shall not be affected by such invalid change and shall otherwise be and remain in full force and effect as so submitted by Landlord.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties have executed this Lease as of the Date of Lease.

AGELLAN COMMERCIAL REIT U.S. L.P.			IDEAL POWER INC.	
By:	Agellan Commercial REIT U.S. GP, Inc. Its General Partner		By:	/s/ TimothyBurns
			Name: Title:	TIMOTHYBURNS
By:	/s/ Terra Attard			
	Name:	TERRA ATTARD		
	Title:	VICE PRESIDENT		

EXHIBIT A

THE PREMISES

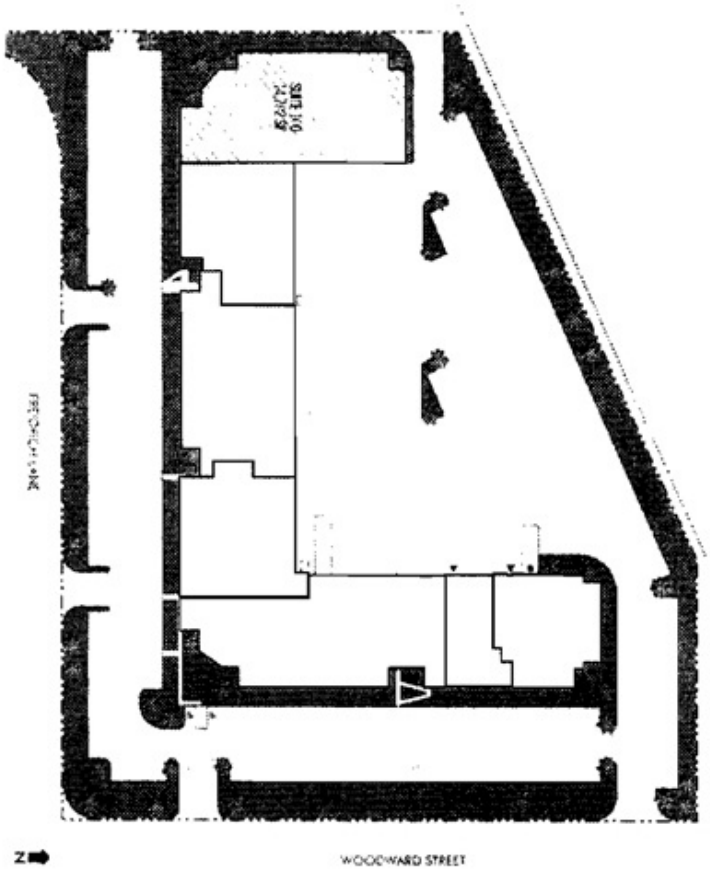

EXHIBIT B

RULES AND REGULATIONS FOR THE BUILDING

1. The sidewalks, passages and stairways, if any, shall not be obstructed by Tenant or used for any purpose other than for ingress to and egress from the Premises. The passages, entrances, stairways, if any, balconies, if any, and roof are not for the use of the general public, and Landlord shall in all cases retain the right to control and prevent access thereto of all persons whose presence in the judgment of Landlord shall be prejudicial to the safety, character, reputation and interests to the Building and the Project and their tenants; provided that nothing herein contained shall be construed to prevent such access to person with whom Tenant normally deals in the ordinary course of its business unless such persons are engaged in illegal activities. Tenant and its employees shall not go upon the roof of the Building without the written consent of the Landlord.

2. The sashes, sash doors, windows, glass lights and any lights or skylights that refleet or admit light into halls, from the building exterior or other places into the building shall not be covered or obstructed. Any curtains, blinds, shades, or screens attached or hung to any of the prior mentioned areas must have prior approval of Landlord. Landlord will provide standard window coverings on exterior windows and other glass if appropriate and Landlord reserves the right to regulate position of such coverings.

3. In case of invasion, riot, public excitement or other commotion, Landlord reserves the right to prevent access to the Building or the Project during the continuance of same. Landlord shall in no case be liable for damages for the admission or exclusion of any person to or from the Building or the Project. Landlord has the right to evaluate the Building or the Project in the event of an emergency or catastrophe.

