As filed with the Securities and Exchange Commission on August 6, 2013

Registration No. 333-_____

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

FORM S-1
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

IDEAL POWER INC.

(*Exact name of registrant as specified in its charter*)

Delaware		**14-1999058**
(*State or other jurisdiction of incorporation or organization)*	(*Primary Standard Industrial Classification Code Number)*	(*I.R.S. Employer Identification No.)*

5004 Bee Creek Road, Suite 600
Spicewood, Texas 78669
(512) 264-1542
(*Address, including zip code, and telephone number, including area code, of registrant's principal executive offices*)

Paul Bundschuh
Chief Executive Officer
Ideal Power Inc.
5004 Bee Creek Road, Suite 600
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(512) 264-1542
(*Name, address, including zip code, and telephone number, including area code, of agent for service*)

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As soon as practicable after the effective date of this Registration Statement.
(*Approximate date of commencement of proposed sale to the public*)

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box. [ ]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ]	Smaller reporting company [X]

(*Do not check if a smaller reporting company*)

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered [1]	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, $0.001 par value per share[2]	2,875,000	$ 5.00	$ 14,375,000	$ 1,960.75
Underwriter Warrant [3][4]		$	$ 1,000	$ 0.14
Common Stock underlying Underwriter's Warrant	287,500	$ 6.25	$ 1,796,875	$ 245.09
Total			**$ 16,172,875**	**$ 2,205.98**

(1) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended, for the public offering and Rule 457(a) for the offering by the security holder.

(2) Includes 375,000 shares of common stock representing 15% of the shares offered to the public that the underwriter has the option to purchase to cover over-allotments, if any.

(3) No registration fee required pursuant to Rule 457(g) under the Securities Act of 1933.

(4) Represents a warrant granted to the underwriter to purchase shares of common stock in an amount up to 10% of the number of shares sold to the public in this offering.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment, which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THESE SECURITIES MAY NOT BE SOLD UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND WE ARE NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED AUGUST 6, 2013

PRELIMINARY PROSPECTUS

2,500,000 Shares of Common Stock

We are offering 2,500,000 shares of our common stock, $0.001 par value, in a firm commitment offering, which share number reflects our proposed one for 2.381 reverse stock split (the "reverse stock split") described in this prospectus. After the effectiveness of the registration statement, of which this prospectus is a part, and concurrently with the pricing of the offering, we will effect the reverse stock split.

This is an initial public offering of our common stock. We expect the public offering price to be $5.00 per share (assuming the reverse stock split). There is presently no public market for our common stock. We intend to apply for listing of our common stock on the Nasdaq Capital Market under the symbol "IPWR," which listing we expect to occur upon consummation of this offering. No assurance can be given that our application will be approved. If our application to the Nasdaq Capital Market is not approved, or if we do not raise at least $10 million in this offering, we will not complete the offering or effect the reverse stock split.

We are an "emerging growth company" under the federal securities laws and will have the option to use reduced public company reporting requirements. Investing in our common stock involves a high degree of risk. See "Risk Factors" beginning on page 9 for a discussion of information that should be considered in connection with an investment in our securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

MDB Capital Group, LLC is the underwriter for our initial public offering. If we sell all of the common stock we are offering, we will pay to MDB Capital Group, LLC $1,250,000, or 10%, of the gross proceeds of this offering and non-accountable expenses equal to $187,500. For a more complete discussion of the compensation we will pay to the underwriter, please see the section of this prospectus titled "Underwriting". In connection with this offering, we have also agreed to issue to MDB Capital Group, LLC a warrant to purchase shares of our common stock in an amount up to 10% of the shares of common stock sold in the public offering, with an exercise price equal to 125% of the per-share public offering price.

	Per Share	Total
Public offering price	$ 5.00	$12,500,000.00
Underwriting discounts and commissions	$ 0.50	$ 1,250,000.00
Proceeds to us (before expenses) [(1)]	$ 4.50	$11,250,000.00

[(1)] Does not include a non-accountable expense allowance equal to $187,500 payable to MDB Capital Group, LLC, the underwriter. See "Underwriting" for a description of compensation payable to the underwriter.

The underwriter may also purchase an additional 375,000 shares of our common stock (assuming the reverse stock split) amounting to 15% of the number of shares offered to the public, within 45 days of the date of this prospectus, to cover over-allotments, if any, on the same terms set forth above.

The underwriter expects to deliver the shares on or about _____, 2013.

MDB Capital Group, LLC

The date of this prospectus is _____, 2013.

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

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with additional or different information. The information contained in this prospectus is accurate only as of the date on the front cover of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

No dealer, salesperson or any other person is authorized in connection with this offering to give any information or make any representations about us, the securities offered hereby or any matter discussed in this prospectus, other than those contained in this prospectus and, if given or made, the information or representations must not be relied upon as having been authorized by us. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any security other than the securities offered by this prospectus, or an offer to sell or a solicitation of an offer to buy any securities by anyone in any circumstance in which the offer or solicitation is not authorized or is unlawful.

Prospectus Summary

This summary highlights selected information contained elsewhere in this prospectus and does not contain all of the information that you need to consider in making your investment decision. You should carefully read this entire prospectus, as well as the information to which we refer you, before deciding whether to invest in our common stock. You should pay special attention to the "Risk Factors" section of this prospectus to determine whether an investment in our common stock is appropriate for you.

This registration statement, including the exhibits and schedules thereto, contains additional relevant information about us and our securities. With respect to the statements contained in this prospectus regarding the contents of any agreement or any other document, in each instance, the statement is qualified in all respects by the complete text of the agreement or document, a copy of which has been filed or incorporated by reference as an exhibit to the registration statement.

About Ideal Power Inc.

We design and develop technologies that aim to improve key performance characteristics of electronic power converters and inverters, including manufacturing cost, installation cost, weight, efficiency, reliability and flexibility. Our Power Packet Switching Architecture™ (PPSA) is an entirely new power conversion topology that uses software switching and 100% indirect power transfer. With PPSA, all of the power flows into and is temporarily stored in an AC link magnetic storage component. This allows PPSA-enabled products to provide isolation (which enables grounding) and still be significantly smaller than both transformer-based inverters and transformer-less inverters.

We believe that our technology can allow owners and operators of systems with a wide variety of power conversion needs to benefit from reduced costs and increased efficiency, reliability and flexibility. In addition, PPSA can reduce the compliance burden faced by users of transformer-less power converters. (Transformer-less converters are smaller than transformer-based converters, but they do not provide isolation, so they need significant additional protections to meet United States safety regulations.)

Our initial target markets will be the PV inverter, electrified vehicle DC charging, and distributed storage markets.

We were incorporated in Texas on May 17, 2007. We converted to a Delaware corporation on July 15, 2013. The address of our corporate headquarters is 5004 Bee Creek Road, Suite 600, Spicewood, Texas 78669 and our telephone number is (512) 264-1542. Our website can be accessed at www.idealpower.com. The information contained on, or that may be obtained from, our website is not, and shall not be deemed to be, a part of this prospectus.

The Industry

Recent trends in the sources and uses of energy are driving demand for electronic power converters. These trends include the migration toward intermittent renewable resources, an increased consumer demand for electrified vehicles, and a growing need to improve grid reliability and enable low cost off-grid renewable power systems in remote locations. However, the power electronics systems used in these markets have limitations in size, weight, cost, safety, efficiency, flexibility and reliability. We believe PPSA can improve upon existing technology on all of these parameters.

Currently, isolated power conversion requires several bulky, inflexible devices. These include bulk capacitors, power switches, line reactors and isolation transformers. These components are heavy and expensive. In addition, they are often custom-built for fixed functions, making them inflexible and not scalable. This process also imposes high electrical and thermal stresses, which can create safety and reliability issues.

Our Proprietary Technology

With PPSA, power flows through, and is temporarily stored in, an AC link magnetic storage component. The power therefore moves like a packet, and the switching of that packet through the stages of the PPSA process is what gives Power Packet Switching Architecture its name. Critically, this means that the entire process of isolated power conversion can take place in a single PPSA enabled device. A brief outline of the process is as follows:

Stage One: The AC Link is charged from the input

Stage Two: The AC Link stores electrical energy and switches (rotates) the input voltage/current to match the output voltage/current requirements

Stage Three: The AC Link releases power to the output

This process has several benefits. Many of these stem from the fact that PPSA requires fewer hardware components than conventional designs:

- Improved power-to-weight ratio. This is another way of saying that PPSA can deliver the same power as a traditional inverter in a much smaller form factor and lower weight. Lower weight using standard materials can lower material and manufacturing costs, as well as logistic costs of shipping, installation and maintenance. For example, Power One (one of the leaders in the power conversion space) currently offers a 27.6 kW transformer-less inverter that weighs 168 lbs., for a power-to-weight ratio of approximately 6.09 lbs./kW. (Please note that transformer-less inverters do not provide isolation; one of the key benefits they provide over traditional inverters is that they are smaller.) Our 30 kW inverter weighs only 97 lbs., for a power-to-weight ratio of approximately 3.23 lbs./kW.

- Best-of-class safety without significant additional safeguards. Stage Two of the PPSA process above provides electrical isolation between the input and the output without a transformer. This isolation means that PPSA systems can be grounded, so they achieve the same safety profile as transformer-based inverters. Transformer-less inverters, which cannot be grounded can only achieve that level of safety by integrating other safeguards, increasing system expense.

- Greater efficiency. PPSA delivers efficiencies above 96%. The efficiency of competing systems varies significantly depending on the application, but in some of our target applications, our PPSA solution has half the power losses of conventional solutions.

- Greater scalability/flexibility. The electronic power converter market is fragmented. PPSA can use a common hardware design with different embedded software to address different markets. PPSA's flexibility enables uses below 10 kW to over 1 MW.

- Greater reliability. Because PPSA uses no electrolytic capacitors, it eliminates many points of failure of conventional systems. We believe this and other design features will lead to increased reliability.

We are continuing to develop and extend the PPSA platform. This includes development work focused on bi-directional insulated gate bipolar transistors (BD-IGBTs). Using BD-IGBTs in our PPSA solution should yield further improvements in power density, manufacturing cost, and efficiency. The Department of Energy awarded us a $2.5 million ARPA-e grant to develop and commercialize BD-IGBT power switches to improve the performance of our solutions.

Our Business Model

Our business model is to license PPSA to original equipment manufacturers (OEMs). Our goal is to have OEMs sell our product to end users and share in the overall economic benefit; we expect this approach will allow us to save on staffing and working capital requirements. To serve the goal of licensing PPSA, we are building reference products that demonstrate the capabilities of PPSA to OEMs. We have already designed and built our first two reference products: a 30 kW photovoltaic (PV) inverter and a 30kW battery converter. These products have met rigorous industry standards and have been purchased by leading commercial and government customers, including Johnson Controls, Sharp Labs of America, the U.S. Navy, the National Renewable Energy Laboratory (NREL) and National Aeronautics and Space Administration (NASA). We are in the process of developing two more reference products: a 30kW 3-port hybrid converter and a 30kW micro-grid converter. Based on our research and testing, we believe our technology can scale down to 10 kW and up to 1 MW.

Our Target Markets

We believe there are dozens of markets that could benefit from PPSA's unique method of isolated transformer-less power conversion. Our initial focus will be on three strategic markets: solar photovoltaic (PV), distributed storage and electrified vehicle DC charging. We have chosen these initial markets based on their size and growth, the strength of the PPSA value proposition for those markets, and our time-to-market.

- PV inverter market: The PV inverter market is already large and still growing; industry analysts estimate it at $7.1 billion in 2013, with growth in the installed base from 30 GW in 2012 to over 58 GW in 2017 (a CAGR of 13.8%). Much of this growth is due to a rapid decline in the cost of solar cells. Operators who are trying to remove more cost from these systems have therefore now begun to turn to "balance of system" costs, as these now represent a larger percentage of total installation expense.

  Our 30kW PV inverter weighs 97 pounds compared to 1200 pounds from a typical transformer-based PV inverter. It also weighs about half as much as typical transformer-less PV inverters, which do not provide isolation and therefore need additional safeguards to meet US regulatory guidelines. This reduced weight means that our 30kW PV inverter can be cheaper to manufacture than the competition; it also means that it is cheaper to ship and install.

  Our reference product for this market is our 30kW PV inverter. As of March 31, 2013, this product had already been sold to 11 different PV inverter installation companies.

- Distributed storage market: This market is also growing extremely fast; industry analysts estimate that the U.S. market will grow from 1.4 MW of PV systems with integrated storage in 2012 to 900 MW in 2017, a CAGR of 264%.

  Our 30kW battery converter is our first reference product for this market. It is suitable for several emerging storage applications, including peak demand reduction. Our early customers for this application include Johnson Controls, Sharp and Powin Energy. We have also made commercial off the shelf (COTS) sales to NREL, the U.S. Navy and NASA.

Our next reference product for this market will be our 3-port hybrid converter, which will integrate PV with grid storage. We also plan to develop a 3-port micro-grid converter (expected Q4 2014) that will provide new embedded firmware capabilities supporting micro-grids. We expect this product will allow our customers to use our systems to lower the cost of combined PV and batteries for emergency backup power or to operate them in remote off-grid installations.

- Electrified vehicle DC charging market: The DC charging market is sometimes called the fast-charging market, as it can reduce charge time for a standard electric vehicle from 8 hours to 30 minutes. This market is growing extremely fast, spurred on by EV manufacturers such as Tesla and Nissan; industry analysts estimate that it will grow from $713 million in 2013 to $3.8 billion in 2020 (a CAGR of 27.1%), as the number of DC chargers grows from about 9,000 to about 98,000 over the same time period.

  Our 30 kW battery converter is our first reference product for this market, and is already installed at NREL in Colorado. We believe the efficiency, flexibility and cost benefits of PPSA will contribute to the spread of DC charging stations. Our partners in establishing early market leadership include the U.S. Department of Defense and NRG Energy.

  Our next reference product for this market (expected Q1 2014) will be a 30 kW hybrid converter that will exploit the multi-port capabilities of PPSA; it will have the ability to integrate DC charging with PV or stationary battery storage.

- Other markets: We plan to continue to evaluate new markets for PPSA based on their size and growth, the strength of the PPSA value proposition for those markets, and our time-to-market. We are studying PPSA's applicability to markets such as variable frequency drives (VFDs) for AC motors, uninterruptible power supply (UPS), utility dispatchable PV, and solid state transformers.

Reverse Stock Split and Offering Requirements

We will close this offering only if our listing application is approved by the Nasdaq Capital Market and only if we raise a minimum of $10 million in gross proceeds. If we are unable to meet either of these requirements, we will terminate the offering.

On June 13, 2013, our Board of Directors, and on July 5, 2013, stockholders holding a majority of our outstanding voting power, approved resolutions authorizing our Board of Directors to effect a reverse split of our common stock at an exchange ratio of between one-for-two and one-for-ten, with our Board of Directors retaining the discretion as to whether to implement the reverse split and which exchange ratio to implement. The reverse stock split is intended to allow us to meet the minimum share price requirement of The Nasdaq Capital Market. During August 2013, our Board of Directors determined that following the effectiveness of the registration statement, of which this prospectus is a part, and prior to the closing of this offering, the Board of Directors will effect the reverse stock split at a ratio of 1 share for each 2.381 shares.

Except as otherwise indicated and except in our financial statements, all information regarding share amounts of common stock and prices per share of common stock contained in this prospectus assume the consummation of the reverse stock split to be effected following effectiveness of the registration statement, of which this prospectus forms a part, and prior to the closing of this offering.

Status as an Emerging Growth Company

We are an "emerging growth company" as that term is defined in the Jumpstart Our Business Startups Act (the "JOBS Act"). Section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a Securities Act registration statement declared effective or do not have a class of securities registered under the Securities Exchange Act) are required to comply with the new or revised financial accounting standard. The JOBS Act provides that a company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such election to opt out is irrevocable. We have irrevocably elected to opt out of the transition period, and we have not utilized any provisions of the JOBS Act to date.

Ability to Continue our Operations

We experienced net losses of $4,647,219 and $1,750,939 for the years ended December 31, 2012 and 2011, respectively. At December 31, 2012, our net loss from inception was $7,200,514. Net loss for the quarter ended March 31, 2013 was $1,824,503, which increased the accumulated net losses to $9,025,017 as of March 31, 2013.

We will need financing to continue our operations, particularly for the support of our research and development efforts. We have no committed sources of capital and do not know whether additional financing will be available when needed on terms that are acceptable, if at all. The failure to satisfy our capital requirements will adversely affect our business, financial condition, results of operations and prospects.

Unless we raise funds in this offering, we will not have sufficient capital to continue our operations for the next 12 months. Even if we raise funds in this offering, they may be insufficient to sustain our operations for the next 12 months if our costs are higher than projected or unforeseen expenses arise.

Convertible Promissory Notes

We have issued $750,000 in senior secured convertible promissory notes that must be paid or converted into shares of our common stock on or before July 29, 2014, $4 million in senior secured convertible promissory notes that must be paid or converted into shares of our common stock on or before November 21, 2013, $1.142 million in convertible promissory notes that must be paid or converted into shares of our common stock on or before December 31, 2013, and we expect to issue an additional $213,394 in convertible notes to our legal counsel for services rendered in connection with this offering. Collectively, we refer to these promissory notes as the "Convertible Notes" in this prospectus. If we raise at least $10 million in this offering, all of the Convertible Notes will be converted into shares of our common stock. We do not plan to consummate this offering unless we raise at least $10 million, so our disclosures in this prospectus assume full conversion of the Convertible Notes into 1,682,606 shares of our common stock.

Risks Related to Our Business

Our business is subject to a number of risks. You should understand these risks before making an investment decision. If any of these risks actually occurs, our business, financial condition or results of operations would likely be materially adversely affected. In such case, the trading price of our common stock would likely decline, and you may lose all or part of your investment. Below is a summary of some of the principal risks we face. The risks are discussed more fully in the section of this prospectus below titled "Risk Factors."

- We have a limited operating history and it is uncertain whether we will ever be profitable. We anticipate future losses and negative cash flow, which may limit or delay our ability to become profitable.
- We may raise additional financing by issuing new securities that may have terms or rights superior to those of our shares of common stock, which could adversely affect the market price of our shares of common stock and our business.
- If we do not receive additional financing when and as needed in the future, we may not be able to continue our research and development efforts or accelerate the commercialization of our technology and materials.
- If we are unable to keep up with rapid technological changes, our technology may become obsolete.
- We may be unable to protect our intellectual property.
- We may not be able to reach production scales that are required to maintain manufacturing costs low enough to become profitable.
- We may not be able to convince customers to buy or to license our products due to our limited history.
- We may have significant reliability problems with our products, requiring extensive recalls and repair costs.
- We will face extensive competition from better-established power converter manufacturers.

THE OFFERING

The following summary contains basic information about our initial public offering and our common stock and is not intended to be complete. It does not contain all of the information that may be important to you. For a more complete understanding of our common stock, please refer to the section of this prospectus titled "Description of Capital Stock."

Issuer	Ideal Power Inc., a Delaware corporation.
Common Stock Offered By Us	2,500,000 shares of common stock, par value $0.001 per share.
Over-allotment Option	We have granted an option to our underwriter to purchase up to an additional 375,000 shares of common stock within 45 days of the date of this prospectus in order to cover over-allotments, if any.
Common Stock Outstanding Prior To This Offering	1,480,262 shares of common stock (1)
Common Stock Outstanding After This Offering	5,688,038 shares of common stock (1)(2)(3)
Use of Proceeds	We intend to use the net proceeds from our sale of common stock in this offering as follows: approximately $1.5 million will be used for new product research and development, approximately $5 million will be used for existing product development and commercialization, approximately $1 million will be used for the protection of our intellectual property, approximately $1 million will be used for the purchase of equipment and software, and the balance of the funds will be used for general corporate purposes. See "Use of Proceeds" and "Plan of Operation" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information.
Market And Trading Symbol For The Common Stock	There is currently no market for our common stock. We intend to apply for listing of our common stock on the Nasdaq Capital Market under the symbol "IPWR".
Underwriter Common Stock Purchase Warrant	In connection with this offering, we have also agreed to sell to MDB Capital Group, LLC and its designees a warrant to purchase up to 10% of the shares of common stock sold in this offering. If this warrant is exercised, each share may be purchased by MDB Capital Group, LLC at $6.25 per share (125% of the price of the shares sold in this offering.)

Lock-Up Agreements	Our officers, directors and employees, and 5% or greater holders of our equity securities as determined pursuant to Rule 13d-3 of the Securities Exchange Act of 1934, as amended, will have the securities they own locked up until the first anniversary of the Underwriting Agreement we will enter into with MDB Capital Group, LLC in conjunction with this offering (the "One Year Lock-Up"). The purchasers of our senior secured convertible promissory notes, including MDB Capital Group, LLC, are subject to lock-up requirements for periods that may last no more than 180 days following the date of this prospectus (the "Six Month Lock-Up"). The number of currently outstanding shares of common stock subject to the One Year Lock-Up totals 1,262,792 shares and the number of shares underlying options, warrants, and convertible promissory notes subject to the One Year Lock-Up totals 453,441 shares. The number of shares of common stock to be issued to, or that may be acquired by, the holders of our senior secured convertible promissory notes and MDB Capital Group, LLC that will be subject to the Six Month Lock-Up totals 2,455,231 shares. For more information about the lock-up agreements and requirements, see the section titled "Underwriting - Lock-Up Agreements" in this prospectus.
Offering Termination	If we fail to obtain approval from The Nasdaq Stock Market to list our common stock on the Nasdaq Capital Market or if we fail to raise at least $10 million of gross proceeds in this offering, we will not complete the offering.

(1) The number of shares of our common stock to be outstanding both before and after this offering is based on the number of shares outstanding as of June 30, 2013 and excludes:

- 158,108 shares of our common stock reserved for issuance under outstanding option agreements and 352,270 shares of our common stock reserved for issuance under option agreements that have been approved by the Compensation Committee of the Board of Directors but have not yet been issued;
- 487,713 shares of our common stock reserved for future issuance under our 2013 Equity Incentive Plan;
- 1,519,095 shares of our common stock reserved for issuance under outstanding warrant agreements; and
- 250,000 shares of our common stock issuable upon exercise of the warrant issued to MDB Capital Group, LLC.

Unless otherwise specifically stated, information throughout this prospectus assumes that none of our outstanding options or warrants to purchase shares of our common stock are exercised.

(2) Unless otherwise indicated, the number of shares of common stock presented in this prospectus excludes shares issuable pursuant to the exercise of the underwriter's over-allotment option.