4. Two door keys for doors to Premises shall be furnished at the commencement of the Lease by Landlord. All duplicate keys shall be purchased only from the Landlord. One security card per each of Tenant's employees so authorized by Tenant will be issued for all approved personnel to permit after-hour access, and Landlord reserves the right to assess a fee to Tenant for the replacement of lost keys or cards. Tenant shall not alter any lock, or install new or additional locks or bolts, on any door without the prior written approval of Landlord. In the event such alteration or installation is approved by Landlord, Tenant shall supply Landlord with a key for any such lock or bolt. Tenant, upon the termination of the tenancy, shall deliver to Landlord all the keys, locks, bolts, cabinets, safes or vaults, or the means of opening any lockable device and security cards of offices, rooms and toilet rooms which shall have been furnished Tenant or which Tenant shall have had made, and in the event of loss of any keys or security cards so furnished shall pay the Landlord therefor.

5. All deliveries, including intra-company deliveries, must be made via service entrances. Tenant agrees to adhere to floor loading maximum levels as stated by Landlord. All damage done to the Building or the Project by the delivery or removal of such items, or by reason of their presence in the Building or the Project, shall be paid to Landlord upon demand by Tenant and shall constitute Additional Rent under the Lease.

6. Parking area and parking policies will be established by Landlord, and Tenant agrees to adhere to said policies. UPON A COMPLAINT BY TENANT AND OTHER TENANTS OF THE BUILDING OR THE PROJECT AND AT ANY OTHER TIME, Landlord reserves the right to implement and institute new parking policies as they are determined to benefit overall Building and Project operations. Tenant agrees to leave no cars, vans or other vehicles overnight or over any weekend in any parking area. Tenant further agrees that its employees will not park in the visitor parking areas at any time.

7. If Tenant desires signal, communication, alarm or other utility or service connection installed or changed, the same shall be made at the expense of Tenant, with approval and under direction of Landlord, it being understood and agreed that (a) no audible alarm shall be installed unless specifically approved in writing by Landlord prior to installation; and (b) only Tenant shall be obligated to respond to such signal, communication, alarm or other utility or service connection, and none of Landlord, Landlord's Managing Agent or other employee, agent or contractor of Landlord shall, under any circumstances have any obligation to Tenant or others to respond to such alarm or be liable to Tenant or any party claiming by or through Tenant for any failure to do so. Any installations, and the boring or cutting for wires, shall be made at the sole cost and expense of Tenant and under control and direction of Landlord. Landlord retains in all eases the right to require (x) the installation and use of such electrical-protecting devices that prevents the transmission of excessive current or electricity into or transmission of excessive current or electricity into or through the Building or the Project (y) the changing of wires and of their installation and arrangement underground or otherwise as Landlord may direct and (z) compliance on the part of all using or seeking access to such wires with such rules as Landlord may establish relating thereto. All such wires used by Tenant must be clearly tagged at the distribution boards and junction box and elsewhere in the Building, with (h) the number of the Premises to which said wires lead, (i) the purpose for which said wires are used and (j) the name of the company operating same.

Tenant agrees to instruct all approved communication, and computer and other cabling installers to attach cable in wire hangers from the deck or in any designated building floor or ceiling system cable location. Tenant will not allow installers to lay any cabling on top of the suspended layer ceiling system.

1. Tenant assumes full responsibility for protecting its space from theft, robbery, and pilferage, which includes keeping doors locked and other means of entry to the space closed and secured. Landlord shall be in no way responsible to Tenant, its agents, employees, licensees, contractors or invitees for any loss of property from the Premises or public areas or for any damages to any property thereon from any cause whatsoever.

2. Tenant shall not install or operate machinery or any meehanical devices of a nature not directly related to Tenant's ordinary use of the Premises without the prior written permission of the Landlord. Tenant shall not place in or move about the Premises any safe or other heavy article which, in Landlord's reasonable opinion may damage the Premises (including the slab) or overload the floor of the Premises, shall not mark on or drive nails, screw or drill into the partitions, woodwork or plaster (except as may be incidental to the hanging of wall decorations) and shall not in any way deface the Premises or any part thereof.

3. No person or contractor not employed by Landlord shall be used to perform window washing, decorating, repair or other work in the Premises without the express prior written consent of Landlord.

4. The directories of the Building shall be used exclusively for the display of the name and location only of the tenants of the Building, including Tenant, and will be provided at the expense of Landlord. Any additional names requested by Tenant to be displayed in the directories must be approved by Landlord and, if approved, will be provided at the sole expense of Tenant.

5. Tenant shall not and shall ensure that its agents, servants, employees, licensees, contractors or invitees shall not:

(a) enter into or upon the roof of the Building or any storage, electrical or telephone closet, or heating, ventilation, air-conditioning, mechanical or elevator machinery housing areas;

(b) use any additional method of heating or air conditioning the Premises, including, without limitation, space heaters of any kind or nature;

(c) sweep or throw any dirt or other substance into any passageway, sidewalk or parking area;

(d) bring in or keep in or about the Premises any firearms, vehicles, motorcycles or animals of any kind;

(e) deposit any trash, refuse or other substance of any kind within or out of the Building or the Project, except in the refuse containers provided therefor;

(f) permit the operation any device that may produce an odor, cause music, vibrations of air waves to be heard or felt outside the Premises, or which may emit electrical waves that shall impair radio, television or any other form of communication system; or

(g) permit the carrying of a lighted cigar, cigarette, pipe or any other lighted smoking equipment or permit smoking of cigarettes, cigars or pipes (i) in the common areas of the Building or the Project, including, without limitation, restrooms; or (ii) within ten (10) yards of any door leading into the Building or any building comprising a part of the Project.

14. Tenant will not install any radio or television antennas or receptor dish or any device on the roof or grounds without the prior written approval of Landlord. Tenant understands that rentals are charged for roof space in the event any roof installation is approved in writing by Landlord. Landlord reserves the right to require removal of any approved installed device in the event it is necessary to do so in Landlord's opinion.

15. No sign, light, name placard, poster advertisement or notice visible from the exterior of any demised premises, shall be placed, inscribed, painted or affixed by Tenant on any part of the Building or the Project without the prior written approval of Landlord. All signs or letterings on doors, or otherwise, approved by Landlord shall be inscribed, painted or affixed at the sole cost and expense of Tenant, by a person approved by Landlord.

16. The toilet-rooms, toilet, urinals, wash bowls and water apparatus shall not be used for any purpose other than those for which they were constructed or installed, and no sweeping, rubbish, chemicals or other unsuitable substances shall be thrown or placed therein. Tenant shall bear the expense of repairing and cleaning up any breakage, stoppage or damage resulting from violation(s) of this rule by Tenant or its agents, servants, employees, invitees, licensees or visitors.

17. Tenant must have Landlord's prior written consent before using the name of the Building or the Project and/or pictures of the Building or the Project in advertising or other publicity.

18. Tenant shall not make any room-to-room canvass to solicit business from other tenants in the Building or the Project, and shall not exhibit, sell or offer to sell, use, rent or exchange in or from the Premises unless ordinarily embraced within Tenant's use of the Premises specified herein.

19. Tenant shall not do any cooking in the Premises, except that Tenant may install a microwave oven and coffee makers for the use of its employees in the Premises. Under no circumstances shall Tenant install or use any hot plates.

20. No portion of Tenant's area or any other part of the Building or the Project shall at any time be used or occupied as sleeping or lodging quarters.

21. Landlord has the right to enact trash removal and trash recycling rules and regulations as necessary to control trash removal costs or as required by the laws of the State of Texas and/or the United States of America. Tenant agrees to adhere to such trash removal regulations and to any and all modifications thereof issued by Landlord from time to time.

22. Tenant will refer all contractors, contractors' representatives and installation technicians rendering any service to Tenant to Landlord for Landlord's supervision, approval and control before performance of any contractual service. This provision shall apply to any work performed in the Building including installations of telephones, telegraph equipment, electrical devices and attachments and installations of any nature affecting floors, walls, woodwork, trim, windows, ceilings, equipment or any other physical portion of the Building.

23. Tenant shall not permit picketing or other union activity involving its employees in the Building except in those locations and subject to time and other limitations as to which Landlord may give prior written consent.