(3) This number includes 2,500,000 shares of common stock that will be issued in this offering, 1,682,606 shares of common stock that will be issued to the holders of the Convertible Notes upon the completion of this offering, and 25,170 shares of common stock to be issued to our independent directors as compensation for their services.

SUMMARY SELECTED FINANCIAL INFORMATION

The table below includes historical selected financial data for each of the years ended December 31, 2012 and 2011, derived from our audited financial statements included elsewhere in this prospectus. The table below also includes historical financial data for the three-month periods ended March 31, 2013 and 2012, derived from our unaudited financial statements included elsewhere in this prospectus.

You should read the historical selected financial information presented below in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section and our financial statements and the notes to those financial statements included elsewhere in this prospectus. Historical results are not necessarily indicative of the results that may be expected for any future period.

	For the Years Ended December 31,		For the Quarters Ended March 31, (unaudited)	
	2012	2011	2013	2012
STATEMENT OF OPERATIONS:				
Revenue	$ 1,126,907	$ 860,771	$ 380,135	$ 132,182
Costs of goods sold	957,641	757,393	366,989	87,577
Gross Profit	169,266	103,378	13,146	44,605
Operating expenses	3,207,573	1,616,060	754,220	652,331
Loss from operations	(3,038,307)	(1,512,682)	(741,074)	(607,726)
Interest expense, net	(1,608,912)	(238,257)	(1,083,429)	(103,549)
Net loss	$ (4,647,219)	$ (1,750,939)	$ (1,824,503)	$ (711,275)
Basic and diluted net loss per share	(1.33)	(0.53)	(0.52)	(0.20)
Weighted average number of basic and diluted common shares outstanding	3,489,963	3,282,520	3,524,505	3,477,050

	December 31, 2012	December 31, 2011	March 31, 2013 (unaudited)
BALANCE SHEET DATA:			
Cash and cash equivalents	$ 1,972,301	$ 100,675	$ 1,215,986
Working capital (deficit)	528,603	(61,437)	(1,274,681)
Total assets	3,207,003	579,853	2,325,766
Total liabilities	3,308,397	1,750,750	4,196,841
Total stockholders' deficit	(101,394)	(1,170,897)	(1,871,075)

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 prospectus.

If any of the events described in the following risk factors actually occurs, or if additional risks and uncertainties that are not presently known to us or that we currently deem immaterial later materialize, 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 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 a power converter topology and our methods of operating said topology, 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 (a Nationally Recognized Test Laboratory), the California Energy Commission, and several 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.

Our independent registered public accounting firm has issued an unqualified opinion with an explanatory paragraph to the effect that there is substantial doubt about our ability to continue as a going concern. This unqualified opinion with an explanatory paragraph could have a material adverse effect on our business, financial condition, results of operations and cash flows. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources" and Note 2 to our financial statements included elsewhere in this prospectus.

Since our inception on May 17, 2007 through December 31, 2012, we sustained $7,200,514 in net losses and we had net losses at December 31, 2012 and 2011 of $4,647,219 and $1,750,939, respectively. We expect to continue to sustain losses for the foreseeable future. Net loss for the three months ended March 31, 2013 was $1,824,503, which increased the accumulated net losses to $9,025,017 as of March 31, 2013.

We began product sales in 2011 and shipped 14 units for $165,000. In 2012 we shipped 25 units for $266,000. In the first quarter of 2013, we shipped 15 units for $122,000. We also sold $10,000 in ancillary equipment, PV combiners made by SolarBOS. As sales of our products have generated minimal operating revenues, we have relied on sales of our debt securities to continue our operations. If we are unable to raise funds through sales of our securities, 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.

Two customers, the Department of Energy (ARPAE) and Lockheed Martin, accounted for 75% of net revenue for the year ended December 31, 2012. Two customers, Lockheed Martin and Meridian Solar, accounted for 85% of net revenues for the year ended December 31, 2011. The loss of one of these customers could cause an adverse effect on our operations. 72% of the Company's accounts receivable balance at December 31, 2012 was from the Department of Energy and 100% of accounts receivable at December 31, 2011 was from Lockheed Martin. Separate from the work for the Department of Energy and Lockheed Martin, the Company sold its product to eleven customers in 2012.

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 electric vehicle 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 building a 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 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.

Ultimately, 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 only 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 OEMs. Consequently, commercial success of our products will depend to a great extent on the efforts of others. We have entered and intend to continue entering 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 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.

We may in the future add production capabilities that would subject us to numerous additional risks and could adversely affect our business, financial condition, results of operations and prospects.

We currently rely on third parties to produce our products, but we may in the future add production capabilities and produce products ourselves. Adding production to our operations would subject us to numerous additional risks, including:

- the need to use significant capital resources for equipment purchases;
- increases to our operating expenses to add personnel and expertise to effectively and efficiently manufacture products;
- inaccurate estimates of customer demand for our products and the resources needed to meet customer demand; and
- diversion of management's attention from other aspects of our business.

If we expand our business to produce our own products, we cannot assure you that we will be able to produce our products in a profitable manner or at all. If we add production capabilities and any of the risks above are realized, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Our business is dependent upon our ability to obtain financing. If we do not obtain such financing, we may have to cease our activities and investors could lose their entire investment.

There is no assurance that we will operate profitably or generate positive cash flows in the future. We will require additional financing in order to sell our current products and to continue the research and development required to produce our next generation of products. We anticipate that we will need approximately $5 million during the next 12 months to sustain our business operations, including our research and development activities. We may not be able to obtain financing on commercially reasonable terms or at all. If we do not obtain such financing, our business could fail and investors could lose their entire investment.

In conjunction with an award we received through the State of Texas, we have granted the Office of the Governor, Economic Development and Tourism ("OOGEDT"), a security interest in all of our assets. If we breach the award agreement and do not repay the award funds, the OOGEDT will be entitled to exercise its right to foreclose on our assets. If that were to happen, your investment would become worthless.

On October 1, 2010, we received a Texas Emerging Technology Fund Award in the amount of $1 million through the Office of the Governor, Economic Development and Tourism ("OOGEDT"). If we are in breach of the terms of the award because, for example, we move our operations to a jurisdiction other than Texas, we fail to continue our business, or because the Office of the Governor finds that we made false or misleading statements to the OOGEDT to induce that office to make the award, the OOGEDT may demand repayment of the award funds that have been disbursed, which currently total $1,152,690 as of March 31, 2013. The OOGEDT has taken a security interest in our assets to secure the repayment of the funds in the event that we breach the terms of the award. If we breach the terms of the award and fail to repay the award funds, the OOGEDT would be entitled to exercise its right to foreclose on our assets. If that were to happen, your investment would become worthless.

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 must rely on raising funds from investors to support our 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 certain 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 Paul Bundschuh (Chief Executive Officer) and William Alexander (Chief Technology Officer). If we lose the services of either of these persons, we would likely be forced to expend significant time and money in the pursuit of replacements, which 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 either of these executives.

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.

Our business is highly competitive. 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, Satcon, 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. federal 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 could adversely affect our technology and products.

Our products are installed by system integrators that must meet National Electrical Codes, including using equipment that meets industry standards such as UL1741. The NEC standards address the safety of these systems. The NEC standards, as well as 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 photovoltaic 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 photovoltaic 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 storage, electrified vehicle charging infrastructure, wind, electric motor and related industries, we are subject to business cycles, the timing, length, and volatility of which 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 this Offering and Owning Our Common Stock

Prior to the completion of our initial public offering, there was no public trading market for our common stock.

The offering under this prospectus is an initial public offering of our securities. Prior to the closing of the offering, there will have been no public market for our common stock. While we plan to list our common stock on the Nasdaq Capital Market, we cannot assure you that our listing application will be approved, and that a public market for our common stock will develop. If our Nasdaq listing application is not approved, we will not complete the offering.

We are an "emerging growth company" under the JOBS Act of 2012 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 Jumpstart Our Business Startups Act of 2012 ("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, 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 do not intend to take advantage of these 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 of 2012 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 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.

Conversion of the Convertible Notes together with the exercise of outstanding warrants will result in substantial dilution to the investors in this offering.

Prior to the completion of this offering, we will have outstanding approximately $6.1 million in Convertible Notes with interest accrued, for the purpose of this discussion, through March 31, 2013. The Convertible Notes will be paid with 1,682,606 shares of our common stock. An additional 1,519,095 shares of our common stock may be purchased through the exercise of warrants and a right to purchase issued to the Office of the Governor, Economic Development and Tourism, in conjunction with the award we received from the Texas Emerging Technology Fund. Conversion of the notes and, if it occurs, exercise of all of the warrants, will result in substantial dilution to the investors in this offering.

We are required to register the shares of common stock underlying our senior secured convertible promissory notes and the warrants that were issued with them. The sale of these shares could cause the market price of our common stock to decline.

We have granted registration rights to the holders of our senior secured convertible promissory notes. Registration of the 1,370,267 shares of common stock underlying our senior secured convertible promissory notes and the 791,080 shares of common stock underlying the warrants issued with them could have the effect of driving down the price of our common stock in the market.

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 the common stock we are offering.

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, before this offering, beneficially own 56.8% of our common stock, as calculated in accordance with Rule 13d-3 promulgated under the Securities Exchange Act of 1934. After the issuance of our common stock in this offering and the conversion of the Convertible Notes, management will beneficially own 17.7% of our common stock, as calculated in accordance with Rule 13d-3. Holders of the common stock who purchase in this offering will not obtain majority control of the Company. 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 the common stock we are offering unless such investor is willing to entrust all aspects of the management of the Company to such individuals.

We have options for the purchase of 510,378 shares of our common stock outstanding and we may issue additional options in the future to employees, officers, directors, independent contractors and agents. Sales of the underlying shares of common stock could adversely affect the market price of our common stock.

We currently have outstanding options for the purchase of 510,378 shares of common stock. Of this amount, options for the purchase of 207,604 shares are held by non-affiliates. Once our common stock is publicly traded, non-affiliate holders may sell these shares in the public markets from time to time, without limitations on the timing, amount or method of sale. If our stock price rises, the holders may exercise their options and sell a large number of shares. This could cause the market price of our common stock to decline.

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 will be subject to reporting requirements of the Securities Exchange Act of 1934 and the Sarbanes-Oxley Act of 2002, 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 will operate in an increasingly demanding regulatory environment, which requires us to comply with applicable provisions of the Sarbanes-Oxley Act of 2002, or 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 we transition to operating 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.

Assuming a market for our common stock develops, shares eligible for future sale may adversely affect the market for our common stock.

To date we have issued approximately $5.9 million in principal amount of convertible promissory notes and we expect to issue an additional $213,394 in convertible notes to our legal counsel for services. If we raise gross proceeds of at least $10 million in this offering, the convertible promissory notes and those expected additional convertible notes will be converted into shares of our common stock either at the price per share in this offering or at a discount to the price per share in this offering. We do not plan to consummate this offering unless we raise at least $10 million. Therefore, assuming an offering price of $5.00 per share, the principal and interest accrued through March 31, 2013 under the promissory notes will be converted into 1,621,249 shares of our common stock and the expected additional convertible notes will convert into an additional 61,357 shares of common stock upon the consummation of this offering. We have also issued warrants for the purchase of 1,519,095 shares of our common stock. We have agreed to register for resale 1,370,267 shares of common stock together with 791,080 shares of common stock underlying the warrants issued in conjunction with our senior secured convertible promissory notes.

Furthermore, from time to time after we become subject to the reporting requirements of section 13 or section 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") for at least 90 days, certain of our stockholders may be eligible to sell all or some of their shares of common stock by means of ordinary brokerage transactions in the open market pursuant to Rule 144, promulgated under 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). Of the 1,480,262 shares of our common stock outstanding as of June 30, 2013, approximately 509,094 shares are held by "non-affiliates" and will be freely tradable without restriction pursuant to Rule 144, although 217,471 shares of common stock held by non-affiliates will be subject to a one year lock-up that will end on the first anniversary of the execution of the underwriting agreement entered into in connection with this offering.

Any substantial sale of our common stock pursuant to Rule 144 or pursuant to any resale prospectus (including sales by investors of securities acquired in connection with this offering) may have a material adverse effect on the market price of our common stock.

We may allocate the net proceeds from this offering in ways that differ from the estimates discussed in the section titled "Use of Proceeds" and with which you may not agree.

The allocation of net proceeds of the offering set forth in the "Use of Proceeds" section below represents our estimates based upon our current plans and assumptions regarding industry and general economic conditions, and our future revenues and expenditures. The amounts and timing of our actual expenditures will depend on numerous factors, including market conditions, cash generated by our operations, business developments and related rate of growth. We may find it necessary or advisable to use portions of the proceeds from this offering for other purposes. Circumstances that may give rise to a change in the use of proceeds and the alternate purposes for which the proceeds may be used are discussed in the section entitled "Use of Proceeds" below. You may not have an opportunity to evaluate the economic, financial or other information on which we base our decisions on how to use our proceeds. As a result, you and other stockholders may not agree with our decisions. See "Use of Proceeds" for additional information.

You will experience immediate dilution in the book value per share of the common stock you purchase.

Because the price per share of our common stock being offered is substantially higher than the book value per share of our common stock, you will experience substantial dilution in the net tangible book value of the common stock you purchase in this offering. Based on an assumed offering price of $5.00 per share, if you purchase shares of common stock in this offering, you will experience immediate and substantial dilution of $2.92 per share in the net tangible book value of the common stock at March 31, 2013. See the section titled "Dilution" below for a more detailed discussion of the dilution you will incur if you purchase common stock in this offering.

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

Upon the closing of this offering, provisions of 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, once we become a publicly traded corporation, 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.

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

This prospectus contains forward-looking statements. 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 prospectus. These statements may be found under the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" included in this prospectus, as well as in this prospectus generally. 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 limited cash and a history of losses;
- our ability to achieve profitability;
- our limited operating history;
- emerging competition and rapidly advancing 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;
- the adequacy of protections afforded to us by the patents that we own and the cost to us of maintaining, enforcing and defending those patents;
- our ability to obtain, expand and maintain patent protection in the future, and to protect our non-patented intellectual property;
- our exposure to and ability to defend third-party claims and challenges to our patents and other intellectual property rights;
- our ability to obtain adequate financing in the future;
- our ability to continue as a going concern;
- our success at managing the risks involved in the foregoing items; and
- other factors discussed in the "Risk Factors" section of this prospectus.

The forward-looking statements are based upon management's beliefs and assumptions and are made as of the date of this prospectus. We undertake no obligation to publicly update or revise any forward-looking statements included in this prospectus or to update the reasons why actual results could differ from those contained in such statements, whether as a result of new information, future events or otherwise, except to the extent required by federal securities laws. Actual future results may vary materially as a result of various factors, including, without limitation, the risks outlined under the section entitled "Risk Factors" and matters described in this prospectus generally. In light of these risks and uncertainties, we cannot assure you that the forward-looking statements contained in this prospectus will in fact occur. You should not place undue reliance on these forward-looking statements.

BUSINESS

Our Company

We are leaders in the development of an innovative electronic power conversion technology called Power Packet Switching Architecture (PPSA). PPSA is a radically new universal power conversion topology 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 customizable software. We have already placed significant patent protections on PPSA, 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 circuit (DC) and alternative 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, they create a need for power storage near the source of generation. Distributed power conversion plays a central role in this new infrastructure. Renewables require distributed power conversion to allow battery charging and voltage conversion to match grid characteristics. 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 electrified vehicle charging. Distributed power conversion can also improve grid reliability 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: traditional inverters and transformer-less inverters. Traditional inverters rely on transformers, which are big and heavy. Thus, inverters with transformers are costly to ship, install and manufacture.

Alternatively, transformer-less inverters are lighter, smaller and more efficient than transformer-based inverters. The main problem with 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 PV arrays. The US National Electrical Code prohibited the use of non-grounded systems until 2005, and still imposes stringent regulation 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 the system cost.

PPSA enables a size and weight profile even 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 partners, we have begun by developing and selling our reference products to demonstrate the capabilities of our technology to these future partners. Our primary business strategy is (1) to search for and evaluate licensing and partnership agreements with key players in the verticals for which we have developed PPSA reference products; (2) to develop new PPSA reference 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 photovoltaic (PV) inverter, distributed storage and electrified vehicle DC charging markets. We have completed reference products for the PV inverter and distributed storage markets, and are working to develop one for the electrified vehicle DC charging market.

We believe our reference 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 reference product ideal for several emerging grid storage solutions.

We are also evaluating related market applications for PPSA. We believe the combination of our technological leadership and intellectual property position enables us to partner with key players in our target markets and share in the economic benefits our technology can unlock. We also believe that our unique technology will allow us to deliver high value solutions to new high-growth emerging markets before competitors, enabling us to capture early market leadership in these markets.

Our Technology

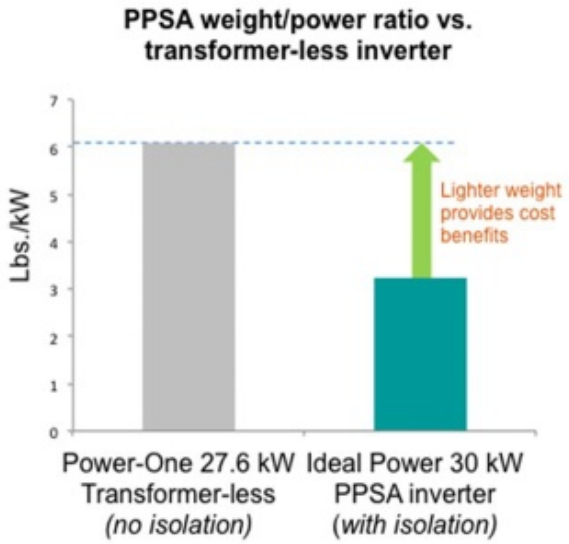
In our PPSA topology, power flows through and is temporarily stored in an AC link magnetic storage component. This power packet switching is the heart of our technology. After the AC link is charged, it is disconnected from both input and output, providing isolation without a transformer.

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 topologies. 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

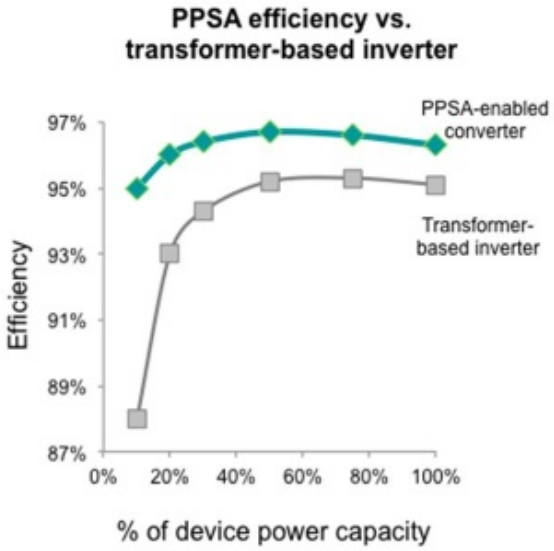


- Cost: Reduced weight results in lower manufacturing costs. PPSA technology uses off-the-shelf components and standard materials. In addition, lighter weight components save end customers on transportation and installation costs.

- 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.

• Efficiency: In the California Energy Commission (CEC) weighted efficiency test, our 30kW PV inverter efficiency is 96.5% as measured by Intertek, a leading Nationally Recognized Testing Laboratory (NRTL). This is one of the highest PV inverter efficiencies shown on the CEC website for approved PV inverters. In addition, our battery converter has achieved efficiencies of over 96%, which is superior to industry-standard.

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 below 10 kW to over 1 MW.

• Reliability: The end result of our technology is a simplified product that eliminates several common of 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 Bidirectional Insulated Gate Bipolar Transistor (BD-IGBT) with funds from a U.S. Department of Energy's $2.5 million ARPA-E (Advanced Research Projects Agency-Energy) grant. If successful, we believe these new BD-IGBTs will further improve our key technology metrics. We have two leading research universities and commercial vendors working on this project under our direction.

Business Strategy

Our business strategy is to promote and expand the uses of our PPSA platform technology through licensing and partnership agreements and to further develop our technology and its applications.

Licensing Approach: We are focused on licensing our proprietary power conversion PPSA technology to Original Equipment Manufacturers (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 unique products (based on PPSA) to system integrators. We are targeting leading OEMs in the PV inverter, distributed storage converter, and electrified vehicle DC charging markets as potential commercial licensees of our PPSA technology. We believe partnerships with key licensees will enable us to reap the benefits of our technology much faster than by manufacturing, distributing or installing products ourselves. 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 partnerships in different market sectors.

Reference Products: Our reference products demonstrate the advantages of our technology for potential OEM partners. As noted above, we have completed development of our first two reference products, a 30kW photovoltaic inverter (for the PV market) and a 30kW battery converter (for the distributed 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 reference product is a 30kW 3-port hybrid converter, intended for integrating PV, grid storage, and DC charging systems with greater energy and cost-efficiency than conventional solutions. After that, we intend to develop a 30kW micro-grid converter that will add new capabilities to support off grid and emergency back-up power applications.

Figure 4: Planned Product Pipeline

We are focusing our future development efforts on our next-generation Bidirectional Insulated Gate Bipolar Transistor (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. Once we move to bi-directional switches that conduct and block current in both directions, however, we will be able reduce the number of components in our system, which will reduce material costs and improve efficiency even further. Our BD-IGBT development effort is being funded partially with funds from the U.S. Department of Energy's $2.5 million ARPA-E (Advanced Research Projects Agency-Energy) grant. If successful, this project would enhance several key metrics of the PPSA platform.

Figure 5: Incremental Benefits of BD-IGBT Implementation

	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 BG-IGBT to be developed.

We intend to pursue upgrades to the PPSA platform to continuously improve the value proposition of our technology.

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 and know-how. We are pursuing an aggressive intellectual property strategy. Thus far we have identified more than 50 specific inventions we believe to be novel and patentable. We are pursuing a proven ideation process to enhance and continue these discoveries.

We have 17 issued U.S. patents and 41 additional pending U.S. patents and provisional patent applications. We have 12 pending foreign patent applications which, barring unforeseen problems, are expected to provide patent protection in 45 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.

Our background research has not identified any public information, such as patents or published articles, relating to our technology that would affect our freedom to operate.