24. Tenant shall not conduct, or permit to be conducted on or from the Premises, any auction of Tenant's personal property, any liquidation sale, any going-out-of-business sale or other similar activity.

25. Landlord reserves the right to rescind, make reasonable amendments, modifications and additions to the rules and regulations heretofore set forth, and to make additional reasonable rules and regulations, as in Landlord's sole judgment may, from time-to-time, be needed for the safety, care, cleanliness and preservation of good order of the Building and the Project. Landlord shall not be responsible for any violation of the foregoing rules and regulations by other tenants of the Building or the Project and shall have no obligation to enforce the same against other tenants.

EXHIBIT C

COMMENCEMENT CONFIRMATION

[Date]

Tenant Name: Ideal Power Inc.

Address: 4120 Freidrich Lane, Suite 100
Austin, Texas, 78744

The undersigned hereby confirms to Agellan Commercial REIT U.S. L.P. ("Landlord'') that the following are the respective dates required to be specified with regard to the Data Sheet of that certain Lease dated 2014, between the undersigned, as tenant, and Landlord, as landlord, for the Premises described therein, and the undersigned hereby accepts the Premises.

Commencement Date: _____

Expiration Date: _____

IDEAL POWER INC.

By: _____
Name: _____
Title: _____

Accepted and agreed to this ____ day of _____, _____.

AGELLAN
COMMERCIAL
REIT U.S. L.P.
By: Agellan Commercial REIT U.S. GP, Inc.
Its General Partner

By: _____
Name: _____
Title: _____

EXHIBIT D

MOVE OUT STANDARDS

Not later than the Restoration Date (as defined in the Lease), Tenant shall deliver the Premises to Landlord in the same condition as they were upon delivery of possession thereto under this Lease, reasonable wear and tear excepted, and shall deliver all keys to Landlord. Before delivery of the Premises to Landlord, Tenant shall remove all of its personal property and all alterations, additions, installations, improvements, partitions, Cabling and trade fixtures, all as and to the extent provided in Section 7 of this Lease. If Tenant fails to remove its personal property and fixtures upon the expiration of this Lease, the same shall be decmed abandoned and shall become the property of the Landlord.

The Tenant shall, on the Restoration Date, place the Premises in a condition that shall include, but is not limited to, the following:

1.	Lights:	Office and warehouse lights will be fully operational with all bulbs functioning.
2.	Dock Levelers & Roll Up Doors:	In good working condition.
3.	Dock Seals:	Free of tears and broken backboards repaired.
4.	Warehouse Floor:	Swept with no racking bolts and other protrusions left in floor. Cracks should be repaired with an epoxy or polymer.
5.	Tenant-Installed Equipment & Wiring:	Removed and space returned to original condition when originally leased. (Remove air lines, junction boxes, conduit, etc.).
6.	Walls:	Sheetrock (drywall) damage should be patched and fire-taped so that there are no holes in either office or warehouse.
7.	Roof:	Any tenant-installed equipment must be removed and roof penetrations properly repaired by a licensed roofing contractor selected or approved by Landlord. Active leaks must be fixed and latest Landlord maintenance and repairs recommendation must have been followed.
8.	Signs:	All exterior signs must be removed and holes patched and paint touched up as necessary. All window signs should likewise be removed.
9.	Heating & Air Conditioning System:	A written report from a licensed HVAC contractor within the last three months stating that all evaporative coolers within the Premises are operational and safe and in good and safe operating condition.
10.	Overall Cleanliness:	Clean windows, sanitize bathroom(s), vacuum carpet, and remove any and all debris from office and warehouse. Remove all pallets and debris from exterior premises.
11.	Upon Completion:	Contact Landlord’s property manager to coordinate date of turning off power, turning in keys, and obtaining final Landlord inspection of Premises.

EXHIBIT E

WORK LETTER ADDENDUM
[Landlord Performs Work - Allowance]

1. This Work Letter Addendum is attached to and a part of the Lease dated_____, 2014, (the "Lease") between Agellan Commercial REIT U.S. L.P. ("Landlord") and Ideal Power lnc. ("Tenant''), Tenant desires that Landlord perform certain leasehold improvement work in the Premises (as defined in the Lease)in accordance with the terms and conditions of this Work Letter Addendum.

2. Tenant's Initial Plans: the Work. Tenant desires Landlord to perform certain leasehold improvement work in the Premises in substantial accordance with the plan (the "Initial Plan") attached hereto as Schedule 1. Sueh work, as shown in the Initial Plan and as more fully detailed in the Working Drawings (as defined and described in Paragraph 3 below), shall be hereinafter referred to as the "Work." Within five (5) days following receipt of Landlord's request thereof. Tenant shall furnish to Landlord such additional plans, drawings, specifications and finish details as Landlord may reasonably request to enable Landlord's architects and engineers to prepare mechanical, electrical and plumbing plans and to prepare the Working Drawings, including a final telephone layout and special electrical connection requirements, if any. All plans, drawings, specifications and other details describing the Work which have been or are hereafter furnished by or on behalf of Tenant shall be subject to Landlord's approval, which Landlord agrees shall not be unreasonably withheld, provided they are consistent with the Initial Plan. Neither the approval by Landlord of the Work or the Initial Plan or any other plans, drawings, specifications or other items associated with the Work nor Landlord's performance, supervision or monitoring of the Work shall constitute any warranty by Landlord to Tenant of the adequacy of the design for Tenant's intended use of the Premises.

3. Working Drawings. If necessary for the performance of the Work and not included as part of the Initial Plan, Landlord shall prepare or cause to be prepared final working drawings and specifications for the Work (the ''Working Drawings") based on and consistent with the Initial Plan and the other plans, drawings, specifications, finished details and other information furnished by Tenant to Landlord and approved by Landlord pursuant to Paragraph 2 above. So long as the Working Drawings are consistent with the Initial Plan, Tenant shall approve the Working Drawings within three (3) days after receipt of same from Landlord by initialing and returning to Landlord each sheet of the Working Drawings or by executing Landlord's approval form then in use, whichever method of approval Landlord may designate. It is understood and agreed that Landlord shall have no obligation to proceed with the Work until Tenant has executed and delivered to Landlord that approved confirmation form.

4. Performance of the Work: Allowance. Landlord shall cause the performance of the Work using building standard materials, quantities and procedures then in use by Landlord ("Building Standards"). Landlord shall pay for a portion of the "Cost of the Work" (as defined below) in an amount not to exceed $177,384.00 (the "Allowance"), and Tenant shall pay for the entire Cost of the Work in excess of the Allowance. Tenant shall not be entitled to any credit, abatement or payment from Landlord in the event that the amount of the Allowance specified above exceeds the Cost of the Work. For purposes of this Agreement, the term "Cost of the Work" shall mean and include any and all costs and expenses of the Work, including, without limitation, the cost of any and all permits, plans, all architectural and engineering fees and costs, a construction management fee equal to four percent (4%) of the other costs comprising the Cost of Work, and all labor (including overtime) and materials constituting the Work.

5. Payment. Prior to commencing the Work, Landlord shall submit to Tenant a written statement of the total Cost of the Work (which shall include the amount of any overtime projected as necessary) as then known by Landlord, and such statement shall indicate the amount, if any, by which the total Cost of the Work exceeds the Allowance (the "Excess Costs"). Tenant agrees, within five (5) business days after submission to it of such statement, to execute and deliver to Landlord, in the form then in use by Landlord, an authorization to proceed with the Work, and Tenant shall also then pay to Landlord an amount equal to the Excess Costs. Landlord shall have no obligation to commence the Work until Tenant has fully complied with the preceding provisions of this Paragraph 5. In the event, and each time, that any change order by Tenant, unknown field condition, delay caused by acts beyond Landlord's control or other event or circumstance causes the Cost of the Work to be increased after the time that Landlord delivers to Tenant the aforesaid initial statement of the Cost of the Work, Landlord may deliver to Tenant a revised statement of the total Cost of the Work, indicating the revised calculation of the Excess Costs, if any. Within five (5) business days after submission to Tenant of any such revised statement, Tenant shall pay to Landlord an amount equal to the Excess Costs, as shown in such revised statement, less the amounts previously paid by Tenant to Landlord on account of the Excess Costs, and Landlord shall not be required to proceed further with the Work until Tenant has paid such amount. Delays in the performance of the Work resulting from the failure of Tenant to comply with the provisions of this Paragraph 5 shall be deemed to be delays caused by Tenant.