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 transform large global markets that currently rely upon high-power electronic power converters, including photovoltaic inverters, electrified vehicle charging infrastructure, grid-storage battery converters and micro-grids. Several of these are already multi-billion dollar global markets and others are projected to grow at more than one hundred percent annually for the next several years. We are carefully selecting which market segments to participate in based on time-to-market for our PPSA platform, market size/growth rate, and the size of the customer benefit that we expect to deliver. 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 2013. Analysts also forecast significant growth in the installed base of PV inverters, from 30 GW in 2012 to over 58 GW 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 reference 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. This product has industry standard features and as of March 31, 2013, initial production units have been sold to 11 different PV inverter installation companies with installations in Texas, California, Oregon and Colorado.

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

Distributed 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 hurts the value proposition 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 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 with 2013 utility rate schedules. 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 storage systems in the US.

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%.

This is one of the high value, high growth markets that we are targeting with our PPSA reference products. We have achieved early design wins from leading customers with our 2-port battery converter.

Our reference product for this market is a 30 kW battery converter. It is suitable for several emerging grid storage applications including commercial peak demand reduction, utility load shifting buffering high power electrified vehicle DC chargers and bidirectional DC chargers.

The battery converter for this usage completed industry certification in January 2013. As of March 31, 2013, this product has been sold to 8 different customers in California, Colorado, Washington, Wisconsin, Ohio, and Oregon. Commercial sales have been made to Johnson Controls, Sharp, Powin Energy and others. Commercial Off The Shelf (COTS) government sales have been made to the National Renewable Energy Laboratory, the U.S. Navy, and NASA.

We plan to migrate early customer designs from our 2-port battery converter to our 3-port hybrid converter when it becomes available. This will allow a lower cost, more efficient integrated solution for supporting both commercial-scale grid storage and PV inverter functions. We plan to further develop a 3-port microgrid converter that will use similar hardware to the hybrid converter but will also provide new embedded firmware microgrid capabilities. 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 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 both plug-in hybrid electric vehicles (PHEV) and fully electric vehicles (EV) from car manufacturers.

A major limitation of electrified vehicles is their limited driving range on batteries and the recharging time to extend this range. EVs and PHEVs 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 market for EVSE (electric vehicle supply equipment) to be $713 million in 2013 and to reach $3.8 billion by 2020, a CAGR of 27.1%, with shipments of DC Chargers increasing from 9,000 in 2013 to 98,000 in 2020.

DC chargers create high peak loads when charging a vehicle and no loads when not charging. This duty cycle can create high demand charges, creating 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-based battery charger is 95% efficient. Competing chargers have 90% efficiency, which means that they waste twice as much energy as our products do.

Our hybrid converter product will be a disruptive technology that we believe could have a major 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 with our early partners including NRG and the U.S. Department of Defense. We are also working with NREL to demonstrate next generation DC charger features, including vehicle-to-grid (V2G) solutions that allow EVs to provide power back to the utility grid.

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

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 VFD motor drive market, uninterruptible power supply (UPS) market, or the solid-state transformer market. We will continue to evaluate new markets on their fit with the criteria we outlined above: time-to-market for our PPSA platform, market size/growth rate, and the size of the customer benefit that we expect to deliver.

Early Development Partnerships

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

Lockheed Martin: We received approximately $1.3 million in early revenues from Lockheed Martin Corporation (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 exclusive right to use our initial patents for government applications and the non-exclusive right to use our initial patents for 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." We retain the right to sell COTS products to any customer, including the U.S. Department of Defense.

LMC is required to pay us a royalty of 3% on sales of any products that leverage our technology. Additionally, LMC is required to pay us minimum annual royalties in order to retain its exclusive rights for government applications. The minimum annual royalty for exclusive government applications increases to $200,000 in 2014, and thereafter by an additional $100,000 each year, until it reaches $500,000 per year. LMC may choose not to pay the minimum annual royalty, in which case it would lose the exclusive rights to our technology for government applications. We have earned $0.16 million in annual licensing revenues from LMC through March 2013.

Department of Energy: We have been awarded two significant grants from the U.S. Department of Energy (DOE). We have received approximately $1.0 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 have received an award of $2.5 million from ARPA-E (Advanced Research Projects Agency – Energy). This award will be used to reimburse costs we incur on a three-year project that began in January 2012. This award is being used to develop and commercialize a new type of semiconductor power switch called a silicon bi-directional integrated gate bipolar transistor (BD-IGBT). 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. Two leading research universities, Rensselaer Polytechnic Institute and Virginia Tech, in addition to several commercial vendors are working under our direction and are receiving the majority of the ARPA-E program funding.

Our second DOE award was a $150,000 Phase I SBIR (Small Business Innovation Research) grant. This grant has been used to develop early prototypes of a 3-port hybrid converter. We completed this project in May 2013. We are applying for a $1 million Phase II grant to fund further development of this concept. We hope to include advanced converter capabilities for micro-grids into a Phase II program, if awarded.

National Renewable Energy Laboratory: On May 13, 2013 we announced a Cooperative Research and Development Agreement (CRADA) to use our topology to develop and test next generation electric vehicle DC charging infrastructure solutions. The goal of the partnership is to create standard reference designs using our patented topology 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 electrified vehicles, solar panels, storage batteries and electric grid, as well as provide grid 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 Topologies: They 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 efficiencies 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 Topologies: Transformer-less inverters are the norm in the European market for photovoltaic 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: These inverters provide isolation without the weight of a transformer-based inverter. However, high frequency (HF) inverters lose competiveness as they scale-up in power. This is because in contrast to traditional inverters, HF inverters do not become more efficient or less costly per amount 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, 2012 and December 31, 2011, we incurred $1,127,192 and $914,851 in research and development expense. During the quarters ended March 31, 2013 and March 31, 2012, we incurred $256,348 and $352,841 in research and development expense.

Manufacturing

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

Employees

As of August 5, 2013, we had 10 full-time employees, two full-time contract employees and two part-time contract employees. None of these employees are covered by a collective bargaining agreement, and we believe our relationship with our employees is good. We also employ consultants, including technical advisors, on an as-needed basis to supplement existing staff. Consultants and technical advisors provide us with expertise in mechanical engineering, electrical engineering, and other specialized areas of engineering and science.

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 electrified vehicle 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, a leading NRTL, for these certifications and have successfully 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, improved grid efficiency, and EVs will impact growing markets that we service. Utility regulations and support for these markets 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.

Properties

Our principal office is located at 5004 Bee Creek Road, Suite 600, Spicewood, Texas 78669. We currently lease approximately 4,000 square feet of office and laboratory space under a triple net lease that is due to expire in May 2014. The rent is approximately $3,200 per month.

Legal Proceedings

We are not a party to any pending legal proceedings.

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 section of this prospectus titled "Summary Selected Financial Information" and our financial statements and related notes appearing elsewhere in this prospectus. In addition to historical information, this discussion and analysis here and throughout this prospectus contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited, to those set forth under "Risk Factors" and elsewhere in this prospectus.

OVERVIEW

We are located near Austin, Texas. We were formed to develop and commercialize our Power Packet Switching Architecture (PPSA) technology that 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 technology licensing revenue, and through U.S. Department of Energy grants. Our total revenue generated from inception to date as of March 31, 2013 is $2,770,813, with the majority of that revenue coming from non-recurring events such as engineering fees and government grants. This non-recurring revenue has been successfully applied for research and product development, reducing our capital requirements.

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 firmware. We are currently developing our third product, which is a 30kW 3-port hybrid converter.

These are reference design 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 strategic 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 energy storage, and electrified vehicle 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 is highly innovative and 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 reference designs. We plan to integrate our proven PV inverter functionality with grid storage and/or DC charging functionality to create high value hybrid and micro-grid systems.

The distributed energy storage market is a new 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 won several design wins with strategic 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 to potential licensees as they evaluate our converters for possible integration into their commercial grid storage market offering. We are currently negotiating a strategic supplier agreement with an industry leader in this market, although we cannot provide any assurance that this potential agreement will be consummated. We believe our ability to negotiate attractive licensing terms would improve if high market demand is established for our reference design products.

We believe the electrified vehicle DC charging market may be our fastest growing market opportunity. Our approach to this market offers features to reduce installation costs, operational costs, and create new value-added capabilities. Similar to the distributed energy storage market, we are working with several strategic customers to achieve design wins and help them integrate our product into their solution. Our initial focus is on the California DC charging market and we believe we can achieve design wins and ecosystem partners in this space.

We also continue to develop next generation products including our 3-port hybrid converter and new power switch components that we believe will further extend the differentiation and value of our reference design products. We believe that we are offering a long term solutions roadmap for our selected customers and markets that can establish our PPSA technology as the market leading solution.

We have released and are selling our first two commercial products, which have generated limited revenue to date. We expect these products to generate additional revenues; however, in the near term, these revenues may not be adequate to cover the costs of our operations.

Our financial statements contemplate the continuation of our business as a going concern. We are subject to the risks and uncertainties associated with a new business, including lack of operating capital, lack of personnel and lack of demand for our products. We have no established source of capital, we have limited commercial product revenue and we have incurred significant debt and significant losses from operations since inception. These matters raise substantial doubt about our ability to continue as a going concern.

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 we will continue making improvements to all of our products based on customer feedback from system installations. 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 this offering to continue our product research and development, protect our intellectual property, and explore market opportunities, as well as for working capital and other general corporate purposes. The net proceeds from this offering are anticipated to be approximately $10.5 million, which is expected to be sufficient to fund our activities for the next two years following the offering. 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 up to approximately 15-25 employees; however, this is highly dependent on the nature of our development efforts. We anticipate adding employees in the areas of research and development, sales and marketing, and general and administrative functions 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 during the two years following this offering, but these are highly dependent on the nature of the operations where co-development activities are ongoing. We also have issued $4 million in senior secured convertible promissory notes that must be paid on November 21, 2013, $750,000 in senior secured convertible promissory notes that must be paid on July 29, 2014, and $1.142 in convertible promissory notes that must be paid on December 31, 2013, if the notes are not converted to shares of our common stock prior to their maturity dates.

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 will have significant discretion in the use of any net proceeds. Investors will be relying on the judgment of our management regarding the application of the proceeds of any sale of our common stock.

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.

Basis of Presentation. Our financial statements have been prepared in conformity with accounting principles generally accepted in the United States, which contemplate continuation of the Company as a going concern. However, we are subject to the risks and uncertainties associated with a new business, we have limited sources of revenue, and we have incurred significant losses from operations since inception. Our operations are dependent upon it raising additional capital. These matters raise substantial doubt about our ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that could result from the outcome of this uncertainty.

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". We generally sell our products freight-on-board (FOB) 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.

Royalty income is recognized as earned based on the terms of the contractual agreements.

Research and Development. The cost of research and development is expensed as incurred.

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 costs of all employee stock options, as well as other equity-based compensation arrangements, are reflected in the financial statements based on the estimated fair value of the awards on the grant date. That cost is recognized over the period during which an employee is required to provide service in exchange for the award. Stock compensation for stock granted to non-employees is determined as the fair value of the consideration received or the fair value of equity instruments issued, whichever is more reliably measured.

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 using the Black-Scholes option pricing model and the respective allocated proceeds to the warrants is recorded in additional paid-in capital. 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.

RESULTS OF OPERATIONS

Comparison of the three months ended March 31, 2013 to the three months ended March 31, 2012

Revenues. Revenues for the first quarter of 2013 of $380,135 were $247,953 higher than the $132,182 we earned in revenues for the first quarter of 2012. The increase in revenue was due to a $160,956 increase in grant revenues, the majority of which came from our Department of Energy grant. In the first quarter of 2012, revenue from the sale of products and services was $45,900 and was attributed to work performed for Lockheed Martin. In the first quarter of 2013, revenue from the sale of products, which consisted of 5 battery units, 10 inverters and 16 combiners, was $132,897.

Cost of Revenues. As a result of the increase in sales of our products, cost of revenues increased for the three months ended March 31, 2013, to $366,989 from $87,577 for the quarter ended March 31, 2012, an increase of $279,412 or approximately 319%.

Gross profit. Gross profit for the first quarter of 2013 and 2012 was $13,146 and $44,605, respectively. The first quarter of 2012 benefited from higher margins received on contract services for Lockheed Martin. The margin in the first quarter of 2013 was low because grant expense was in excess of grant revenue.

*Operating Expenses***.** Operating expenses consist of general and administrative activities, research and development, and sales and marketing, which increased by $101,889 during the three months ended March 31, 2013, to $754,220 as compared to operating expenses of $652,331 for the three months ended March 31, 2012. While general and administrative costs increased by $181,472, research and development expense of $256,348 for the first quarter of 2013 was $96,493 lower than the $352,841 incurred in the first quarter of 2012. The research and development costs in the first quarter of 2012 were higher due to increased expenses from certification testing that was performed during that quarter on our inverter product.

*Loss from Operations***.** Due to the increase in our operating expenses, our loss from operations for the first quarter of 2013 of $741,074 was $133,348 or 21.9% higher than the $607,726 loss from operations for the quarter ended March 31, 2012.

Interest Expense. Interest expense increased from $103,549 in the first quarter of 2012 to $1,083,429 in the first quarter of 2013, an increase of $979,880, of which $959,956 was due to an increase in amortization of debt discount**.**

*Net Loss***.** Primarily as a result of the increase in our operating expenses and interest expense, our net loss for the quarter ended March 31, 2013, was $1,824,503 as compared to a net loss of $711,275 for the quarter ended March 31, 2012, an increase of $1,113,228.

Comparison of Years Ending December 31, 2012 and 2011

Revenues. During 2012 and 2011, our revenues totaled $1,126,907 and $860,771, respectively, an increase of $266,136 or approximately 31%. Revenues from grants totaled $707,357 and $26,581 in 2012 and 2011, respectively. Of the $707,357 of grant revenue received in 2012, $693,938 was from the Department of Energy. Revenues from royalty income totaled $100,000 and $20,000 in 2012 and 2011, respectively, pursuant to the minimum licensing fees required by our licensing agreement with Lockheed Martin. Revenues from the sale of product and services totaled $319,550 and $814,190 in 2012 and 2011 respectively. The sale of product and services included contract revenues from Lockheed Martin of $53,900 and $649,440 in 2012 and 2011, respectively. The contract revenue from Lockheed Martin declined in 2012, since the project required lower levels of our services. Sales of converter products totaled $265,650 for 25 units in 2012 and $164,750 for 14 units in 2011.

Cost of Revenues. As a result of the increase in sales of our products, cost of revenues increased for the year ended December 31, 2012, to $957,641 from $757,393 for the year ended December 31, 2011, an increase of $200,248 or approximately 26%. Gross margin increased from 12% to 15% in 2012, largely due to an additional $80,000 in royalty income received in 2012.

Operating Expenses. Operating expenses, consisting of general and administrative expenses, research and development, and sales and marketing, increased by $1,591,513 during the year ended December 31, 2012, to $3,207,573 as compared to operating expenses of $1,616,060 for the year ended December 31, 2011. The most significant increase was related to the increase in professional services, which totaled $1,139,886 for the year ended December 31, 2012, as compared to $147,356 for the year ended December 31, 2011. This increase resulted primarily from the payment for business consulting and legal services. Both research and development and general and administrative expense also increased as a result of an increase in full time equivalent employees from 6.5 during the year ended December 31, 2011, to 9 during the year ended December 31, 2012. If our operations grow as expected, we anticipate that the number of our employees will continue to increase.

Loss from Operations. Due to the increase in our operating expenses, our loss from operations increased during 2012 by $1,525,625 or approximately 100%, to $3,038,307 for the year ended December 31, 2012, as compared to $1,512,682 for the year ended December 31, 2011.

Interest Expense. Interest expense increased from $238,257 in 2011 to $1,608,912 in 2012 due to an increase of $1,295,920 in amortization of the debt discount.

Net Loss. Primarily as a result of the increase in our operating expenses and interest expense, our net loss for the year ended December 31, 2012, was $4,647,219 as compared to a net loss of $1,750,939 for the year ended December 31, 2011, an increase of $2,896,280.

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, preferred stock (later converted to common) and debt securities.

As of March 31, 2013, and December 31, 2012, we had cash and cash equivalents of $1,215,986 and $1,972,301, respectively.

Our net working capital decreased from a positive $528,603 as of December 31, 2012, to a negative $1,274,681 as of March 31, 2013, mainly due to the increase in our current portion of long term debt from $1,313,146 to $2,350,532, due to the amortization of the debt discount, as well as due to the cash expended for operating activities.

Operating activities in the first quarter of 2013 resulted in cash outflows of $717,133, which were due primarily to the net loss for the quarter of $1,824,503 offset by amortization of total debt discount in the amount of $1,037,386.

Investing activities during quarters ended March 31, 2013 and 2012 resulted in cash outflows of $59,182 and $63,614, respectively, for development of patents and acquisition of fixed assets.

During the quarter ended March 31, 2013, we did not raise any additional funds. In the quarter ended March 31, 2012, we raised $202,704 in gross proceeds from the sale of convertible promissory notes and $52,000 from the sale of stock.

During the year ended December 31, 2012, we raised $4 million in gross proceeds from the sale of our senior secured convertible promissory notes, $695,000 in other convertible promissory notes, and $52,000 from the sale of stock. We have no committed sources of financing and, in the near term, we do not expect to earn enough revenues from the sale of our products to support our operations. The report from our independent registered public accounting firm states that there is a substantial doubt about the Company's ability to continue as a going concern.

At December 31, 2012 and 2011, we had $1,972,301 and $100,675 in cash and cash equivalents, respectively. Our net working capital increased $590,040 in 2012 from a negative $61,437 as of December 31, 2011, to a positive $528,603 in December 31, 2012, due to debt financing.

Operating activities in 2012 resulted in cash outflows of $2,251,489, which were due primarily to the loss for the year of $4,647,219 offset by amortization of debt discount in the amount of $1,472,904 and the fair value of warrants issued for consulting services in the amount of $670,947.

Investing activities during 2012 and 2011 resulted in cash outflows of $309,035 and $150,811, respectively, for the development of patents and acquisition of fixed assets.

Financing activities during 2012 and 2011 generated $4,432,150 and $1,363,376, respectively, in net cash from the issuance of debt and common stock.

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 this offering 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 this offering 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 prospectus, we are not aware of any trends, events or uncertainties that are likely to have a material effect on our financial condition.

DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table sets forth the names and ages of all of our directors and executive officers. The Company's board of directors plans to fill a vacancy on the board of directors by appointing an additional independent director prior to our listing on the Nasdaq Capital Market. Our officers are appointed by, and serve at the pleasure of, the board of directors.

Name	Age	Position
Paul Bundschuh	51	Chief Executive Officer and Chairman of the board of directors
William C. Alexander	57	Chief Technology Officer
Christopher P. Cobb	43	President, Chief Operating Officer and Director
Barry Loder	56	Chief Financial Officer
Charles De Tarr	56	Vice President, Finance and Secretary
Mark L. Baum	40	Director
Lon E. Bell, Ph.D.	72	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.

Paul Bundschuh, Chief Executive Officer and Chairman of the Board

Mr. Bundschuh joined Ideal Power in May 2009. Since September 2012, he has been Chief Executive Officer and Chairman of our board of directors. In this role, he has guided our business strategy and overseen our fundraising and sales/marketing efforts. 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. Mr. Bundschuh's extensive knowledge of renewable energy technology and his experience in marketing and business development, particularly for start-up companies, led us to believe that he should serve as a director.

Christopher Cobb – President, Chief Operating Officer and Director

Mr. Cobb joined Ideal Power in May 2012 as Chief Executive Officer and a director. In this capacity, he focused on business strategy and obtaining funding for our operations. In September 2012, Mr. Cobb transitioned to President and Chief Operating Officer, where he focuses on our operations, strategy for development of our business and the implementation of that strategy. From December 2011 through May 2012, Mr. Cobb was an independent consultant to businesses of varying sizes, providing guidance on business strategy and organizational development. Mr. Cobb served as President, Director and Chief Financial Officer of HEIT, Inc. from September 2010 through November 2011, where he focused on finance, mergers and acquisitions and the integration of HEIT with Simpler-Webb, Inc. Mr. Cobb left HEIT after the firm was sold to Computer Services Inc. (OTCQX: CSVI). From February 2009 through September 2010, Mr. Cobb was CEO and Director of Simpler-Webb Inc., and was responsible for overall company strategy and management. He led the effort to merge with HEIT and subsequently led the integration effort of those two firms. Mr. Cobb was CFO and director of Simpler-Webb from April 2002 through February 2009. Prior to April 2002, Mr. Cobb held various positions at United Airlines, McKinsey and Company and Andersen Consulting. Mr. Cobb holds a Master of Business Administration from the Kellogg Graduate School of Management and a Bachelor of Science in Mechanical Engineering from the University of Texas at Austin. Mr. Cobb's experience as a consultant providing guidance on business strategy and organizational development and as a member of the board of directors of Simpler-Webb led us to conclude that he should serve as a director.

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

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. 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.

Barry Loder – Chief Financial Officer

Barry Loder was appointed as our Chief Financial Officer, on a part-time basis, in July 2013. Mr. Loder will begin full-time duties with us following the completion of this offering. Until he joins Ideal Power Inc., Mr. Loder is, and has been since March 2012, the Executive Vice President/Chief Operating and Financial Officer of Shield Air Solutions, Inc., a specialty manufacturer of industrial environmental control systems located in Houston, Texas. At Shield Air Solutions, Mr. Loder is responsible for all manufacturing, sales, marketing, operational, procurement and financial matters for the company. From April 2010 to March 2012, Mr. Loder was a principal at BCL Partners, a financial consulting company, that assisted small and mid-size companies in the areas of corporate growth strategies, initial public offerings, financings and merger and acquisition activities. From October 2008 to April 2010, Mr. Loder was the Chief Executive Officer/Chief Financial Officer of Cyberwize, Inc., a Florida based direct marketing company. Mr. Loder was Chief Financial Officer and founder of Republic Waste Industries, Inc. where he was responsible for all financial matters including merger and acquisition activities. Mr. Loder has extensive experience in merger and acquisition transactions, corporate financings and initial public offerings. Mr. Loder is a certified public accountant in Texas. Mr. Loder received a Bachelor of Arts in Accounting/Finance from Walsh University and received a Master of Business Administration from Houston Baptist University.

Charles De Tarr – Vice President, Finance and Secretary

Charles De Tarr joined Ideal Power Inc. in May 2008 as our part-time Chief Financial Officer and Secretary and began providing services on a full-time basis in February 2013. On July 10, 2013, Mr. De Tarr was appointed as Vice President, Finance. Mr. De Tarr also served as a director on our Board of Directors from May 2008 through November 2012. Prior to joining the Company on a full-time basis, Mr. De Tarr was Chief Financial Officer of Intevras Technologies, LLC from July 2009 through July 2010 when it was acquired by Layne Christensen Company. Mr. De Tarr continued as the Financial Manager for the Intevras Division in a part-time capacity from July 2010 through January 2013. Before joining Intevras, Mr. De Tarr was the founder, owner and Chief Executive Officer of BNC Communications, LLC, a telecommunications service provider, in Austin, Texas. Mr. De Tarr managed that company's operations from January 2004 through 2008. Prior to BNC Communications, Mr. De Tarr held various management positions with a variety of firms, including C3 Communications, Inc., DataPult, LP, Chubb Security Systems, Inc. and Supreme Cable Company, Inc. Mr. De Tarr holds a Bachelor of Science in Business Administration from Ithaca College, Ithaca, New York and a Master of Business Administration from the University of Texas at Austin. In addition, Mr. De Tarr holds both a CPA and CVA designation from the Texas State Board of Public Accountancy and the National Association of Certified Valuation Analysis, respectively.

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.

Director Independence

Our board of directors has determined that Mark S. Baum and Lon E. Bell, Ph.D. are "independent directors" as such term is defined by Nasdaq Marketplace Rule 5605(a)(2). We have established an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. Mr. Baum and Dr. Bell serve on all three committees. The Company's board of directors plans to fill a vacancy on the board of directors by appointing an additional independent director prior to our listing on the Nasdaq Capital Market.

Involvement in Certain Legal Proceedings

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.

EXECUTIVE COMPENSATION

The following summary compensation table covers all compensation awarded to, earned by or paid to our principal executive officer and each of the other two highest paid executive officers, if any, whose total compensation exceeded $100,000 during the years ended December 31, 2012 and 2011. These individuals are sometimes referred to in this prospectus as the "Named Executive Officers".

Summary Compensation Table

Name and Principal Position		Salary	Bonus	Stock Awards [1]	Option Awards [2]	All Other Compensation	Total
Paul Bundschuh	2012	$ 139,999	$ 0	$ 0	$ 0	$ 0	$ 139,999
Chief Executive Officer	2011	103,924	0	35,000	0	0	$ 138,924
Christopher Cobb	2012	$ 13,462	$ 41,250	$ 48,993	$ 85,049	$ 0	$ 188,754
President and Chief Operating Officer (Former Chief Executive Officer)	2011	0	0	0	0	-	$ 0
William Alexander	2012	$ 238,253	$ 0	$ 0	$ 0	$ 0	$ 238,253
Chief Technology Officer, founder	2011	160,294	8,000	0	0	0	168,294
Charles De Tarr	2012	$ 115,895	$ 35,000	$ 0	$ 0	$ 0	$ 150,895
Former Chief Financial Officer	2011	84,455	0	0	0	0	84,455

[1] The amounts included in this column are the aggregate grant date fair value of stock awards computed by us in accordance with Accounting Standards Codification 718, *Compensation-Stock Compensation*, and includes amounts from stock awards granted in 2011 and 2012. For information on the valuation assumptions used in calculating these dollar amounts, see Notes 1 and 7 to our audited financial statements included elsewhere in this prospectus.

[2] 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. T he assumptions used to determine the grant date fair value of the stock option is included in Note 11 to our audited financial statements included elsewhere in this prospectus.

Current and Future Compensation Practices

Currently, compensation for our employees consists of base salary, cash bonuses and awards of stock options or restricted stock through the Ideal Power Converters, Inc. 2013 Equity Incentive Plan. We believe that a combination of cash, options for the purchase of common stock, or grants of restricted 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 in the future to reward exceptional performance or the achievement by the Company or an individual of targets to be agreed upon. During 2011 and 2012, because we had limited cash resources, we periodically accrued salaries for our executive officers. It is possible that we will again be unable to pay these salaries in a timely manner until we begin to generate cash from sales of our products or we arrange additional financing in the form of equity sales or debt instruments.

Employment Agreements and Offer Letters

On May 7 and May 8, 2013, our executives, Paul Bundschuh, Christopher Cobb and William Alexander, entered into employment agreements with us. With the exception of the annual compensation and the length of the term of the employment agreements, the material terms of the employment agreements 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. Cobb's employment agreement includes an initial term of one year, and will be renewed for periods of six months following the expiration of the initial term, unless otherwise terminated. Mr. Bundschuh is compensated at an annual rate of $200,000, Mr. Cobb is compensated at an annual rate of $175,000 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. Each executive is entitled to four weeks of paid time off each year. Following the initial public offering of our common stock, each executive will become 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.

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.

By letter dated June 20, 2013, we made an offer of employment to Barry Loder for the position of Chief Financial Officer. Mr. Loder agreed to initially provide services on a part-time basis until the offering closes, at which time he will become a full-time employee. During his part-time service, we agreed to pay Mr. Loder $200 per hour. Upon his transition to a full time employee, we agreed to pay Mr. Loder an annual salary of $175,000 through the consummation of this offering and an annual salary of $200,000 thereafter. Mr. Loder will be entitled to participate in any bonus plan that may be adopted by our board of directors and he may be entitled to receive grants of restricted stock, bonus stock or stock options, as determined by our board of directors. Upon becoming a full time employee, Mr. Loder became eligible to participate in our employee benefit plans.

Outstanding Equity Awards at December 31, 2012

The following table sets forth certain information concerning outstanding equity awards for our Named Executive Officers at December 31, 2012. No options were exercised by our Named Executive Officers during the last two fiscal years.

	Awards			
	Option			
Name	Number of securities underlying unexercised options (#) Exercisable	Number of securities underlying unexercised options (#) Unexercisable	Option exercise price ($)	Option expiration date
Paul Bundschuh	1,228	--	$ 0.8133	5/12/2022
Paul Bundschuh	1,281	--	$ 0.7953	8/25/2022
Paul Bundschuh	9,817	1,963	$ 2.9715	6/30/2020
Paul Bundschuh	5,890	--	$ 2.9715	9/30/2020
Paul Bundschuh	5,890	--	$ 2.9715	12/31/2022
Christopher Cobb	2,766	16,199	$ 6.3276	5/21/2020
Charles De Tarr	26,743	--	$ 0.4155	1/31/2022

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 compensation to be paid to the independent directors as follows: each of the independent directors will receive each calendar year $50,000 in cash and $50,000 in value of shares of common stock. The cash component of the compensation will not begin to accrue until the registration statement, of which this prospectus is a part, is declared effective by the Securities and Exchange Commission. All directors are reimbursed ordinary and reasonable expenses incurred in exercising their responsibilities. At March 31, 2013, we reserved 12,465 shares of our common stock for the payment of compensation to our independent directors.

Insider Participation in Executive Compensation Decisions

Until November 28, 2012, our directors were also executive officers. These individuals included William Alexander, Christopher Cobb and Paul Bundschuh. Our board of directors currently consists of four members, two of whom are also executive officers. The two remaining members of our board are independent within the meaning of the rules of the Nasdaq Capital Market. On January 22, 2013, our board of directors established three committees, namely an Audit Committee, a Nomination and Governance Committee and a Compensation Committee. Our independent directors are the sole members of each of these committees.

DESCRIPTION OF CAPITAL STOCK

The following is a brief description of our capital stock. This summary does not purport to be complete in all respects. This description is subject to and qualified entirely by the terms of our Certificate of Incorporation (the "Certificate of Incorporation"), and our bylaws, copies of which have been filed with the SEC and are also available upon request from us.

Authorized Capitalization

We have 60,000,000 shares of capital stock authorized under our Certificate of Incorporation, consisting of 50,000,000 shares of common stock and 10,000,000 shares of preferred stock, all with a par value of $0.001 per share. As of June 30, 2013, we had 1,480,262 shares of common stock outstanding (not including an additional 25,170 shares of common stock reserved for issuance as compensation through June 30, 2013, to our independent directors) and no shares of preferred stock outstanding. Our authorized but unissued shares of common stock and preferred stock are available for issuance without further action by our stockholders, unless such action is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded.

Common Stock

Holders of our common stock are entitled to such dividends as may be declared by our board of directors out of funds legally available for such purpose, subject to any preferential dividend rights of any then outstanding preferred stock. The shares of common stock are neither redeemable nor convertible. Holders of common stock have no preemptive or subscription rights to purchase any of our securities.

Each holder of our common stock is entitled to one vote for each such share outstanding in the holder's name. No holder of common stock is entitled to cumulate votes in voting for directors.

In the event of our liquidation, dissolution or winding up, the holders of our common stock are entitled to receive pro rata our assets, which are legally available for distribution, after payments of all debts and other liabilities and subject to the prior rights of any holders of preferred stock then outstanding. All of the outstanding shares of our common stock are fully paid and non-assessable. The shares of common stock offered by this prospectus will also be fully paid and non-assessable.

There is no public market for our common stock. We intend to apply for listing of our common stock on the Nasdaq Capital Market, and listing on this exchange is a condition to the consummation of this offering.

Preferred Stock

Our Certificate of Incorporation permits us to issue up to 10,000,000 shares of preferred stock in one or more series and with rights and preferences that may be fixed or designated by our board of directors without any further action by our stockholders. We currently have no shares of preferred stock outstanding.

Subject to the limitations prescribed in our Certificate of Incorporation and under Delaware law, our Certificate of Incorporation authorizes the board of directors, from time to time by resolution and without further stockholder action, to provide for the issuance of shares of preferred stock, in one or more series, and to fix the designation, powers, preferences and other rights of the shares and to fix the qualifications, limitations and restrictions thereof. The issuance of preferred stock with certain voting, conversion and/or redemption rights could adversely affect the rights of holders of our common stock, including with respect to voting, dividends and liquidation. Preferred stock could also be issued quickly with terms calculated to delay, defer or prevent a change in control of our Company or to make removal of management more difficult. Additionally, the issuance of preferred stock may decrease the market price of our common stock.

Stock Options and Warrants

As of June 30, 2013, we have reserved the following shares of common stock for issuance pursuant to stock option and warrant agreements:

- 158,108 shares of our common stock are reserved for issuance under various outstanding option agreements, at a weighted average exercise price of $2.71631 per share;
- 1,519,095 shares of our common stock, at a weighted average exercise price of $2.99 per share (assuming the sale of our common stock in this offering at a price of $5.00 per share), are reserved for issuance under various outstanding warrant agreements; and
- 487,713 shares of our common stock have been reserved for the issuance of awards under our 2013 Equity Incentive Plan.

On July 19, 2013, the Compensation Committee approved the grant of stock option awards from our 2013 Equity Incentive Plan covering 352,270 shares of our common stock. The exercise price will equal the price at which shares of common stock are sold in this offering.

Convertible Promissory Notes

We have defined "Convertible Notes" in this prospectus to mean, collectively, $750,000 in senior secured convertible promissory notes that must be paid or converted into shares of our common stock on or before July 29, 2014, $4 million in senior secured convertible promissory notes that must be paid or converted into shares of our common stock on or before November 21, 2013, $1.142 million in convertible promissory notes that must be paid or converted into shares of our common stock on or before December 31, 2013, and an additional $213,394 in convertible notes that we expect to issue to our counsel for legal services. If we raise at least $10 million in this offering, all of the Convertible Notes will be converted into 1,682,606 shares of our common stock. We do not plan to consummate this offering unless we raise at least $10 million.

Anti-Takeover Effects of Certain Provisions of Delaware Law and Our Charter Documents

The following is a summary of certain provisions of Delaware law, our Certificate of Incorporation and our bylaws. This summary does not purport to be complete and is qualified in its entirety by reference to the corporate law of Delaware and our Certificate of Incorporation and bylaws.

Effect of Delaware Anti-Takeover Statute. We will be subject to Section 203 of the Delaware General Corporation Law, an anti-takeover law. In general, Section 203 prohibits a Delaware corporation from engaging in any business combination (as defined below) with any interested stockholder (as defined below) for a period of three years following the date that the stockholder became an interested stockholder, unless:

- prior to that date, the board of directors of the corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;

- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares of voting stock outstanding (but not the voting stock owned by the interested stockholder) those shares owned by persons who are directors and officers and by excluding employee stock plans in which employee participants do not have the right to determine whether shares held subject to the plan will be tendered in a tender or exchange offer; or

- on or subsequent to that date, the business combination is approved by the board of directors of the corporation and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock that is not owned by the interested stockholder.

Section 203 defines "business combination" to include the following:

- any merger or consolidation involving the corporation and the interested stockholder;

- any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder;

- subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;

- subject to limited exceptions, any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; or

- the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation, or who beneficially owns 15% or more of the outstanding voting stock of the corporation at anytime within a three-year period immediately prior to the date of determining whether such person is an interested stockholder, and any entity or person affiliated with or controlling or controlled by any of these entities or persons.

Our Charter Documents. Our charter documents include provisions that may have the effect of discouraging, delaying or preventing a change in control or an unsolicited acquisition proposal that a stockholder might consider favorable, including a proposal that might result in the payment of a premium over the market price for the shares held by our stockholders. Certain of these provisions are summarized in the following paragraphs.

Effects of authorized but unissued common stock and blank check preferred stock. One of the effects of the existence of authorized but unissued common stock and undesignated preferred stock may be to enable our board of directors to make more difficult or to discourage an attempt to obtain control of our Company by means of a merger, tender offer, proxy contest or otherwise, and thereby to protect the continuity of management. If, in the due exercise of its fiduciary obligations, the board of directors were to determine that a takeover proposal was not in our best interest, such shares could be issued by the board of directors without stockholder approval in one or more transactions that might prevent or render more difficult or costly the completion of the takeover transaction by diluting the voting or other rights of the proposed acquirer or insurgent stockholder group, by putting a substantial voting block in institutional or other hands that might undertake to support the position of the incumbent board of directors, by effecting an acquisition that might complicate or preclude the takeover, or otherwise.

In addition, our Certificate of Incorporation grants our board of directors broad power to establish the rights and preferences of authorized and unissued shares of preferred stock. The issuance of shares of preferred stock could decrease the amount of earnings and assets available for distribution to holders of shares of common stock. The issuance also may adversely affect the rights and powers, including voting rights, of those holders and may have the effect of delaying, deterring or preventing a change in control of our Company.

Cumulative Voting. Our Certificate of Incorporation does not provide for cumulative voting in the election of directors, which would allow holders of less than a majority of the stock to elect some directors.

No Stockholder Action by Written Consent. Our Certificate of Incorporation expressly prohibits stockholders from acting by written consent. This means that stockholders may only act at annual or special meetings.

Vacancies. Our Certificate of Incorporation provides that all vacancies may be filled by the affirmative vote of a majority of directors then in office, even if less than a quorum.

Special Meeting of Stockholders. A special meeting of stockholders may only be called by the Chairman of the board of directors, the Chief Executive Officer, or the board of directors at any time and for any purpose or purposes as shall be stated in the notice of the meeting, and shall be called by the Secretary upon the written request of the holders of record of at least 25% of the outstanding shares of common stock. This provision could prevent stockholders from calling a special meeting because, unless certain significant stockholders were to join with them, they might not obtain the percentage necessary to request the meeting. Therefore, stockholders holding less than 25% of the issued and outstanding common stock, without the assistance of management, may be unable to propose a vote on any transaction that would delay, defer or prevent a change of control, even if the transaction were in the best interests of our stockholders.

Requirements for Advance Notification of Stockholder Nominations and Proposals. Our Certificate of Incorporation and bylaws have advance notice procedures with respect to stockholder proposals and nominations of candidates for election as directors, other than nominations made by or at the direction of our board of directors or a committee of our board. The business to be conducted at a meeting will be limited to business properly brought before the meeting, in accordance with our Certificate of Incorporation and bylaws. Failure to follow the procedures set forth in our Certificate of Incorporation and bylaws will result in the chairman of the meeting disregarding the nomination or declaring that the proposed business will not be transacted.

MARKET FOR OUR COMMON STOCK, DIVIDEND POLICY AND OTHER STOCKHOLDER MATTERS

There is no established public trading market for our common stock. Of the 1,480,262 shares of our common stock outstanding as of August 5, 2013, approximately 509,094 shares are held by "non-affiliates" and, of that amount, 217,471 shares will be freely tradable without restriction pursuant to Rule 144 once we have been subject to the reporting requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934 for a period of at least 90 days and assuming we comply with the remaining requirements of Rule 144. We also have outstanding options for the purchase of 158,108 shares of common stock, 352,270 shares of common stock reserved for option grants that were approved by the Compensation Committee on July 19, 2013, but have not yet been issued, warrants for the purchase of 1,519,095 shares of common stock and convertible promissory notes with interest accrued through March 31, 2013 that would require us to issue an additional 1,621,249 shares of common stock, and an additional 61,357 shares of common stock underlying convertible promissory notes that we expect to issue to our counsel for legal services. We have also reserved a total of 25,170 shares of common stock that we intend to issue to our independent directors as part of their compensation for services provided through June 30 2013. In addition, upon the closing of this offering, we will issue to the underwriter a warrant for the purchase of 250,000 shares of our common stock. Any substantial sale of our common stock pursuant to Rule 144 or pursuant to any resale prospectus (including sales by investors of securities acquired in connection with this offering) may have a material adverse effect on the market price of our common stock.

We have never paid cash dividends on our securities and we do not anticipate paying any cash dividends on our shares of common stock in the foreseeable future. We intend to retain any future earnings for reinvestment in our business. Any future determination to pay cash dividends will be at the discretion of our board of directors, and will be dependent upon our financial condition, results of operations, capital requirements and such other factors as our board of directors deems relevant.

We intend to apply for the listing of our common stock on the Nasdaq Capital Market but we cannot assure you that our application will be approved. If our application is not approved, we may not complete the offering.

As of August 5, 2013, we had 1,480,262 shares of common stock outstanding, held of record by 22 stockholders.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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 August 5, 2013, and is based on 1,480,262 shares of common stock outstanding on that date. The percentage ownership after the offering is based on 5,688,038 shares of common stock outstanding.

Names and Address of Beneficial Owner	Number of Shares Beneficially Owned	% of Shares Owned Prior to the Offering	% of Shares Owned After the Offering
Directors and Officers:			
Paul Bundschuh, Chief Executive Officer and Director	75,703[3]	5.0%	1.3%
Christopher Cobb, President, Chief Operating Officer and Director	94,012[4]	6.0%	1.6%
William C. Alexander, Chief Technology Officer	487,295	32.9%	8.6%
Charles De Tarr, Vice President, Finance and Secretary	210,135[5]	13.4%	3.6%
Mark Baum, Director	81,423[6]	5.4%	1.7%[7]
Lon E. Bell, Director	66,346[8]	4.3%	1.9%[9]
All Directors and Officers as a Group	1,014,916	56.8%	17.7%
5% Owners			
Hamo Hacopian[10]	262,495	17.7%	4.6%
Peter Appel	506,435[11]	25.5%	12.4%[12]
MDB Capital Group, LLC	114,290[13]	7.2%	2.9%[14]
Cindy Breed	131,247	8.9%	2.3%
David Breed	142,996[15]	9.6%	2.5%

(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 Securities Exchange Act of 1934, 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 July 20, 2013, 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. In determining the number of shares that may be issued for the conversion of promissory notes, we have accrued interest through July 20, 2013.

(3) Includes 44,780 shares of common stock, warrants for the purchase of 2,054 shares of common stock, 26,071 shares subject to an option to purchase common stock and, assuming a price of $5.00 per share in this offering, 2,799 shares of common stock that may be issued upon the conversion of a promissory note in the principal amount of $13,000.

(4) Includes 14,094 shares of common stock, warrants for the purchase of 31,608 shares of common stock, 5,517 shares subject to an option to purchase common stock exercisable within 60 days of July 20, 2013, and 42,794 shares of common stock that may be issued upon the conversion of a promissory note in the principal amount of $200,000.

(5) Includes 118,406 shares of common stock, warrants for the purchase of 23,706 shares of common stock, 26,743 shares subject to an option to purchase common stock exercisable within 60 days of July 20, 2013, and 41,280 shares of common stock that may be issued upon the conversion of a promissory notes in the principal amount of $150,000 and $40,000.

(6) This amount includes 44,099 shares held in Mr. Baum's name and 28,935 shares of common stock that may be acquired through the conversion of a senior secured convertible promissory note in the principal amount of $100,000 held by Series E-1 of Larren Smitty, LLC, of which Mr. Baum is the beneficial owner, and 8,390 shares of common stock which have been authorized but have not yet been issued for services Mr. Baum has provided as a director. Not included in this amount are 14,383 shares of common stock issuable upon the exercise of warrants held by Series E-1 of Larren Smitty, LLC.

(7) Mr. Baum's percentage ownership following the offering is based on 95,807 shares of common stock, which includes 81,423 shares from the conversion of senior secured convertible promissory notes issued to Series E-1 of Larren Smitty, LLC as well as 14,383 shares underlying warrants held by Series E-1 of Larren Smitty, LLC that will become exercisable upon the completion of this offering.

(8) Lon E. Bell, Ph.D., a director, is a trustee of the Bell Family Trust that owns two senior secured convertible promissory notes, each in the principal amount of $100,000 which may be converted into 57,956 shares of our common stock. This amount also includes 8,390 shares of common stock which have been authorized but have not yet been issued for services Dr. Bell has provided as a director. Dr. Bell has sole voting and investment control with respect to the shares of common stock owned by the Bell Family Trust. Not included in this amount are warrants for the purchase of 43,150 shares of common stock that will not be exercisable until this offering is complete.

(9) Mr. Bell's percentage ownership following the offering is based on 109,496 shares of common stock, which includes 66,346 shares from the conversion of senior secured convertible promissory notes and shares for services as well as 43,150 shares underlying the warrants that will become exercisable upon the completion of this offering.

(10) Mr. Hacopian has sole voting and dispositive power with respect to his shares of common stock.

(11) This amount includes 506,435 shares of common stock that may be acquired through the conversion of senior secured convertible promissory notes in the principal amounts of $100,000, $1,625,000 and $275,000. Not included in this amount are warrants for the purchase of 302,049 shares of common stock that will not be exercisable until this offering is completed. Mr. Appel has sole voting and dispositive power with respect to his shares of common stock.

(12) Mr. Appel's percentage ownership following the offering is based on 808,484 shares of common stock, which includes 506,435 shares from the conversion of senior secured convertible promissory notes as well as 302,049 shares underlying the warrants that will become exercisable upon the completion of this offering.