6. Substantial Completion. Landlord shall cause the Work to be "substantially completed" on or before the scheduled date of commencement of the Term subject to Force Manure Delays and also subject to "Tenant Delays" (as defined and described in Paragraph 7 of this Work Letter). The Work shall be deemed to be "substantially completed" for all purposes under this Work Letter and the Lease if and when Landlord or Landlord's contractor issues a written certificate to Tenant certifying that the Work has been substantially completed (i.e., completed except for "punch list" items listed in such certificate) in substantial compliance with the requirements of this Exhibit E. or when Tenant first takes occupancy of the Premises, whichever first occurs. If the Work is not deemed to be substantially completed on or before the scheduled date of the commencement of the Term, (a) Landlord agrees to use reasonable efforts to complete the Work as soon as practicable thereafter, (b) the Lease shall remain in full force and effect, (c) Landlord shall not be deemed to be in breach or default of the Lease or this Exhibit E as a result thereof and Landlord shall have no liability to Tenant as a result of any delay in occupancy (whether for damages, abatement of Rent or otherwise), and (d) except in the event of Tenant Delays and notwithstanding anything contained in the Lease to the contrary, the Commencement Date of the Term shall be extended to the date on which the Work is deemed to be substantially completed and the Expiration Date of the Term shall be extended by the number of days by which the Commencement Date was extended together with the number of days required to make the Term expire on the next occurring last day of the month. At the request of either Landlord or Tenant in the event of Suez extensions in the commencement and expiration dates of the Term, Tenant and Landlord shall execute and deliver an amendment to the Lease reflecting such extensions. Landlord agrees to use reasonable diligence to complete all punch list work listed in the aforesaid certificate promptly after substantial completion. Notwithstanding any term or provision of the Lease to the Guaranty, in the event the Work is substantially completed prior to the Commencement Date set forth on the Data Sheet of this Lease, the Commencement Date of this Lease shall be the date Landlord tenders possession of the Premises to Tenant with the Work substantially completed.

7. Tenant Delays. There shall be no extension of the scheduled commencement or expiration date of the Term (as otherwise may be permissibly extended under Paragraph 6 above) if the Work has not been substantially completed on said scheduled commencement date by reason of any delay attributable to Tenant ("Tenant Delays"), including without limitation:

(a) the failure of Tenant to furnish all or any plans, drawings, specifications, finish details or the other information required under Paragraph 2 above on or before the date stated in Paragraph 2 above;

(b) the failure of Tenant to comply with the requirements of Paragraphs 3 or 5 above;

(c) Tenant's requirements for special work or materials, finishes, or installations other than the Building Standards or Tenant's requirements for special construction staging or phasing;

(d) the performance of any Additional Work (as defined in Paragraph 8 below) requested by Tenant or the performance of any work in the Premises by any person, firm or corporation employed by or on behalf of Tenant, or any failure to complete or delay in completion of such work; or

(e) any other act or omission of Tenant or Tenant's agents, employees or contractors.

8. Additional Work. Upon Tenant's request and submission by Tenant (at Tenant's sole cost and expense) of the necessary information and/or plans and specifications for work other than the Work described in the Plans ("Additional Work") and the approval by Landlord of such Additional Work (which approval may be granted, withheld and/or conditioned by Landlord, in Landlord's sole discretion), Landlord shall perform Suez Additional W[r]ork, at Tenant's sole cost and expense, subject, however, to the following provisions of this Paragraph 8. Prior to commencing any Additional Work requested by Tenant, Landlord shall submit to Tenant a written statement of the cost of such Additional Work, and, concurrently with such statement of EOT, Landlord shall also submit to Tenant a proposed tenant extra order (the "TEO") for the Additional Work in the standard form then in use by Landlord. Tenant shall execute and deliver to Landlord such TEO and shall pay to Landlord the entire cost of the Additional Work within five (5) business days after Landlord's submission of such statement and TEO to Tenant. If Tenant fails to execute or deliver such TEO or pay the entire cost of such Additional Work within such 5-business day period, then Landlord shall not be obligated to do any of the Additional Work and may proceed to do only the Work, as specified in the Plans.