(13) The address for MDB Capital Group, LLC is 401 Wilshire Boulevard, Suite 1020, Santa Monica, California 90401. This amount includes 114,290 shares of common stock which may be acquired through the conversion of senior secured convertible promissory notes in the principal amount of $195,000 and $200,000. Not included in this amount are warrants for the purchase of 350,698 shares of common stock that are not currently exercisable. Warrants for the purchase of 56,814 shares of common stock will be exercisable after this offering is completed and warrants for the purchase of 293,884 shares of common stock will be exercisable 180 days following the completion of this offering. Christopher A. Marlett has sole voting and dispositive power with respect to these shares of common stock.

(14) The percentage ownership of MDB Capital Group, LLC following the offering is based on 171,104 shares of common stock, which includes 114,290 shares from the conversion of senior secured convertible promissory notes as well as 56,814 shares underlying warrants that will become exercisable upon the completion of this offering.

(15) This amount includes 131,247 shares of common stock, 7,798 shares of common stock which may be acquired through the conversion of a convertible promissory note in the principal amount of $25,000, and warrants for the purchase of 3,951 shares of common stock exercisable within 60 days of July 20, 2013.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

We intend to apply for the listing of our common stock 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 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 the Company's 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 of the Company, (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, 2011, through the date of this prospectus (the "Reporting Period"), described below are certain transactions or series of transactions between us and certain related persons.

On October 16, 2011, Paul Bundschuh, our Chief Executive Officer, purchased 4,109 shares of stock in exchange for $26,000.

On March 24, 2011, we issued a $10,000 promissory note to William Alexander, our Chief Technology Officer and a beneficial owner of more than 5% of our common stock. The note accrued simple interest at the rate of 6% per year and all principal and interest were due and payable on the maturity date, December 31, 2011. On September 5, 2011 we repaid the loan along with $271.23 in accrued interest.

On March 25, 2011, we issued a promissory note in the principal amount of $20,000 to Dr. David Breed. At the time the loan was made, Dr. Breed was a director and he is a beneficial owner of more than 5% of our common stock. The note accrued simple interest at the rate of 6% per year. On September 30, 2011, we repaid $10,000 of the principal amount together with $310.68 in interest. On October 15, 2011 we paid the remaining $10,000 of the principal amount together with $335.34 in interest.

Between March 17, 2011 and March 25, 2011, we received three loans from Charles De Tarr totaling $60,000, which was the highest principal amount owed during the Reporting Period. At the time the loans were made, Mr. De Tarr was a director and our Chief Financial Officer and he is a beneficial owner of more than 5% of our common stock. The loans accrued simple interest at the rate of 6% per year. On April 30, 2011, we repaid $20,000 of the principal amount. On July 8, 2011, Mr. De Tarr advanced an additional $10,000 to us. On October 9, 2011, we repaid $10,000 in principal amount in cash, paid interest in the amount of $1,623.45 and repaid the remaining $40,000 in principal amount with the convertible promissory note described below.

On October 9, 2011, we issued a $40,000 convertible promissory note to Mr. De Tarr. The convertible note accrues simple interest at the rate of 6% per year and all principal and interest are due and payable on the earlier of (i) December 31, 2013, (ii) the closing of a firm commitment underwritten initial public offering that raises at least $10 million (an IPO), (iii) the closing of a Qualified Financing, as defined in the convertible promissory note, and (iv) an event of default. The promissory note will automatically convert on an IPO at the price per share at which the common stock is offered to the public. At Mr. De Tarr's option, the promissory note may also be converted (A) upon a Non-Qualified Financing (as defined in the promissory note) at the lower of (i) the lowest per share or unit purchase price paid for Next Round Securities (as defined in the promissory note) or (ii) $2.65754 or (B) at any time prior to a Non-Qualified Financing or Qualified Financing at $6.3276. During the Reporting Period, the highest principal amount owed pursuant to the promissory note was $40,000. As of July 20, 2013, interest in the amount of $4,277.26 had accrued. To date, no payments have been made toward the principal amount or accrued interest.

On February 24, 2012, we issued a $25,000 convertible promissory note and a common stock purchase warrant to Dr. David Breed. The convertible note accrues simple interest at the rate of 6% per year and all principal and interest are due and payable on its maturity date, December 31, 2013, unless earlier paid by the Company. The promissory note may be converted at the lower of (i) the lowest per share purchase price paid in cash for Next Financing Securities (as defined in the convertible note) or (ii) $6.3276. The promissory note will automatically convert upon an initial public offering of our common stock at the price per share at which the common stock is offered to the public. At Dr. Breed's option, he may convert the promissory note at any time at the rate of $6.3276. During the Reporting Period, the highest principal amount owed pursuant to the promissory note was $25,000. As of July 20, 2013, interest in the amount of $2,107 had accrued. To date, no payments have been made toward the principal amount or accrued interest. In conjunction with this promissory note, we issued a warrant to Dr. Breed. The warrant has a term of seven years. The number of shares subject to the warrant is determined by dividing the principal amount of the promissory note by the exercise price. The exercise price is determined as follows: if the convertible promissory note is converted in the Next Financing, the per share exercise price will be the price at which the note was converted, otherwise the per share exercise price will be $6.3276.

On April 12, 2012, we issued a $13,000 convertible promissory note and a common stock purchase warrant to Paul Bundschuh, our Chief Executive Officer. The convertible note accrues simple interest at the rate of 6% per year and all principal and interest are due and payable on its maturity date, December 31, 2013, unless earlier paid by the Company. The promissory note will automatically convert upon an initial public offering of our common stock at the price per share at which the common stock is offered to the public. The promissory note may be converted (A) at the lower of (i) the lowest per share purchase price paid in cash for Next Financing Securities (as defined in the convertible note) or (ii) $6.3276 or (B) prior to the Next Qualified Financing (as defined in the convertible note) at $6.3276. During the Reporting Period, the highest principal amount owed pursuant to the promissory note was $13,000. As of July 20, 2013, interest in the amount of $993.23 had accrued. To date, no payments have been made toward the principal amount or accrued interest. In conjunction with this promissory note, we issued a warrant to Mr. Bundschuh. The warrant has a term of seven years. The number of shares subject to the warrant is determined by dividing the principal amount of the promissory note by the exercise price. The exercise price is determined as follows: if the convertible promissory note is converted in the Next Financing, the per-share exercise price will be the price at which the note was converted, otherwise the per share exercise price will be $6.3276.

On May 22, 2012, we issued convertible promissory notes together with common stock purchase warrants to Charles De Tarr and Christopher Cobb, respectively. Mr. Cobb is our President and Chief Operating Officer, a member of our board of directors and a beneficial owner of more than 5% of our common stock. 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 accrue interest at the rate of 6% per year and all principal and interest are due and payable on the maturity date, December 31, 2014, unless earlier paid by the Company. The promissory notes will automatically convert upon an initial public offering of our common stock at the price per share at which the common stock is offered to the public. The promissory notes may be converted (A) at the lower of (i) the lowest per share purchase price paid in cash for Next Financing Securities (as defined in the convertible notes) or (ii) $6.3276 or (B) prior to the Next Qualified Financing (as defined in the convertible notes) at $6.3276. As of July 20, 2013, interest in the amount of $12,125.75 had accrued on the $150,000 note and interest in the amount of $13,969.01 had accrued on the $200,000 note. To date, no payments have been made toward the principal amount or accrued interest of either note, 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 a warrant to each of Mr. De Tarr and Mr. Cobb. The warrants have terms of seven years. The number of shares subject to each warrant is determined by dividing the principal amount of the promissory note by the exercise price. The exercise price is determined as follows: if the convertible promissory note is converted in the Next Financing, the per share exercise price will be the price at which the note was converted, otherwise the per share exercise price will be $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 accrue 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, are due and payable on the earlier to occur of (i) November 21, 2013, (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, are 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). To date, we have made no payments toward the principal or accrued interest. The warrants issued in conjunction with the Notes have a term of seven years (provided that if we consummate an initial public offering of our common stock after the fifth anniversary date of the issue date but prior to the expiration date, then the expiration date will be extended for an additional five years following the initial public offering) and an exercise price that will be determined as follows: (i) in the event of an IPO that occurs prior to the maturity dates of the Notes, the per-share exercise price will be equal to the lower of 0.70 times the IPO price or $3.47626; or (ii) in the event of a Private Equity Financing (as defined in the warrant agreement) that occurs prior to the maturity date of the Notes, the per-share exercise price will be equal to the lower of 0.70 times the Private Equity Financing Price or $3.47626; provided, however, that (A) if we undertake first, a Private Equity Financing and secondly, an IPO prior to the maturity date of the Notes and (B) the Private Equity Financing price is higher than the IPO price, then the per share exercise price will be adjusted to equal the number of shares of common stock and the exercise price calculated in accordance with subsection (i) above; or (iii) if we do not undertake either a Private Equity Financing or an IPO prior to the maturity date of the Notes, then the exercise price will be $3.47626 per share. The number of shares of common stock that will be issued under the terms of the warrants issued in conjunction with the August Notes will be determined as follows: (i) in the event of an IPO that occurs prior to November 21, 2013, the principal amount of the August Note divided by the lower of 0.70 of the IPO Price or $3.47626 will determine the number of shares of common stock covered by the warrant while the per-share exercise price will be equal to the lower of 0.70 times the IPO Price or $3.47626; or (ii) in the event of a Private Equity Financing that occurs prior to November 21, 2013, the principal amount of the August Note divided by the lower of 0.70 of the Private Equity Financing Price or $3.47626 will determine the number of shares of common stock covered by the warrant, with a per-share exercise price equal to the lower of 0.70 times the Private Equity Financing Price or $3.47626; provided, however, that (A) if we undertake first, a Private Equity Financing and secondly, an IPO prior to November 21, 2013 and (B) the Private Equity Financing Price is higher than the IPO Price, then the number of shares of common stock covered by the warrant and the per share exercise price shall be adjusted to equal the number of shares of common stock and the exercise price calculated in accordance with subsection (i) above; or (iii) if we do not undertake either a Private Equity Financing or an IPO prior to November 21, 2013, then the number of shares of common stock covered by the warrant will equal the original principal amount of the August Note divided by $3.47626, and the exercise price will be $3.47626 per share. The number of shares of common stock that may be purchased pursuant to the terms of the warrants issued in conjunction with the November Notes and the July Notes will be computed 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:

August 31, 2012

Name and Title	Investment Amount
Lon 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 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 Larren 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	$ 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 ("MDB") (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 a warrant to purchase 200,393 shares of common stock and a warrant to purchase 93,491 shares of common stock. The warrant to purchase 200,393 shares of common stock expires seven years from the date of issuance. The warrant for the purchase of 93,491 shares of common stock expires seven years after the issue date, provided, however, if the Company closes an IPO after the fifth anniversary date of the issue date but prior to the expiration date, then the expiration date will be extended for an additional five years following the close of the IPO. The exercise price of the warrant to purchase 200,393 shares of common stock will be determined as follows: (i) in the event of an IPO that occurs prior to the November 21, 2013, the per-share exercise price will be equal to the lower of 0.70 times the IPO price or $3.47626; or (ii) in the event of a Private Equity Financing (as defined in the warrant agreement) that occurs prior to November 21, 2013, the per-share exercise price will be equal to the lower of 0.70 times the Private Equity Financing Price or $3.47626; provided, however, that (A) if we undertake first, a Private Equity Financing and secondly, an IPO prior to November 21, 2013, and (B) the Private Equity Financing price is higher than the IPO price, then the per share exercise price will be adjusted to equal the number of shares of common stock and the exercise price calculated in accordance with subsection (i) above; or (iii) if we do not undertake either a Private Equity Financing or an IPO prior to November 21, 2013, then the exercise price will be $3.47626 per share. The exercise price of the warrant to purchase 93,491 shares of common stock will be determined as follows: (i) in the event of an IPO that occurs prior to November 21, 2013, the per-share exercise price will be equal to 125% of the lower of 0.70 times the IPO price or $4.345325; or (ii) in the event of a Private Equity Financing (as defined in the warrant agreement) that occurs prior to November 21, 2013, the per-share exercise price will be equal to 125% of the lower 0.70 times the Private Equity Financing Price or $4.345325; provided, however, that (A) if we undertake first, a Private Equity Financing and secondly, an IPO prior to November 21, 2013, and (B) the Private Equity Financing price is higher than the IPO price, then the per share exercise price will be adjusted to equal the number of shares of common stock and the exercise price calculated in accordance with subsection (i) above; or (iii) if we do not undertake either a Private Equity Financing or an IPO prior to November 21, 2013, then the exercise price will be $4.345325 per share. The warrants will become exercisable, in whole or in part, 180 days after the completion of this offering.

During the years ended December 31, 2012 and 2011 and the quarter ended March 31, 2013, we incurred $50,069, $75,823 and $18,024, respectively, for IT services and equipment provided by DataCorp, a company that is owned by Hamo Hacopian, a former director.

Certain of our current officers have executed employment agreements with us or 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 prospectus titled "Executive Compensation" for a discussion of these transactions.

CHANGES IN ACCOUNTANTS

In January 2013, we dismissed Maxwell, Locke & Ritter (MLR) as our independent public accounting firm, because MLR is not registered with the Public Company Accounting Oversight Board. On January 26, 2013, we engaged Gumbiner Savett Inc. ("Gumbiner") as our new independent registered public accounting firm. The decision to dismiss MLR and to retain Gumbiner was approved by our board of directors.

For the fiscal years ended December 31, 2010 and December 31, 2011, MLR's reports on our financial statements did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope, or accounting principles. During the fiscal years ended December 31, 2010 and December 31, 2011 and through the date of MLR's dismissal, there were no disagreements with MLR on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure that would have caused MLR to make reference to the subject matter of the disagreement in its reports. During the fiscal years ended December 31, 2010 and December 31, 2011 and through the date of MLR's dismissal, we did not experience any of the events set forth in paragraphs (A) through (D) of Item 304(a)(1)(v) of Regulation S-K.

During the fiscal years ended December 31, 2010 and December 31, 2011 and through the date that we retained Gumbiner, we did not consult Gumbiner regarding any of the matters set forth in paragraphs (i) and (ii) of Item 304(a)(2) of Regulation S-K.

UNDERWRITING

We are offering the shares of common stock described in this prospectus through the underwriter, MDB Capital Group, LLC, which is acting as lead managing underwriter of the offering.

We have agreed to enter into an underwriting agreement with the underwriter prior to the closing of this offering. Subject to the terms and conditions of the underwriting agreement, we will agree to sell to the underwriter, and the underwriter will agree to purchase, at the public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus, as it may be supplemented, shares of common stock.

The underwriter is committed to purchase all of the common shares offered by us, other than those covered by the option to purchase additional shares described below, if they purchase any shares. The underwriting agreement provides that the underwriter's obligations to purchase shares of our common stock are subject to conditions contained in the underwriting agreement. A copy of the underwriting agreement has been filed as an exhibit to the registration statement of which this prospectus forms a part.

We have been advised by the underwriter that the underwriter proposes to offer shares of our common stock directly to the public at the public offering price set forth on the cover page of this prospectus and to certain dealers that are members of the Financial Industry Regulatory Authority (FINRA). Any securities sold by the underwriter to such securities dealers will be sold at the public offering price less a selling concession not in excess of $[___] per share. After the public offering of the shares, the offering price and other selling terms may be changed by the underwriter.

None of our securities included in this offering may be offered or sold, directly or indirectly, nor may this prospectus and any other offering material or advertisements in connection with the offer and sales of any of our common stock, be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons who receive this prospectus are advised to inform themselves about and to observe any restrictions relating to this offering of our common stock and the distribution of this prospectus. This prospectus is neither an offer to sell nor a solicitation of any offer to buy any of our common stock included in this offering in any jurisdiction where that would not be permitted or legal.

The underwriter has advised us that it does not intend to confirm sales to any accounts over which they exercise discretionary authority.

Underwriting Discount and Expenses

The following table summarizes the underwriting discount and commission to be paid to the underwriter by us.

	Without Over-Allotment	With Over-Allotment
Public offering price	$ 12,500,000	$ 14,375,000
Underwriting discount to be paid to the underwriter	1,250,000	1,437,500
Non-accountable expense allowance	187,500	187,500
Net proceeds, before other expenses	$ 11,062,500	$ 12,750,000

We estimate the total expenses payable by us for this offering to be approximately $2.03 million, which amount includes (i) the underwriting discount of $1,250,000 ($1,437,500 if the underwriter's over-allotment option is exercised in full), (ii) reimbursement of the non-accountable expenses of the underwriter equal to $187,500 (none of which has been paid in advance), including the legal fees of the underwriter being paid by us, and (iii) other estimated expenses of approximately $595,500, which includes legal, accounting, printing costs and various fees associated with the registration and listing of our shares. In no event will the aggregated expenses reimbursed to MDB Capital Group, LLC exceed $187,500.

Over-allotment Option

We have granted to the underwriter an option, exercisable not later than 45 days after the date of this prospectus, to purchase up to an additional 375,000 shares of our common stock (up to 15% of the shares firmly committed in this offering) at the public offering price, less the underwriting discount, set forth on the cover page of this prospectus. The underwriter may exercise the option solely to cover over-allotments, if any, made in connection with this offering. If any additional shares of our common stock are purchased pursuant to the over-allotment option, the underwriter will offer these additional shares of our common stock on the same terms as those on which the other shares of common stock are being offered hereby.

Determination of Offering Price

There is no current market for our common stock. Our underwriter, MDB Capital Group, LLC, is not obligated to make a market in our securities, and even if it chooses to make a market, can discontinue at any time without notice. Neither we nor the underwriter can provide any assurance that an active and liquid trading market in our securities will develop or, if developed, that the market will continue.

The public offering price of the shares offered by this prospectus has been determined by negotiation between us and the underwriter. Among the factors considered in determining the public offering price of the shares were:

- our history and our prospects;
- the industry in which we operate;
- our past and present operating results;
- the previous experience of our executive officers; and
- the general condition of the securities markets at the time of this offering.

The offering price stated on the cover page of this prospectus should not be considered an indication of the actual value of the shares. That price is subject to change as a result of market conditions and other factors, and we cannot assure you that the shares can be resold at or above the public offering price.

Underwriter Warrant

We have agreed to issue to MDB Capital Group, LLC and its designees a warrant to purchase shares of our common stock (up to 10% of the shares of common stock sold in this offering). This warrant is exercisable at $6.25 per share (125% of the price of the common stock sold in this offering), commencing on the effective date of this offering and expiring seven years from the effective date of this offering. The warrant and the shares of common stock underlying the warrant have been deemed compensation by FINRA and are therefore subject to a one year lock up pursuant to Rule 5110(g)(1) of FINRA. MDB Capital Group, LLC (or permitted assignees under the Rule) will not sell, transfer, assign, pledge, or hypothecate this warrant or the securities underlying this warrant, nor will it engage in any hedging, short sale, derivative, put, or call transaction that would result in the effective economic disposition of this warrant or the underlying securities for a period of one year from the effective date of the offering.

Pursuant to engagement agreements entered into on July 24,2012, with MDB Capital Group, LLC, we issued warrants to purchase an aggregate of 293,884 shares of our common stock on November 21, 2012. The term for these warrants is 7 years and the warrants do not become exercisable until 180 days after the completion of this offering. Upon the completion of this offering with aggregate gross proceeds in excess of $10 million, the exercise price for 200,393 shares of our common stock covered by these warrants will be the lower of 0.70 times the IPO price set forth on the cover page of this Prospectus or $3.47626, and the exercise price of the remaining warrant to purchase 93,491 shares of our common stock will be 125% of the lower of 0.70 times the IPO price set forth on the cover page of this Prospectus or $4.345325. We issued these warrants to MDB Capital Group, LLC for advisory services and private placement agency services rendered on November 21, 2012.

In the private placement of our senior secured convertible promissory notes in November of 2012, MDB Capital Group purchased an aggregate of $395,000 in principal amount of our notes and received warrants to purchase shares of our common stock. The term of this warrant is 7 years. The calculation of the number of shares of our common stock covered by this warrant and the exercise price is determined by a formula. The number of shares of our common stock covered by the warrant is determined by dividing 50% of the principal amount of the senior secured convertible notes purchased by the lower of 0.70 times the IPO price set forth on the cover page of this Prospectus or $3.47626 with an exercise price of the lower of 0.70 times the IPO price set forth on the cover page of this Prospectus or $3.47626. Assuming that the offering covered by this prospectus closes with the IPO price set forth on the cover page of this prospectus and that we receive aggregate gross proceeds in excess of $10 million, the warrant would cover 56,814 shares of our common stock. These warrants are not currently exercisable and will not become exercisable unless and until this offering closes or certain future events occur. If this offering does not close or is abandoned, then this warrant will cover 56,814 shares of our common stock at an exercise price of $3.37626 per share and become exercisable on November 21, 2013, unless a private equity financing occurs prior to that date in which case the number of shares covered by this warrant and the exercise price will be determined by the price our shares are sold in the private equity financing.

Lock-Up Agreements

All of our officers, directors, employees, and stockholders beneficially owning 5% or more of our common stock have agreed that, until the later of the one year anniversary of the date of the Underwriting Agreement we will enter into in conjunction with this offering, they will not sell, contract to sell, grant any option for the sale or otherwise dispose of any of our equity securities, or any securities convertible into or exercisable or exchangeable for our equity securities, without the consent of MDB Capital Group, LLC, except for exercise or conversion of currently outstanding warrants, options and convertible debentures, as applicable; and exercise of options under an acceptable stock incentive plan. This lock-up covers a total of 1,716,233 shares of common stock which includes 1,262,792 shares of our currently outstanding common stock and 453,441 shares of common stock underlying stock options, warrants and convertible promissory notes. The underwriter may consent to an early release from the lock-up period if, in its opinion, the market for the common stock would not be adversely impacted by sales and in cases of a financial emergency of an officer, director or other stockholder. We are unaware of any officer, director or stockholder who intends to ask for consent to dispose of any of our equity securities during the relevant lock-up periods.

Holders of our senior secured convertible promissory notes, including MDB Capital Group, LLC, have agreed that, until 180 days following the date of this prospectus, they will not sell, contract to sell, grant any option for the sale or otherwise dispose of any of our equity securities, or any securities convertible into or exercisable or exchangeable for our equity securities, without the consent of MDB Capital Group, LLC. This lock-up covers a total of 2,455,231 shares of our common stock which includes 1,370,267 shares of common stock that will be issued upon the conversion of our senior secured convertible promissory notes, 791,080 shares of common stock underlying the warrants issued therewith, and 293,884 shares of common stock underlying warrants issued to MDB Capital Group, LLC.

Indemnification

We will agree to indemnify the underwriter against certain liabilities, including certain liabilities arising under the Securities Act, and to contribute to payments that the underwriter may be required to make for these liabilities.