9. Tenant Access. Landlord hereby grants to Tenant a license to have access to the Premises at any time after the date which is sixty (60) days prior to the scheduled Commencement Date set forth on the Data Sheet to allow Tenant to install its furnishings, fixtures and equipment in the Premises to make the Premises ready for Tenant's use and occupancy (the "Tenant's Pre- Occupaney Work"). It shall be a condition to the grant by Landlord and continued effectiveness of such license that:

(a) Tenant shall give to Landlord a written request to have such access to the Premises not less than two (2) business days prior to the date on which such access will commence, which written request shall contain or shall be accompanied by each of the following items, all in form and substance reasonably acceptable to Landlord: (i) copies of all plans and specifications pertaining to Tenant's Pre-Occupancy Work; (ii) copies of all licenses and permits required in connection with the performance of Tenant's Pre-Occupancy Work; (iii) certificates of insurance (in amounts satisfactory to Landlord and with the parties identified in, or required by, the Lease named as additional insureds) and instruments of indemnification against all claims, costs, expenses, damages and liabilities which may arise in connection with Tenant's Pre- Occupancy Work; and (vii) assurances of the ability of Tenant to pay for all of Tenant's Pre-Occupancy Work and/or a letter of credit or other security deemed appropriate by Landlord securing Tenant's lien-free completion of Tenant's Pre- Occupancy Work.

(b) Such pre-Term access by Tenant and its representatives shall be subject to scheduling by Landlord.

(c) Tenant's employees, agents, contractors, workers, mechanics, suppliers and invitees shall work in harmony and not interfere with Landlord or Landlord's agents in performing the Work and any Additional Work in the Premises, Landlord's work in other premises and in common areas of the Building, or the general operation of the Building. If at any time any such person representing Tenant shall cause or threaten to cause such disharmony or interference, including labor disharmony, including, without limitation, a strike or other labor dispute, and Tenant fails to immediately institute and maintain such corrective actions as directed by Landlord, then Landlord may withdraw such license upon twenty-four (24) hours' prior written notice to Tenant.

(d) Any such entry into and occupancy of the Premises by Tenant or any person or entity working for or on behalf of Tenant pursuant to this Section 9 shall be deemed to be subject to all of the terms, covenants, conditions and provisions of the Lease, (specifically including the provisions regarding Tenant's improvements and alterations to the Premises), and excluding only the covenant to pay Base Rent, Operating Costs and utilities prior to the Commencement Date. Landlord shall not be liable for any injury, loss or damage which may occur to any of Tenant's Pre-Occupancy Work made in or about the Premises or to property placed therein prior to the commencement of the Term, the same being at Tenant's sole risk and liability. Tenant shall be liable to Landlord for any damage to the Premises or to any portion of the Work or Additional Work to the extent caused by Tenant or any of Tenant's employees, agents, contractors, workmen or suppliers.

10. Lease Provisions. The terms and provisions of the Lease are hereby supplemented. In the event of any conflict between the provisions of the Lease and the provisions of this Work Letter, the provisions of this Work Letter shall control. All amounts payable by Tenant to Landlord under this Work Letter shall be deemed to be additional rent under the Lease.