Short Positions and Penalty Bids

The underwriter may engage in over-allotment, syndicate covering transactions, and penalty bids or purchases for the purpose of pegging, fixing or maintaining the price of the common stock, in accordance with Regulation M under the Exchange Act.

- Over-allotment involves sales by the underwriter of shares in excess of the number of shares the underwriter is obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by an underwriter is not greater than the number of shares that it may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriter may close out any short position by either exercising its over-allotment option and/or purchasing shares in the open market.

- Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriter will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which it may purchase shares through the over-allotment option. If an underwriter sells more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if an underwriter is concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

- Penalty bids permit an underwriter to reclaim a selling concession from a syndicate member when the shares originally sold by the syndicate member are purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result, the price of the common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the NASDAQ Capital Market, and if commenced, they may be discontinued at any time.

Neither we nor the underwriter make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor the underwriter make any representation that the underwriter will engage in these transactions or that any transaction, once commenced, will not be discontinued without notice.

Electronic Distribution

A prospectus in electronic format may be made available on the Internet sites or through other online services maintained by the underwriter, or by its affiliates. In those cases, prospective investors may view offering terms online and, depending upon the underwriter, prospective investors may be allowed to place orders online. The underwriter may agree with us to allocate a specific number of shares for sale to online brokerage account holders. Any such allocation for online distributions will be made by the underwriter on the same basis as other allocations.

Other than the prospectus in electronic format, the information on the underwriter's website and any information contained in any other website maintained by the underwriter is not part of the prospectus or the registration statement of which this prospectus forms a part, has not been approved and/or endorsed by us or the underwriter in its capacity as underwriter and should not be relied upon by investors.

The underwriter's compensation in connection with this offering is limited to the fees and expenses described above under "Underwriting Discount and Expenses."

USE OF PROCEEDS

Based on an assumed offering price of $5.00 per share, we estimate the gross proceeds from the sale of 2,500,000 shares of common stock, prior to deducting underwriting discounts and commissions and the estimated offering expenses payable by us, will be approximately $12.5 million (approximately $14.375 million if the over-allotment option granted to the underwriter is exercised in full).

We estimate that we will receive net proceeds of approximately $10.5 million, after deducting underwriting discounts and commissions and our underwriter's expense allowance, and other estimated expenses of approximately $2.03 million, which includes legal, accounting, printing costs and various fees associated with the registration and listing of our shares. If the underwriter exercises its right to purchase an additional 375,000 shares of common stock to cover over-allotments, we will receive an additional approximately $1,687,500, after deducting approximately $187,500 for underwriting discounts and commissions.

We currently intend to use the net proceeds of this offering as follows: approximately $1 million for patent filings and the protection of intellectual property, $1.5 million for new product research and development, $5 million for the development of existing products, including product and equipment purchases, $1 million for equipment and software, and $2 million for working capital and general corporate expenses.

The amounts and timing of our actual expenditures will depend on numerous factors, including market conditions, results from our research and development efforts, business developments and opportunities and related rate of growth, sales and marketing activities and competition. Accordingly, our management will have broad discretion in the application of the net proceeds, and investors will be relying on the judgment of our management regarding the application of the proceeds from this offering. We may find it necessary or advisable to use portions of the proceeds from this offering for other purposes. Circumstances that may give rise to a change in the use of proceeds and the alternate purposes for which the proceeds may be used include:

- the existence of unforeseen or other opportunities or the need to take advantage of changes in timing of our existing activities;
- the need or desire on our part to accelerate, increase, reduce or eliminate one or more existing initiatives due to, among other things, changing market conditions and competitive developments or interim results of research and development efforts;
- results from our business development and marketing efforts, including co-development and pilot site installation opportunities that may materialize;
- the effect of federal, state, and local regulation of potential customers in our identified industries;
- our ability to attract development funding or to license or sell our technology to industry sponsors or other interested organizations; and/or
- the presentation of strategic opportunities of which we are not currently aware (including acquisitions, joint ventures, licensing and other similar transactions).

From time to time, we evaluate these and other factors and we anticipate continuing to make such evaluations to determine if the existing allocation of resources, including the proceeds of this offering, is being optimized.

CAPITALIZATION

The following table sets forth our actual cash and cash equivalents and capitalization, each as of March 31, 2013:

- on an actual basis; and
- on a pro forma as adjusted basis to give effect to the issuance of the common stock offered hereby and the use of proceeds, as described in the section entitled "Use of Proceeds."

You should consider this table in conjunction with our financial statements and the notes to those financial statements included in this prospectus.

	As of March 31, 2013			
	Actual	Actual with effect of reverse split	As adjusted for the effect of the reverse split, debt conversion and issuance of shares to directors	As adjusted for this offering [1]
Total debt at face value, net of debt discount				
Convertible debt less debt discount plus Texas Emerging Technology Fund	$ 3,350,532	$ 3,350,532	$ 1,000,000	$ 1,000,000
Stockholders' equity				
Common stock, par value $0.001 per share – 50,000,000 shares of common stock authorized; 1,480,262 shares issued and outstanding as of March 31 giving effect to the reverse split; 5,688,308 shares issued and outstanding as adjusted [2]	$ 3,525	$ 1,480	$ 3,188	$ 5,688
Additional paid-in-capital	7,109,741	7,111,786	10,601,465	21,101,465
Additional paid-in-capital; stock to be issued to directors and for legal services [3]	43,333	43,333	--	--
Treasury stock	(2,657)	(2,657)	(2,657)	(2,657)
Accumulated deficit	(9,025,017)	(9,025,017)	(9,282,464)	(9,282,464)
Total stockholders' equity (deficit)	(1,871,075)	(1,871,075)	1,319,532	11,822,032
Total capitalization	1,479,457	1,479,457	2,319,532	12,822,032
Stockholders' equity (deficit) per share	(0.53)	(1.33)	0.43	2.18

(1) Assumes that approximately $12.5 million of our common stock is sold in this offering at an offering price of $5.00 per share and that the net proceeds thereof are approximately $10.5 million after deducting underwriting discounts and commissions and our estimated expenses. If the underwriter's over-allotment option is exercised in full, net proceeds will increase to approximately $12,187,500.

(2) Convertible notes and interest of $5,980,214, including $750,000 raised after the second quarter of 2013, convert into 1,621,249 shares of common stock at the time of the offering. Of the $5,980,214 in debt $2,791,325 is already accounted for in paid in capital as debt discount.

(3) Management anticipates issuing 12,465 shares of common stock to our independent directors as compensation to March 31, 2013 with paid in capital of $43,333. Management anticipates that the number of shares to be issued to the independent directors will increase to 25,710 shares by June 30, 2013; these shares are reflected in the last two columns. Management anticipates that it will issue an additional convertible promissory note to Richardson & Patel LLP that will be converted into 61,357 unregistered shares of common stock at $3.47626 per share in payment of an anticipated $213,294 in additional legal expenses incurred during 2013 to complete this offering; these shares are reflected in the last two columns.

DILUTION

Our net tangible book value as of March 31, 2013, was approximately $(1,871,075), or $(1.33) per share of our common stock. Our net tangible book value per share represents our total tangible assets less total liabilities divided by the number of shares of our common stock outstanding on March 31, 2013. If we had converted all the convertible debt as of March 31, 2013, our net tangible assets would have been $1,319,532 or $0.41 per share. Assuming that we issue all of the shares of our common stock offered by us at the public offering price of $5.00 per share, after deducting the commissions and estimated offering expenses payable by us and converting the Convertible Notes net of debt discount already on the books, our net tangible book value as of March 31 2013, would have been approximately $11.8 million, or $2.08 per share of our common stock. This amount represents an immediate increase in net tangible book value of $1.67 per share to our existing stockholders and an immediate dilution in net tangible book value of $2.92 per share to new investors purchasing shares of our common stock in this offering.

We determine dilution by subtracting the adjusted net tangible book value per share after this offering from the public offering price per share of our common stock. The following table illustrates the dilution in net tangible book value per share to new investors:

Public offering price per share			$	5.00
Net tangible book value per share as of March 31, 2013 with conversion of debt	$	0.41		
Increase per share attributable to new investors	$	1.67		
Adjusted net tangible book value per share after this offering			$	2.08
Dilution in net tangible book value per share to new investors			$	2.92

The following shares were not included in the above calculation:

- 158,108 shares of our common stock reserved for issuance under stock option agreements at a weighted average exercise price of $2.7163 per share and 352,270 shares of our common stock reserved for issuance under option agreements that have been approved by the Compensation Committee of the Board of Directors but have not yet been issued at an exercise price of $5.00;
- 1,519,095 shares of common stock reserved for issuance under various outstanding warrant agreements at a weighted average exercise price of $2.99 per share;
- 487,713 shares of our common stock reserved for future issuance under our 2013 Equity Incentive Plan; and
- up to 250,000 shares of our common stock issuable upon exercise of the warrant issued to MDB Capital Group, LLC.

Unless otherwise specifically stated, information throughout this prospectus assumes that none of our outstanding warrants to purchase shares of our common stock are exercised.

LEGAL MATTERS

Richardson & Patel LLP, with an office at 405 Lexington Avenue, 49th Floor, New York, New York 10174, will pass upon the validity of the shares of common stock offered by this prospectus. Richardson & Patel LLP has agreed to accept $300,000 in aggregate principal amount of convertible promissory notes as partial payment for legal services in connection with the initial public offering of our common stock, the registration statement of which this prospectus is a part, and the listing of our common stock on the Nasdaq Capital Market, which convertible promissory notes will convert into an aggregate of 82,192 shares of common stock upon completion of this offering. The promissory notes will convert to common stock upon the consummation of this offering at the rate of $3.47626 per share. Although Richardson & Patel LLP is not under any obligation to accept additional securities in payment for services, it may do so in the future. Robert Groover, Esq., an attorney with Glast, Phillips & Murray, P.C., holds a warrant for the purchase of 6,300 shares of our common stock. Glast, Phillips & Murray, P.C., with an office at 14801 Quorum Drive, Suite 500, Dallas, Texas 75254, has provided a legal opinion to the underwriter relating to the discussion included in this prospectus of our patents and patent applications. Locke Lord LLP, with an office at 500 Capitol Mall, Suite 1800, Sacramento, California 95814, is legal counsel to MDB Capital Group, LLC.

EXPERTS

The financial statements of Ideal Power Inc. as of December 31, 2012 and 2011, and for the years ended December 31, 2012 and 2011, included in this prospectus and elsewhere in the registration statement have been audited by Gumbiner Savett Inc., independent registered public accounting firm (which contain an explanatory paragraph related to our ability to continue as a going concern as described in Note 2 to our financial statements) as set forth in their report. We have included these financial statements in the prospectus and elsewhere in the registration statement in reliance upon the report of Gumbiner Savett Inc., given on their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act that registers the shares of our common stock to be sold in this offering. Our SEC filings are and will become available to the public over the Internet at the SEC's website at www.sec.gov. You may also read and copy any document we file with the SEC at its public reference facilities at 100 F Street N.E., Washington, D.C. 20549. You can also obtain copies of the documents upon the payment of a duplicating fee to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities.

This prospectus does not contain all of the information set forth in the registration statement and the exhibits and schedules thereto. Some items are omitted in accordance with the rules and regulations of the SEC. You should review the information and exhibits included in the registration statement for further information about us and the securities we are offering. Statements in this prospectus concerning any document we filed as an exhibit to the registration statement or that we otherwise filed with the SEC are not intended to be comprehensive and are qualified by reference to these filings. You should review the complete document to evaluate these statements.

DISCLOSURE OF COMMISSION POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the Company, we have been informed that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

2,500,000 Shares of Common Stock

Ideal Power Inc.

PROSPECTUS

MDB Capital Group, LLC

Until , 2013, all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth the various expenses to be incurred in connection with the sale and distribution of our common stock being registered hereby, all of which will be borne by us (except any underwriting discounts and commissions and expenses incurred for brokerage, accounting, tax or legal services or any other expenses incurred in disposing of the shares). All amounts shown are estimates except the SEC registration fee.

SEC Filing Fee	$ 2001.38
FINRA Fee*	$ 1,967.29
Underwriter's Legal Fees and Expenses.	$ 187,500.00
Nasdaq Fee*	$ 50,000.00
Printing Expenses*	$ 35,000.00
Accounting Fees and Expenses*	$ 40,000.00
Legal Fees and Expenses*	$ 450,000.00
Transfer Agent and Registrar Expenses*	$ 15,000.00
Miscellaneous*	$ 1,500.00
Total	$ 782,968.67

* Estimated.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

The following summary is qualified in its entirety by reference to the complete text of any statutes referred to below and the certificate of incorporation of Ideal Power Inc., a Delaware corporation.

Section 145 of the General Corporation Law of the State of Delaware (the "DGCL") permits a Delaware corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the person's conduct was unlawful.

In the case of an action by or in the right of the corporation, Section 145 of the DGCL permits a Delaware corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred by the person in connection with such action, suit or proceeding if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses that the Court of Chancery or such other court shall deem proper.

Section 145 of the DGCL also permits a Delaware corporation to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the corporation would have the power to indemnify such person against such liability under Section 145 of the DGCL.

Article 13 of our Certificate of Incorporation states that our directors shall not be personally liable to us or to our stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to us or to our stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit. If the Delaware General Corporation Law is amended after the date hereof to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of our directors shall be eliminated or limited to the fullest extent permitted by the Delaware General Corporation Law, as so amended.

Article 14 of our Certificate of Incorporation states that each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the Company or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans (hereinafter an "indemnitee") shall be indemnified and held harmless by us to the fullest extent permitted by the Delaware General Corporation Law against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such indemnitee in connection therewith. Such indemnification shall continue as to an indemnitee who has ceased to be a director, officer, employee or agent, except as provided in subparagraph (b) hereof, we shall indemnify any such indemnitee seeking indemnification in connection with a proceeding (or part thereof) initiated by such indemnitee only if such proceeding (or part thereof) was authorized by our board of directors. The right to indemnification conferred by Article 14 is a contract right and includes the right to be paid by us the expenses incurred in defending any such proceeding in advance of its final disposition (an "expense advancement"); provided, however, that, if the Delaware General Corporation Law so requires, the payment of such expenses incurred by an indemnitee in advance of the final disposition of a proceeding, shall be made upon delivery to us of an undertaking, by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that such indemnitee is not entitled to be indemnified. We may, by action of our Board of Directors, provide indemnification to our employees and agents with the same scope and effect as the foregoing indemnification of directors and officers. The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in Article 14 is not exclusive of any other right that any person may have or hereafter acquire under any statute, provision of our Certificate of Incorporation, bylaw, agreement, vote of stockholders or disinterested directors or otherwise. We may maintain insurance, at our expense, to protect the Company and any of our directors, officers, employees or agents against any such expense, liability or loss, whether or not we have the power to indemnify such person.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

During the past three years, we issued the following securities without registration under the Securities Act of 1933, as amended (the "Securities Act").

On January 15, 2010, we entered into a Services Agreement with Dynamic Manufacturing Solutions LLC ("DMS"). Pursuant to the Services Agreement, we agreed to pay $120,000 in invoices issued by DMS to us for manufacturing services with shares of our common stock. DMS currently owns 40,382 shares of our common stock. We relied on the exemption provided by Section 4(a)(2) of the Securities Act of 1933 to make the offering inasmuch as the investor was accredited and there was no form of general solicitation or general advertising relating to the offer.

In September and October 2010, we sold a total of 27,299 shares of our common stock to two investors for proceeds of $81,120. We relied on the exemption provided by Section 4(a)(2) of the Securities Act of 1933 to make the offering inasmuch as the investors were accredited and there was no form of general solicitation or general advertising relating to the offer.

On October 1, 2010, in conjunction with an award from the State of Texas Office of the Governor, Economic Development and Tourism ("OOGEDT"), we granted to the OOGEDT a right to purchase shares of our capital stock. The purchase price per share is $0.002381 per share. The number of shares that may be purchased shall be equal to the quotient obtained by dividing the total amount of the award together with accrued interest at the rate of 8% per annum disbursed to the date of exercise by either (i) the purchase price in the First Qualifying Financing Transaction (as defined in the award agreement) if such financing is closed before December 30, 2010; (ii) eight-tenths of the purchase price in the First Qualifying Financing Transaction if such financing is closed after December 30, 2010; or (iii) if no First Qualifying Transaction is closed 42 months after October 1, 2010 or the OOGEDT exercises the right to purchase before any such financing transaction, then $0.295072. We expect that the OOGEDT to exercise this option to purchase our common stock. As of March 31, 2013, the number of shares of common stock the OOGEDT has the right to purchase is 288,173. We relied on the exemption provided by Section 4(a)(2) of the Securities Act of 1933 to make the offering inasmuch as the investor was a government entity and there was no form of general solicitation or general advertising relating to the offer.

On December 10, 2010, we completed an offering of 122,175 shares of our Series Seed Convertible Preferred Stock to Battery Ventures VIII, L.P. ("Battery") for a price of $240,000.57. We relied on the exemption provided by Rule 506 of Regulation D of the Securities Act of 1933 to make the offering inasmuch as the investor was accredited and there was no form of general solicitation or general advertising relating to the offer. As a result of our achieving certain milestones, on or about August 4, 2011 the Series Seed Convertible Preferred Stock was converted into 51,312 shares of our common stock. We relied on Section 3(a)(9) of the Securities Act of 1933 to issue the common stock.

Between April 26, 2011 and October 9, 2011, we undertook an offering of $360,000 in principal amount of convertible promissory notes to five investors. The convertible notes have an annual interest rate of 6% and all principal and interest are due and payable on its maturity date, December 31, 2013, unless earlier paid by the Company. The notes may be converted into shares of common stock at the lower of (i) the lowest per share purchase price paid in cash for Qualified Financing Securities (as defined in the convertible notes) or (ii) $6.3276. In an amendment to the promissory notes, the holders agreed to a mandatory conversion in the event of an initial public offering at the per share price of the securities sold in the offering. We relied on the exemption provided by Rule 506 of Regulation D of the Securities Act of 1933 to make the offering inasmuch as all of the investors were accredited and there was no form of general solicitation or general advertising relating to the offer.

Between October 12, 2011 and May 4, 2012, we sold a total of 42,670 shares of our common stock to a total of five accredited investors and one of our executive officers for proceeds totaling approximately $270,000. We relied on the exemption provided by Section 4(a)(2) of the Securities Act of 1933 to make the offering inasmuch as the investors were accredited and there was no form of general solicitation or general advertising relating to the offer.

On November 5, 2011, our Board of Directors adopted the Ideal Power Converters, Inc. 2011 Stock Option/Stock Issuance Plan (the "2011 Plan"). Pursuant to the 2011 Plan, we are able to issue awards of stock options and common stock to employees, directors and consultants and independent advisors who render services to us. We reserved 371,000 shares of our common stock for issuance under the Plan. We relied on Rule 701 promulgated under the Securities Act of 1933, as amended, to issue awards from the Plan. On November 5, 2012, the awards we made from the Plan terminated.

Between February 24, 2012 and July 17, 2012, we undertook an offering of $695,150.80 in principal amount of convertible promissory notes together with warrants. The convertible notes have an annual interest rate of 6% and all principal and interest are due and payable on the maturity date, December 31, 2013, unless earlier paid by the Company. The notes may be converted into shares of common stock at the lower of (i) the lowest per share purchase price paid in cash for Qualified Financing Securities (as defined in the convertible notes) or $6. 3276. If the note is converted into shares issued in a Next Financing (as defined in the note), the exercise price of the warrant is equal to the lower of (i) the per share purchase price paid in the Next Financing or (ii) $6. 3276. If the note is converted into shares of common stock or reaches its maturity date, then then exercise price of the warrant is equal to $6. 3276. In an amendment to the promissory notes, the holders agreed to a mandatory conversion in the event of an initial public offering at the per share price of the securities sold in the offering. The warrants have a term of seven years. The number of shares subject to each warrant is determined by dividing the principal amount of the promissory note by the exercise price. The exercise price is determined as follows: if the convertible promissory note is converted in the Next Financing, the per share exercise price will be the price at which the note was converted, otherwise the per share exercise price will be $6. 3276. We relied on the exemption provided by Rule 506 of Regulation D of the Securities Act of 1933 to make the offering inasmuch as all of the investors were accredited and there was no form of general solicitation or general advertising relating to the offer.

On August 31, 2012, we completed an offering of $750,000 in principal amount of our senior secured convertible promissory notes together with warrants. If we proceed with an initial public offering of our securities, as defined in the Securities Purchase Agreement, then there will be a mandatory conversion of the notes at a 30% discount to the per share initial public offering price. If we do not proceed with an initial public offering of our securities, the notes shall be paid in full on the maturity date. If the notes are voluntarily converted into shares of common stock, including in connection with a Private Equity Financing or in the event of a Change of Control (as defined in the notes), each note shall be converted into that number of shares of common stock equal to the principal amount and accrued interest of the investor's note divided by the lower of (i) 0.70 times the Private Equity Financing Price or share consideration paid in the event of a Change of Control or (ii) $7.643. If we proceed with an initial public offering of our securities or a Private Equity Financing, the number of shares of common stock covered by the warrant shall be equal to the principal amount of the investor's note divided by 0.70 times the initial public offering price or Private Equity Financing Price, as applicable, and the per share exercise price of the warrants will equal 0.70 times the initial public offering price or Private Equity Financing Price, as applicable. If we do not undertake either an initial public offering or a Private Equity Financing, then the number of shares of common stock covered by the warrant shall be equal to the original principal amount of the investor's note divided by $7.643 and the exercise price shall be $7.643 per share. We relied on the exemption provided by Rule 506 of Regulation D of the Securities Act of 1933 to make the offering inasmuch as all of the investors were accredited and there was no form of general solicitation or general advertising relating to the offer. In April 2013, we exchanged the outstanding senior secured convertible promissory notes and warrants with senior secured convertible promissory notes and warrants that mirrored the terms of the senior secured convertible promissory notes and warrants issued on November 21, 2012, as described below, except the calculation of the number of shares of common stock covered by these warrants is based on the full principal amount of the investor's note. We relied on the exemption provided by Section 4(a)(2) of the Securities Act of 1933 to make the offering inasmuch as all of the investors were accredited and there was no form of general solicitation or general advertising relating to the offer.

On November 21, 2012, we completed an offering of $3.25 million in principal amount of our senior secured convertible promissory notes together with warrants. If we proceed with an initial public offering of our securities, as defined in the Securities Purchase Agreement, then there will be a mandatory conversion of the notes at a conversion price equal to the lower of a 30% discount to the per share initial public offering price or $3.47626. In the event of a conversion for any reason other than the closing of an initial public offering of our securities or a Change of Control, as defined in the notes, each note shall be converted into a number of shares of common stock equal to the principal amount and accrued interest of the investor's note divided by the lower of (i) $3.47626 or (ii) 0.70 of the per share consideration paid in the most recent Private Equity Financing. If the notes are converted into shares of common stock in connection with an initial public offering of our securities or a Private Equity Financing, the number of shares covered by each warrant will be equal to one-half the principal amount of the investor's note divided by the lower of (i) 0.70 times the initial public offering price or the Private Equity Financing Price, as applicable, or (ii) $3.47626, while the per-share exercise price will be equal to the lower of (i) 0.70 times the initial public offering price or the Private Equity Financing Price, as applicable, or (ii) $3.47626. If the notes are not converted into shares of common stock in connection with an initial public offering of our securities or a Private Equity Financing, the number of shares covered by each warrant will be equal to one-half of the original principal amount of the investor's note divided by $3.47626, and the per share exercise price of the warrants will equal $3.47626. We relied on the exemption provided by Rule 506 of Regulation D of the Securities Act of 1933 to make the offerings inasmuch as all of the investors were accredited and there was no form of general solicitation or general advertising relating to the offers.

In March 2013, we issued an unsecured convertible promissory note in the principal amount of $86,707 to Richardson & Patel LLP, our legal counsel, as payment for services rendered through December 31, 2012. Interest accrues from the date of the note at the higher of: (i) the rate of 1% per annum, simple interest; or (ii) at the lowest rate that may accrue without causing the imputation of interest under the Internal Revenue Code. Principal and interest is payable on the earlier to occur of (i) December 31, 2013 (the "Calendar Due Date"), (ii) the occurrence of an Event of Default (as defined in the promissory note) or (iii) the closing of an IPO Financing (as defined in the promissory note). If, prior to the Calendar Due Date, we complete a firm commitment underwritten initial public offering of our common stock that raises at least $10 million (the "IPO Financing"), the promissory note must be repaid with shares of our common stock. The conversion price will be equal to the lower of 0.70 times the IPO price or $3.47626. We relied on the exemption provided by Section 4(a)(2) of the Securities Act of 1933 to make the offering inasmuch as the investor was an accredited investor and there was no form of general solicitation or general advertising relating to the offer.

On May 17, 2013, our Board of Directors adopted the Ideal Power Converters, Inc. 2013 Equity Incentive Plan (the "2013 Plan"). Pursuant to the 2013 Plan, we are able to issue awards of stock options and common stock to employees, directors and consultants and independent advisors who render services to us. We reserved 839,983 shares of our common stock for issuance under the Plan. The Compensation Committee of our Board of Directors has approved the issuance of stock option grants covering a total of 352,270.

On July 29, 2013, we completed an offering of $750,000 in principal amount of our senior secured convertible promissory notes together with warrants. If we proceed with an initial public offering of our securities, as defined in the Securities Purchase Agreement, then there will be a mandatory conversion of the notes at a conversion price equal to the lower of a 30% discount to the per share initial public offering price or $3.47626. In the event of a conversion for any reason other than the closing of an initial public offering of our securities or a Change of Control, as defined in the notes, each note shall be converted into a number of shares of common stock equal to the principal amount and accrued interest of the investor's note divided by the lower of (i) $3.47626 or (ii) 0.70 of the per share consideration paid in the most recent Private Equity Financing. If the notes are converted into shares of common stock in connection with an initial public offering of our securities or a Private Equity Financing, the number of shares covered by each warrant will be equal to one-half the principal amount of the investor's note divided by the lower of (i) 0.70 times the initial public offering price or the Private Equity Financing Price, as applicable, or (ii) $3.47626, while the per-share exercise price will be equal to the lower of (i) 0.70 times the initial public offering price or the Private Equity Financing Price, as applicable, or (ii) $3.47626. If the notes are not converted into shares of common stock in connection with an initial public offering of our securities or a Private Equity Financing, the number of shares covered by each warrant will be equal to one-half of the original principal amount of the investor's note divided by $3.47626, and the per share exercise price of the warrants will equal $3.47626. We relied on the exemption provided by Rule 506 of Regulation D of the Securities Act of 1933 to make the offerings inasmuch as all of the investors were accredited and there was no form of general solicitation or general advertising relating to the offers.

ITEM 16. EXHIBITS

Exhibit No.	Description of Document
1.1	Form of Underwriting Agreement**
3.1	Delaware Certificate of Conversion including Certificate of Incorporation.*
3.2	Bylaws of Ideal Power Inc.*
4.1	Underwriter's Warrant**
5.1	Opinion of Richardson & Patel LLP regarding the validity of the common stock being registered**
10.1	Consulting Agreement dated July 24, 2012 between the registrant and MDB Capital Group, LLC*
10.2	Consulting Agreement dated August 8, 2012 between the registrant and MDB Capital Group, LLC*
10.3	Form of Lock-Up Agreement*
10.4	Form of Lock-Up Agreement executed by MDB Capital Group, LLC**
10.5	Form of Subscription and Stock Purchase Agreement by and between the registrant and investors for an offering completed in October 2010**
10.6	Form of Subscription Agreement and Stock Purchase Agreement by and between the registrant and investors for an offering completed on May 4, 2012**
10.7	Form of Convertible Promissory Note issued by the registrant to investors in the offering completed on October 9, 2011**
10.8	Form of Convertible Promissory Note issued by the registrant to investors in the offering completed on July 17, 2012**
10.9	Form of Warrant issued by the registrant to investors in the offering completed on July 17, 2012**
10.10	Form of Securities Purchase Agreement between the registrant and investors for an offering completed on August 31, 2012*
10.11	Form of Registration Rights Agreement between the registrant and investors for an offering completed on August 31, 2012*
10.12	Form of Senior Secured Convertible Promissory Note issued by the registrant to investors in the offering completed on August 31, 2012*
10.13	Form of Security Agreement between the registrant and investors for an offering completed on August 31, 2012*
10.14	Form of Warrant issued by the registrant to investors in the offering completed on August 31, 2012*
10.15	Form of Replacement Senior Secured Convertible Promissory Note issued by the registrant to investors in the offering completed on August 31, 2012*
10.16	Form of Replacement Warrant issued by the registrant to investors in the offering completed on August 31, 2012*
10.17	Form of Securities Purchase Agreement between the registrant and investors for an offering completed on November 21, 2012*
10.18	Form of Registration Rights Agreement between the registrant and investors for an offering completed on November 21, 2012*
10.19	Form of Senior Secured Convertible Promissory Note issued by the registrant to investors in the offering completed on November 21, 2012*
10.20	Form of Security Agreement between the registrant and investors for the offering completed on November 21, 2012*
10.21	Form of Warrant issued by the registrant to investors in the offering completed on November 21, 2012*
10.22	Texas Emerging Technology Fund Award and Security Agreement dated October 1, 2010*
10.23	Investment Unit issued on October 1, 2010 by the registrant to Office of the Governor Economic Development and Tourism of the State of Texas**
10.24	Subordination Agreement dated August 30, 2012 between the registrant and Office of the Governor Economic Development and Tourism of the State of Texas*
10.25	Lease Agreement between the Company and Texas Public Employees Association dated May 7, 2013**
10.26	Employment Agreement between the Company and William Alexander dated May 7, 2013*
10.27	Employment Agreement between the Company and Paul Bundschuh dated May 7, 2013*
10.28	Employment Agreement between the Company and Christopher Cobb dated May 8, 2013*
10.29	Form of Indemnification Agreement entered into in December 2010 between the Company and William Alexander, Charles De Tarr, David Breed and Hamo Hacopian**
10.30	Form of Securities Purchase Agreement between the registrant and investors for an offering completed on July 29, 2013*
10,31	Form of Registration Rights Agreement between the registrant and investors for an offering completed on July 29, 2013*
10.32	Form of Senior Secured Convertible Promissory Note issued by the registrant to investors in the offering completed on July 29, 2013*
10.33	Form of Security Agreement between the registrant and investors for the offering completed on July 29, 2013*
10.34	Form of Warrant issued by the registrant to investors in the offering completed on July 29, 2013*
10.35	Ideal Power Converters, Inc. 2013 Equity Incentive Plan*
10.36	Warrant issued to MDB Capital Group, LLC (MDB-1) dated November 21, 2012*
10.37	Addendum to Warrant issued to MDB Capital Group, LLC (MDB-1) dated July 10, 2013*
10.38	Warrant issued to MDB Capital Group, LLC (MDB-2) dated November 21, 2012*
10.39	Addendum to Warrant issued to MDB Capital Group, LLC (MDB-2) dated July 10, 2013*
10.40	Amendment No. 1 dated May 20, 2011 to the Investment Unit issued on October 1, 2010 by the registrant to Office of the Governor Economic Development and Tourism of the State of Texas**
10.41	Amendment No. 2 dated April 16, 2013 to the Investment Unit issued on October 1, 2010 by the registrant to Office of the Governor Economic Development and Tourism of the State of Texas**
14.1	Code of Business Conduct and Ethics*
23.1	Consent of Gumbiner Savett Inc., Independent Registered Public Accounting Firm*
23.2	Consent of Richardson & Patel LLP (included in Exhibit 5.1)**
24.1	Power of Attorney (included on the signature page)

*Filed herewith.
**To be filed by amendment.

ITEM 17. UNDERTAKINGS

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered that remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability of the registrant under the Securities Act to any purchaser in the initial distribution of the securities: The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser: (i) any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424; (ii) any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant; (iii) the portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and (iv) any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

(5) To provide to the underwriter at the closing specified in the underwriting agreements, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

(6) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus as filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(7) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(8) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Spicewood, State of Texas, on this 6th day of August, 2013.

IDEAL POWER INC.

By: /s/ Paul A. Bundschuh
Paul A. Bundschuh
Chief Executive Officer

Each person whose signature appears below constitutes and appoints Paul Bundschuh as his or her true and lawful attorneys-in-fact and agents, each acting alone, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any or all amendments (including post-effective amendments) to the Registration Statement, and to sign any registration statement for the same offering covered by this Registration Statement that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933, as amended, and all post-effective amendments thereto, and to file the same, with all exhibits thereto, and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

Dated: August 6, 2013

/s/ Paul A. Bundschuh
Paul A. Bundschuh
Chief Executive Officer and
Director
(Principal Executive Officer)

Dated: August 6, 2013

/s/ Barry Loder
Barry Loder
Chief Financial Officer
(Principal Financial and
Accounting
Officer)

Dated: August 6, 2013

/s/ Christopher P. Cobb
Christopher P. Cobb
President and Director

Dated: August 6, 2013

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

Dated: August 6, 2013

/s/ Mark S. Baum
Mark S. Baum., Director

Ideal Power Inc.

INDEX TO CONDENSED FINANCIAL STATEMENTS

IDEAL POWER INC.
Condensed Balance Sheets

	March 31, 2013 (unaudited)	December 31, 2012	Pro Forma Stockholders' Deficit as of March 31, 2013 (unaudited) (Note 15)
ASSETS			
Current assets:			
Cash and cash equivalents	$ 1,215,986	$ 1,972,301	$
Accounts receivable, net	303,890	485,674	
Inventories, net	209,942	217,867	
Prepayments and other current assets	27,254	28,468	
Prepaid offering costs	12,398	-	
Total current assets	1,769,470	2,704,310	
Property and equipment, net	27,659	27,903	
Patents, net	528,637	474,790	
Total Assets	$ 2,325,766	$ 3,207,003	$
LIABILITIES AND STOCKHOLDERS' DEFICIT			
Current liabilities:			
Current portion of long-term debt, net of debt discount of $2,791,325 at March 31, 2013 and $3,828,711 at December 31, 2012.	$ 2,350,532	$ 1,313,146	$
Accounts payable	404,357	684,558	
Accrued expenses	214,262	178,003	
Deferred revenue	75,000	-	
Total current liabilities	3,044,151	2,175,707	
Long-term debt	1,152,690	1,132,690	
Commitments			
Stockholders' deficit:			
Common stock, $0.001 par value; 50,000,000 shares authorized; 3,524,505 issued and outstanding at March 31, 2013 and December 31, 2012.	3,525	3,525	1,480
Common stock to be issued	43,333	-	43,333
Additional paid-in capital	7,109,741	7,098,252	7,111,786
Treasury stock	(2,657)	(2,657)	(2,657)
Accumulated deficit	(9,025,017)	(7,200,514)	(9,025,017)
Total stockholders' deficit	(1,871,075)	(101,394)	(1,871,075)
Total Liabilities and Stockholders' Deficit	$ 2,325,766	$ 3,207,003	$

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

IDEAL POWER INC.
Condensed Statements of Operations
(Unaudited)

	Three Months Ended	
	March 31, 2013	**March 31, 2012**
Revenues:		
Products and services	$ 132,897	$ 45,900
Royalties	25,000	25,000
Grants	222,238	61,282
Total revenue	380,135	132,182
Cost of revenues	366,989	87,577
Gross profit	13,146	44,605
Operating expenses:		
General and administrative	437,312	255,840
Research and development	256,348	352,841
Sales and marketing	60,560	43,650
Total operating expenses	754,220	652,331
Loss from operations	(741,074)	(607,726)
Interest expense, net (including amortization of debt discount of $1,037,386 and $77,430 for the three months ended March 31, 2013 and 2012, respectively)	1,083,429	103,549
Net loss	$ (1,824,503)	$ (711,275)
Net loss per share – basic and fully diluted	$ (0.52)	$ (0.20)
Weighted average number of shares outstanding – basic and fully diluted	3,524,505	3,477,050

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

IDEAL POWER INC.
Condensed Statement of Stockholders' Deficit (Unaudited)
For the three months ended March 31, 2013

	Common Stock		Common Stock Issuable		Additional Paid-In	Treasury	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Stock	Deficit	Deficit
Balances at January 1, 2013	3,524,505	$ 3,525	-	$ -	$7,098,252	$ (2,657)	$ (7,200,514)	$ (101,394)
Common stock issuable for services	-	-	29,680	43,333	-	-	-	43,333
Stock-based compensation	-	-	-	-	11,489	-	-	11,489
Net loss for the three months ended March 31, 2013	-	-	-	-	-	-	(1,824,503)	(1,824,503)
Balances at March 31, 2013	3,524,505	$ 3,525	29,680	$ 43,333	$7,109,741	$ (2,657)	$ (9,025,017)	$ (1,871,075)

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

IDEAL POWER INC.
Condensed Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31,	
	2013	**2012**
Cash flows from operating activities:		
Net loss	$ (1,824,503)	$ (711,275)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	5,578	13,674
Common stock to be issued for services	43,333	-
Stock-based compensation	11,489	13,048
Amortization of debt discount	1,037,386	77,430
Decrease (increase) in operating assets:		
Accounts receivable	181,785	55,497
Inventories	7,925	-
Prepaid expenses and offering costs	(11,180)	-
Increase (decrease) in operating liabilities:		
Accounts payable	(280,201)	193,954
Accrued expenses	36,255	17,207
Deferred Revenue	75,000	75,000
Net cash used in operating activities	(717,133)	(265,465)
Cash flows from investing activities:		
Purchase of property and equipment and patents	(59,182)	(63,614)
Cash flows from financing activities:		
Borrowings on notes payable	20,000	202,704
Proceeds from issuance of common stock	-	52,000
Net cash provided by financing activities	20,000	254,704
Net decrease in cash and cash equivalents	(756,315)	(74,375)
Cash and cash equivalents at beginning of period	1,972,301	100,675
Cash and cash equivalents at end of the period	$ 1,215,986	$ 26,300
Supplemental disclosure of cash flow information:		
Cash paid during the three months:		
Interest	$ 0	$ 212

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

Ideal Power Inc.
Notes to Condensed 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 in Austin, Texas, it develops power converter solutions for photovoltaic generation, grid-storage and electric vehicle charging. The principal products of the Company are photovoltaic inverters and battery converters. The Company is developing technology to build electric vehicle chargers, wind converters and variable frequency drives. The Company also renders services to customers for developing a technological platform similar to that of the Company.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation and Going Concern

The accompanying unaudited interim condensed financial statements and information have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission for Form 10-Q. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The condensed balance sheet at December 31, 2012 has been derived from the Company's audited financial statements.

In the opinion of management, these condensed financial statements reflect all normal recurring and other adjustments necessary for a fair presentation. These financials statements should be read in conjunction with the audited financial statements for the year ended December 31, 2012 included elsewhere in this document. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year or any other future periods.

The accompanying unaudited interim condensed financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP) which contemplate continuation of the Company as a going concern. However, the Company is subject to the risks and uncertainties associated with a new business and has incurred significant losses from operations since inception. The Company's operations are dependent upon it raising additional funds through a private offering of its stock or debt financing. The Company is obligated to pay or convert $5,142,000 in promissory notes due in 2013. The Company has no committed sources of capital and is not certain whether additional financing will be available when needed on terms that are acceptable, if at all. These matters raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that could result from the outcome of this uncertainty. The report from the Company's independent registered public accounting firm relating to the year ended December 31, 2012 states that there is substantial doubt about the Company's ability to continue as a going concern.

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 March 31, 2013 and December 31, 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 March 31, 2013 and December 31, 2012.

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. Once the patents are awarded the amortization is computed using the straight-line method over the estimated useful lives of the patents of 20 years commencing from the date of filing of patents.

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 three months ended March 31, 2013.

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, notes payable, line of credit 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 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.

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 related costs are incurred, provided that the conditions under which the government grants were provided have been met. Government grants amounted to $222,238 and $61,282 for the three months ended March 31, 2013 and 2012, respectively.

At March 31, 2013 and December 31, 2012, grants receivable amounted to $223,223 and $348,647, respectively, and were included in accounts receivable.

Royalty income is recognized as earned based on the terms of the contractual agreements.

Product Warranties

The Company 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

Research and development costs are expensed as incurred. Research and development costs incurred during the three months ended March 31, 2013 and 2012 amounted to $256,348 and $352,841, respectively.

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 March 31, 2013 and December 31, 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 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 of 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, accounts payable and short term debt. The Company maintains its cash with a major financial institution located in the United States of America. Balances are insured by the Federal Deposit Insurance Corporation up to $250,000. Periodically throughout the year, the Company maintains balances in excess of federally insured limits. The Company encounters 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 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 two and three customers that accounted for 80% and 100% of net revenue for the three months ended March 31, 2013 and 2012, respectively. The loss of one of these customers could cause an adverse effect on the Company's operations. The Company had an accounts receivable balance from two customers and one customer that accounted for 85% and 72% of total accounts receivable at March 31, 2013 and December 31, 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:

	March 31, 2013 (unaudited)	December 31, 2012
Raw Materials	$ 128,246	$ 144,842
Finished goods	81,696	73,025
	$ 209,942	$ 217,867

Note 4 – Prepayment and Other Current Assets

Prepayment and other current assets consisted of the following:

	March 31, 2013 (unaudited)	December 31, 2012
Prepaid insurance	$ 20,254	$ 22,186
Prepaid subscription	5,000	4,282
Others	2,000	2,000
	$ 27,254	$ 28,468

Note 5 – Property and Equipment

Property and equipment consisted of the following:

	March 31, 2013 (unaudited)	December 31, 2012
Machinery and Equipment	$ 19,670	$ 19,670
Building leasehold improvements	46,850	46,850
Furniture, fixtures and computers	62,684	58,379
	129,204	124,899
Accumulated depreciation and amortization	(101,545)	(96,996)
	$ 27,659	$ 27,903

Note 6 – Patents

Patents consisted of the following:

	March 31, 2013 (unaudited)	December 31, 2012
Patents	$ 534,134	$ 479,256
Accumulated amortization	(5,497)	(4,466)
	$ 528,637	$ 474,790

Amortization expense related to patents amounted to $1,031 and $404 for the three months ended March 31, 2013 and 2012, respectively. Estimated amortization expense for the succeeding five years and thereafter is $5,900 (2014); $5,900 (2015); $5,900 (2016); $5,900 (2017); $5,900 (2018); and $85,000 (thereafter).

At March 31, 2013 and December 31, 2012, the Company had capitalized approximately $414,000 and $426,000, respectively, for costs related to patents that have not been awarded.