SCHEDULE 1

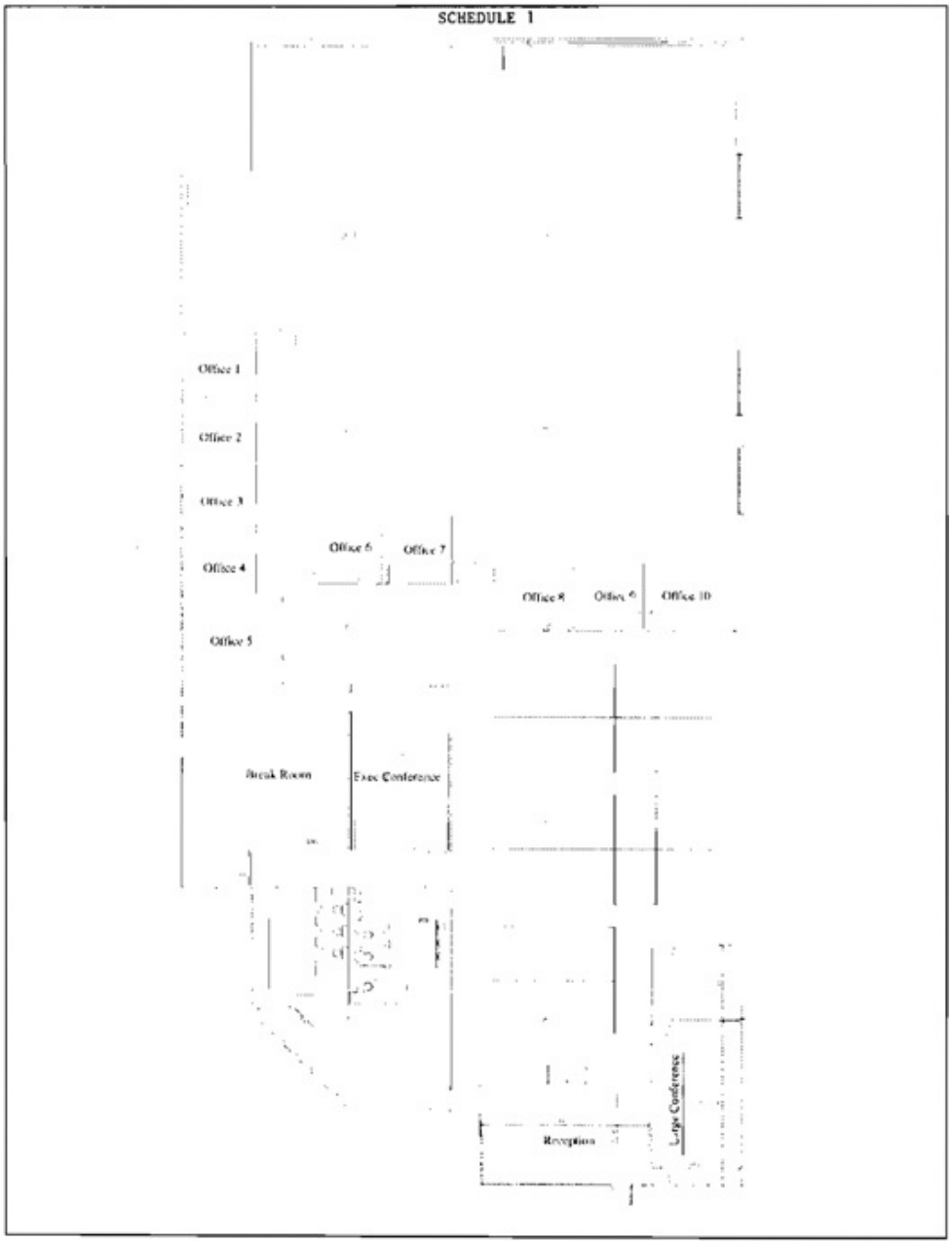
Office 1
Office 2
Office 3
Office 4
Office 5
Office 6
Office 7
Office 8
Office 9
Office 10
Break Room
Exec Conference
Reception
Large Conference

Exhibit 31.1

CERTIFICATION

I, R. Daniel Brdar, certify that:

1. I have reviewed this annual report on Form 10-K of Ideal Power Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15-d-15(e)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 28, 2014

/s/ R. Daniel Brdar

R. Daniel Brdar
Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Timothy Burns, certify that:

1. I have reviewed this annual report on Form 10-K of Ideal Power Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15-d-15(e)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 28, 2014

/s/ Timothy Burns
Timothy Burns
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION

In connection with the periodic report of Ideal Power Inc. (the "Company") on Form 10-K for the year ending December 31, 2013 as filed with the Securities and Exchange Commission (the "Report"), we, R. Daniel Brdar, Chief Executive Officer (Principal Executive Officer) and Timothy Burns, Chief Financial Officer (Principal Financial and Accounting Officer) of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of our knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

Date: March 28, 2014

/s/ R. Daniel Brdar
R. Daniel Brdar
Chief Executive Officer
(Principal Executive Officer)

/s/ Timothy Burns
Timothy Burns
Chief Financial Officer
(Principal Financial and Accounting Officer)