Note 7 – Long-term Debt

	March 31, 2013 (unaudited)	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 and April 16, 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 must 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 is 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 are 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 March 2013, and December 31, 2012, the Company had secured convertible promissory notes aggregating $4,000,000. See 4) and 5) below.		
The Promissory Note accrues interest at an annual rate of 8% and could be repaid at the option of the Company after April 1, 2012. The Promissory Note will be cancelled and the debt, including accrued interest, will be forgiven upon the earlier of: 1) October 1, 2020 or 2) the date the ETF receives a return of cash or public securities equal to the proceeds from the Promissory Note plus accrued interest in connection with a qualifying liquidation event, as defined in the agreement. Upon note repayment or forgiveness, the agreement will terminate and the Company will be released from all obligations under the Agreement.		
In connection with the Promissory Note, in October 2010 and July 2011, the Company issued warrants to purchase 33,875 and 101,626 shares of the Company's common stock, respectively. The fair value of the warrants was determined to be $66,372 and $199,104, respectively, and was recorded as debt discount. During the three months ended March 31, 2013 and 2012 the Company incurred interest expense amounting to $0 and $77,430 related to the accretion of the debt discount. Interest on the Promissory Note, including accretion of debt discount, amounted to $20,000 and $97,430 for the three months ended March 31, 2013 and 2012, respectively. Effective interest rate on this Promissory Note was 8% and 16% per annum for the three months ended March 31, 2013 and 2012, respectively. Accrued interest amounted to $152,690 and $132,690 at March 31, 2013 and 2012, respectively, and is included in the outstanding amount of promissory note.	$ 1,152,690	$ 1,132,690
2) Unsecured convertible promissory notes with principal and interest due at maturity at 6% per annum, 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 $10million, 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 are convertible into 172,249 shares of the Company's common stock at the option of the note holder upon occurrence of certain events, as defined in the promissory notes. The embedded beneficial conversion feature associated with these convertible promissory notes had no intrinsic value. Of the total amount outstanding, $40,000 was due to an officer of the Company at March 31, 2013 and December 31, 2012, respectively. Interest expense on these notes amounted to $5,400 and $5,370 for the three months ended March 31, 2013 and 2012, respectively.	360,000	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 $10million, 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 .Of the total amount outstanding, $389,575 was due to an officer, employee, and director of the Company. The promissory notes are convertible into 332,608 shares of the Company's common stock at the option of the note holder upon occurrence of certain events, as defined in the promissory notes. 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 261,581 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 three months ending March 31, 2013 and 2012 the Company incurred interest expense amounting to $65,532and $0, respectively, related to the accretion of the debt discount. Interest on these promissory notes, including accretion of debt discount, amounted to $75,960 and $536 for the three months ended March 31, 2013 and 2012, respectively. Unamortized debt discount amounted to $196,597 at March 31, 2013 and $262,129 at December 31, 2012. Effective interest rate on these notes was 44% per annum for the three months ended March 31, 2013.	498,553	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) November 21, 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. Of the total amount outstanding, $100,000 was due to one of the directors of the Company. The promissory notes are convertible into 512,645 shares of the Company's common stock at the option of the note holder upon occurrence of certain events, as defined in the promissory notes. 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 513,699 shares of the Company's common stock. The fair value of the warrants was determined to be $749,846 and was recorded as debt discount. During the three months ended March 31, 2013 and 2012, the Company incurred interest expense amounting to $150,000 and $0, respectively, related to the accretion of debt discount. Interest expense including accretion of debt discount, amounted to $151,875 and $0 for the three months ended March 31, 2013 and 2012, respectively. Unamortized debt discount amounted to $400,000 as of March 31, 2013 and $550,000 at December 31, 2012. Effective interest rate on these notes was 81% per annum for the three months ended March 31, 2013.	350,000	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) November 21, 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. Of the total amount outstanding, $200,000 was due to two directors of the Company. The promissory notes are convertible into 2,226,027 shares of the Company's common stock at the option of the note holder upon occurrence of certain events, as defined in the promissory notes. 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 1,113,014 shares of the Company's common stock. The fair value of the warrants was determined to be $1,625,890 and was recorded as debt discount. In connection with these promissory notes the Company issued underwriter warrants to purchase 222,603 shares of the Company's common stock. The fair value of the warrants was determined to be $292,368 and was recorded as debt discount. The Company also incurred debt raising cost of $375,000 in connection with these promissory notes which has been recorded as debt discount. During the three months ended March 31, 2013 and 2012, the Company incurred interest expense amounting to $812,500 and $0, respectively, related to the accretion of the debt discount. Interest expense, including accretion of debt discount, amounted to $820,624 and $0 for the three months ended March 31, 2013 and 2012 respectively. Unamortized debt discount amounted to $2,166,667 at March 31, 2013 and $2,979,167 at December 31, 2012. The effective interest rate on these notes was 101% per annum for the three months ended March 31, 2013.	1,083,333	270,833
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 is convertible into 59,388 shares of the Company's common stock at the option of the note holder upon occurrence of certain events, as defined in the promissory note. 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 three months ending March 31, 2013 and 2012, the Company incurred interest expense amounting to $9,354 and $0, respectively, related to the accretion of the debt discount. Interest expense, including accretion of debt discount, amounted to $9,570 and $0 for the three months ended March 31, 2013 and 2012, respectively. Unamortized debt discount amounted to $28,061 and $37,415 at March 31, 2013 and December 31, 2012, respectively. Effective interest rate was 44% per annum for the three months ended March 31, 2013.	58,646	49,292
	3,503,222	2,445,836
Less current portion of long-term debt, net of debt discount of $2,791,325 at March 31, 2013 and $3,828,711 at December 31, 2012	2,350,532	1,313,146
Long-term debt	$ 1,152,690	$ 1,132,690

The unamortized debt discount of $2,791,325 at March 31, 2013 will be amortized during the year ended December 31, 2013. Maturities of the long-term debt over the succeeding year and thereafter is approximately $5,142,000 (2013); and $1,153,000 (thereafter).

Note 8 – Warranty Reserve

The changes in warranty reserve, included in accrued expenses, were as follows:

	March 31, 2013 (unaudited)
Balance, January 1, 2013	$ 103,129
Provisions for warranty and beta replacements	11,812
Warranty payments or beta replacements	-
Balance, end of the period	$ 114,941

Note 9 – Common and Preferred Stock

All shares of common and preferred stock have a par value of $0.001. Each holder of common stock is entitled to one vote per share outstanding. Each holder of preferred stock is entitled to the number of votes equal to the number of shares of common stock into which the shares of preferred stock could be converted on the record date. As of March 31, 2013 and December 31, 2012 there were no outstanding shares of preferred stock.

Common Stock

During the three months ended March 31, 2013, the Company recognized an award of 29,680 shares of its common stock for services performed by directors. The shares have not been issued and are excluded from the weighted average total shares outstanding. The fair value of common stock to be issued in connection with services rendered was determined to be $43,333.

Note 10 – Stock Option Plan

During the three months ended March 31, 2013, the Company did not grant any stock options. The following presents a summary of activity under the Company's stock option plan for the three months ended March 31, 2013 (unaudited):

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)
Outstanding at January 1, 2013	376,455	$ 1.141	7.8
Granted	-	-	-
Exercised	-	-	-
Forfeited/Expired/Exchanged	-	-	-
Outstanding at March 31, 2013	376,455	$ 1.141	7.6
Exercisable at March 31, 2013	338,270	$ 0.980	7.7

The following table sets forth additional information about stock options outstanding at March 31, 2013 (unaudited):

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Life (in years)	Weighted Average Exercise Price	Options Exercisable
$ 0.04 - $0.99	94,650	8.4	$ 0.1493	94,650
$ 1.00 - $1.99	236,650	7.4	1.2480	234,213
$ 2.00- $2.66	45,155	7.0	$ 2.6575	9,407
	376,455			338,270

The estimated aggregate pretax intrinsic value (the difference between the Company's estimated stock price on the last day of the three months ended March 31, 2013 and the exercises price, multiplied by the number of in-the-money options) is approximately $381,000. This amount changes based on the fair value of the Company's stock.

As of March 31, 2013, there was approximately $67,000 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 3.7 years.

Note 11 – Warrants

During the three months ended March 31, 2013 the Company did not issue any warrants. A summary of the Company's warrant activity and related information for the three months ended March 31, 2013 is as follows:

	Warrants	Weighted Average Exercise Price
Outstanding at January 1, 2013	2,809,483	$ 1.52
Granted	-	-
Exercised	-	-
Forfeited/Expired	-	-
Outstanding at March 31, 2013	2,809,483	$ 1.52

Note 12 – 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 three months ended March 31, 2013 and 2012 amounted to $9,200 and $8,614, respectively.

Future estimated lease payments are as follows:

Year ending March 31	
2014	$ 38,000
2015	6,000
	$ 44,000

Employment Agreement

The Company has entered into an employment agreement, subsequently amended on May 8, 2013, with executive management personnel that provides 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 agreement, the severance expense due would be a minimum six month salary of approximately $88,000, plus any pro-rated bonuses and vacation days earned.

Note 13 – Consulting Services

During the three months ended March 31, 2013 and 2012, the Company incurred $18,024 and $4,821, respectively, on consulting services rendered by 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 14 – Retirement Plan

The Company has adopted a defined contribution plan covering all of its employees. Under the plan, the Company contributions are discretionary. The Company did not make any discretionary contributions during the three months ended March 31, 2013 and 2012.

Note 15 - Unaudited Pro Forma Stockholders' Deficit

The Company is in the process of filing a registration statement on Form S-1 with the U.S. Securities and Exchange Commission in connection with a proposed offering of its securities. If the offering contemplated by the registration statement is consummated and the Company raises sufficient equity to meet the listing requirements of the NASDAQ Capital Market, the board of directors has been authorized by the Company's stockholders to effect a reverse stock split of its common stock after the effectiveness of the registration statement and prior to the closing of the offering. The unaudited proforma stockholders' deficit as of March 31, 2013 gives effect to the assumed 1-for-2.381 reverse stock split (see Note 16).

Since the 1-for-2.381 reverse stock split is to be effected after the effectiveness of the registration statement, the historical share information included in the accompanying interim condensed financial statements and notes hereto does not assume the 1-for-2.381 reverse stock split, and accordingly has not been adjusted.

Note 16 – Subsequent Events

Consulting Agreement

On April 19, 2013, the Company entered into an agreement effective May 1, 2013 with an unrelated party to provide public relations services for a monthly fee of $7,500 for a period of 12 months.

Employment Agreements

On May 8, 2013, the Company entered into employment agreements with the Chief Technology Officer and Chief Executive Officer of the Company 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 month salary of approximately $212,000, plus any pro-rated bonuses and vacation days earned.

Reverse Stock Split

On June 13, 2013, the Company’s Board of Directors, and on July 5, 2013, stockholders holding a majority of the Company’s outstanding voting power, approved resolutions authorizing the Board of Directors to effect a reverse split of the Company’s common stock at an exchange ratio of between one-for-two and one-for-ten, with the Board of Directors retaining the discretion as to whether to implement the reverse split and which exchange ratio to implement. The reverse stock split is intended to allow the Company to meet the minimum share price requirement of The Nasdaq Capital Market. During August 2013, the Board of Directors determined that, following the effectiveness of the registration statement and prior to the closing of the offering, the Board of Directors will effect the reverse stock split at a ratio of one share for each 2.381 shares.

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, 2012 and 2011, and the related statements of operations, stockholders' deficit, and cash flows for each of the years in the two-year period ended December 31, 2012. 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, 2012 and 2011, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As more fully discussed in Note 2 to the financial statements, the Company is subject to the risks and uncertainties associated with a new business and has incurred significant losses from operations since inception. The Company's operations are dependent upon it raising additional funds through an equity offering or debt financing. The Company is also obligated to pay or convert $5,142,000 in promissory notes due in November and December 2013. The Company has no committed sources of capital and is not certain whether additional financing will be available when needed on terms that are acceptable, if at all. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding these matters are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Gumbiner Savett Inc.

July 16, 2013 except for Notes 17 and 18 as to which the date is August 2, 2013
Santa Monica, California

IDEAL POWER INC.
Balance Sheets

	December 31,		Pro Forma Stockholders' Deficit as of December 31, 2012 (unaudited)
	2012	2011	(Note 17)
ASSETS			
Current assets:			
Cash and cash equivalents	$ 1,972,301	$ 100,675	$
Certificate of deposit	-	20,000	
Accounts receivable, net	485,674	103,360	
Inventories, net	217,867	130,018	
Prepayments and other current assets	28,468	-	
Total current assets	2,704,310	354,053	
Property and equipment, net	27,903	72,425	
Patents, net	474,790	153,375	
Total Assets	$ 3,207,003	$ 579,853	$
LIABILITIES AND STOCKHOLDERS' DEFICIT			
Current liabilities:			
Revolving line of credit	$ -	$ 20,000	$
Current portion of long-term debt, net of debt discount of $3,828,711 at December 31, 2012	1,313,146	-	
Accounts payable	684,558	248,666	
Accrued expenses	178,003	146,824	
Total current liabilities	2,175,707	415,490	
Long-term debt, net of debt discount of $0 and $77,430 at December 31, 2012 and 2011, respectively	1,132,690	1,335,260	
Commitments			
Stockholders' deficit:			
Common stock, $0.001 par value; 50,000,000 shares authorized; 3,524,505 and 3,460,091 shares issued and outstanding at December 31, 2012 and 2011, respectively	3,525	3,460	1,480
Additional paid-in capital	7,098,252	1,381,595	7,100,297
Treasury stock	(2,657)	(2,657)	(2,657)
Accumulated deficit	(7,200,514)	(2,553,295)	(7,200,514)
Total stockholders' deficit	(101,394)	(1,170,897)	(101,394)
Total Liabilities and Stockholders' Deficit	$ 3,207,003	$ 579,853	$

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

IDEAL POWER INC.
Statements of Operations

	For the Year Ended December 31,	
	2012	**2011**
Revenues:		
Products and services	$ 319,550	$ 814,190
Royalties	100,000	20,000
Grants	707,357	26,581
Total revenue	1,126,907	860,771
Cost of revenues	957,641	757,393
Gross profit	169,266	103,378
Operating expenses:		
General and administrative	1,916,911	633,348
Research and development	1,127,192	914,851
Sales and marketing	163,470	67,861
Total operating expenses	3,207,573	1,616,060
Loss from operations	(3,038,307)	(1,512,682)
Interest expense, net (including amortization of debt discount of $1,472,904 and $176,984 for the years ended December 31, 2012 and 2011, respectively)	1,608,912	238,257
Net loss	$ (4,647,219)	$ (1,750,939)
Net loss per share – basic and fully diluted	$ (1.33)	$ (0.53)
Weighted average number of shares outstanding – basic and fully diluted	3,489,963	3,282,520

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

IDEAL POWER INC.
Statement of Stockholders' Deficit
For the Years Ended December 31, 2012 and 2011

	Common Stock		Preferred Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount				
Balances at December 31, 2010	3,223,457	$ 3,223	122,175	$ 122	$ 821,126	$ -	$ (802,356)	$ 22,115
Issuance of common stock	70,741	71	-	-	187,931	-	-	188,002
Issuance of common stock for services	44,718	45	-	-	118,795	-	-	118,840
Conversion of Series Seed Preferred stock to common stock	122,175	122	(122,175)	(122)	-	-	-	-
Issuance of warrants in connection with debt	-	-	-	-	199,104	-	-	199,104
Stock-based compensation	-	-	-	-	54,639	-	-	54,639
Repurchase of common stock	(1,000)	(1)	-	-	-	(2,657)	-	(2,658)
Net loss for the year ended December 31, 2011	-	-	-	-	-	-	(1,750,939)	(1,750,939)
Balances at December 31, 2011	3,460,091	3,460	-	-	1,381,595	(2,657)	(2,553,295)	(1,170,897)
Issuance of common stock	19,568	20	-	-	51,980	-	-	52,000
Issuance of common stock for services	44,846	45	-	-	78,949	-	-	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 in	-	-	-	-	64,596	-	-	64,596
Net loss for the year ended December 31, 2012	-	-	-	-	-	-	(4,647,219)	(4,647,219)
Balances at December 31, 2012	3,524,505	$ 3,525	-	$ -	$7,098,252	$ (2,657)	$ (7,200,514)	$ (101,394)

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

IDEAL POWER INC.
Statements of Cash Flows

	For the Year Ended December 31,	
	2012	**2011**
Cash flows from operating activities:		
Net loss	$ (4,647,219)	$ (1,750,939)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	52,139	40,859
Stock-based compensation	64,596	54,639
Issuance of common stock for services	78,994	118,840
Amortization of debt discount	1,472,904	176,984
Issuance of note payable in connection with services	86,707	-
Fair value of warrants issued for consulting services	670,947	-
Increase in operating assets:		
Accounts receivable	(382,314)	(103,360)
Inventories	(87,849)	(130,018)
Prepaid expenses	(27,468)	-
Increase in operating liabilities:		
Accounts payable	435,892	101,077
Accrued expenses	31,182	136,275
Net cash used in operating activities	(2,251,489)	(1,355,643)
Cash flows from investing activities:		
Purchase of property and equipment	(5,961)	(74,381)
Acquisition of patents	(323,074)	(56,430)
Certificate of deposit	20,000	(20,000)
Net cash used in investing activities	(309,035)	(150,811)
Cash flows from financing activities:		
(Repayment) borrowings on line of credit	(20,000)	20,000
Borrowings on notes payable, net of debt raising costs	4,400,150	1,158,032
Proceeds from issuance of common stock	52,000	188,002
Repurchase of common stock	-	(2,658)
Net cash provided by financing activities	4,432,150	1,363,376
Net increase (decrease) in cash and cash equivalents	1,871,626	(143,078)
Cash and cash equivalents at beginning of year	100,675	243,753
Cash and cash equivalents at end of year	$ 1,972,301	$ 100,675
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$ 212	$ 4,152

(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, 2012:

The Company issued 2,110,897 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.

Non cash activities for the year ended December 31, 2011:

The Company issued 101,626 warrants valued at $199,104 in connection with a note payable.

The accompanying notes are an integral part of these 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 in Austin, Texas, it develops power converter solutions for photovoltaic generation, grid-storage and electric vehicle charging. The principal products of the Company are photovoltaic inverters and battery converters. The Company is developing technology to build electric vehicle chargers, wind converters and variable frequency drives. The Company also renders services to customers for developing a technological platform similar to that of the Company.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation and Going Concern

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States (US GAAP) which contemplate continuation of the Company as a going concern. However, the Company is subject to the risks and uncertainties associated with a new business and has incurred significant losses from operations since inception. The Company's operations are dependent upon it raising additional funds through private offering of its stock or debt financing. The Company is obligated to pay or convert $5,142,000 in promissory notes due in 2013. The Company has no committed sources of capital and is not certain whether additional financing will be available when needed on terms that are acceptable, if at all. These matters raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that could result from the outcome of this uncertainty. The report from the Company's independent registered public accounting firm states that there is substantial doubt about the Company's ability to continue as a going concern.

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, 2012 and 2011.

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, 2012 and 2011.

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. Once the patents are awarded the amortization is computed using the straight-line method over the estimated useful lives of the patents of 20 years commencing from the date of filing of patents.

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, 2012 and 2011.

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, certificate of deposit, notes payable, line of credit 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 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.

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 related costs are incurred, provided that the conditions under which the government grants were provided have been met. Government grants amounted to $707,357 and $26,581 for the years ended December 31, 2012 and 2011, respectively. At December 31, 2012, grants receivable amounted to $348,647 and were included in accounts receivable. At December 31, 2011, there were no grants receivable.

Royalty income is recognized as earned based on the terms of the contractual agreements.

Product Warranties

The Company 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

Research and development costs are expensed as incurred. Research and development costs incurred during the years ended December 31, 2012 and 2011 amounted to $1,127,192 and $914,851, respectively.

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, 2012 and 2011, 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 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).

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, accounts payable and short term debt. 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. Periodically throughout the year, 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 two customers that accounted for 75% and 85% of net revenue for the years ended December 31, 2012 and 2011, respectively. The loss of one of these customers could cause an adverse effect on the Company's operations. The Company had an accounts receivable balance from one customer that accounted for 72% and 100% of total accounts receivable at December 31, 2012 and 2011, 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,	
	2012	2011
Raw materials	$ 144,842	$ 130,018
Finished goods	73,025	-
	$ 217,867	$ 130,018

Note 4 – Prepayment and Other Current Assets

At December 31, 2012, prepayment and other current assets consisted of the following:

Prepaid insurance	$ 22,186
Prepaid subscription	4,282
Others	2,000
	$ 28,468

Note 5 – Property and Equipment

Property and equipment consisted of the following:

	December 31,	
	2012	2011
Machinery and Equipment	$ 19,670	$ 19,670
Building leasehold improvements	46,850	46,850
Furniture, fixtures and computers	58,379	52,422
	124,899	118,942
Accumulated depreciation and amortization	(96,996)	(46,517)
	$ 27,903	$ 72,425

Note 6 – Patents

Patents consisted of the following:

	December 31,	
	2012	2011
Patents	$ 479,256	$ 156,182
Accumulated amortization	(4,466)	(2,807)
	$ 474,790	$ 153,375

Amortization expense related to patents amounted to $1,659 and $1,443 for the years ended December 31, 2012 and 2011, respectively. Estimated amortization expense for the succeeding five years and thereafter is $ 2,700(2013); $2,700 (2014); $2,700 (2015); $2,700 (2016); $2,700 (2017); and $35,000 (thereafter).

At December 31, 2012 and 2011, the Company had capitalized approximately $426,000 and $127,000, 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. Amount outstanding under this credit agreement amounted to $20,000 at December 31, 2011, and was repaid in April 2012.

Note 8 – Long-term Debt

	December 31, 2012	December 31, 2011
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 and April 16, 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 must 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 is 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 are 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 accrues interest at an annual rate of 8% and could be repaid at the option of the Company after April 1, 2012. The Promissory Note will be cancelled and the debt, including accrued interest, will be forgiven upon the earlier of: 1) October 1, 2020 or 2) the date the ETF receives a return of cash or public securities equal to the proceeds from the Promissory Note plus accrued interest in connection with a qualifying liquidation event, as defined in the agreement. Upon note repayment or forgiveness, the agreement will terminate and the Company will be released from all obligations under the Agreement.		
In connection with the Promissory Note, in October 2010 and July 2011, the Company issued warrants to purchase 33,875 and 101,626 shares of the Company's common stock, respectively. The fair value of the warrants was determined to be $66,372 and $199,104, respectively, and was recorded as debt discount. During the years ended December 31, 2012 and 2011, the Company incurred interest expense amounting to $77,430 and $176,984 related to the accretion of the debt discount. Interest on the Promissory Note, including accretion of debt discount, amounted to $157,430 and $225,017 for the years ended December 31, 2012 and 2011, respectively. Unamortized debt discount amounted to $0 and $77,430 at December 31, 2012 and 2011, respectively. Effective interest rate on this Promissory Note was 16% and 36% per annum for the years ended December 31, 2012 and 2011, respectively. Accrued interest amounted to $132,690 and $52,690 at December 31, 2012 and 2011, respectively, and is included in the outstanding amount of Promissory note.	$ 1,132,690	$ 975,260

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 $10million, 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 are convertible into 172,249 shares of the Company's common stock at the option of the note holder upon occurrence of certain events, as defined in the promissory notes. The embedded beneficial conversion feature associated with these convertible promissory notes had no intrinsic value. Of the total amount outstanding, $40,000 was due to an officer of the Company at December 31, 2012 and 2011, respectively. Interest on these notes amounted to $21,600 and $9,146 for the years ended December 31, 2012 and 2011, respectively.	360,000	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 .Of the total amount outstanding, $389,575 was due to an officer, employee and directors of the Company. The promissory notes are convertible into 332,608 shares of the Company's common stock at the option of the note holder upon occurrence of certain events, as defined in the promissory notes. 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 261,581 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 year ended December 31, 2012, the Company incurred interest expense amounting to $157,711 related to the accretion of the debt discount. Interest on these promissory notes, including accretion of debt discount, amounted to $185,874 for the year ended December 31, 2012. Unamortized debt discount amounted to $262,129 at December 31, 2012. Effective interest rate on these notes was 35% per annum for the year ended December 31, 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) November 21, 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. Of the total amount outstanding, $100,000 was due to one of the directors of the Company. The promissory notes are convertible into 512,645 shares of the Company's common stock at the option of the note holder upon occurrence of certain events, as defined in the promissory notes. 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 513,699 shares of the Company's common stock. The fair value of the warrants was determined to be $749,846 and was recorded as debt discount. During the year ended December 31, 2012, the Company incurred interest expense amounting to $521,275 related to the accretion of the debt discount. Interest on these promissory notes, including accretion of debt discount, amounted to $523,796 for the year ended December 31, 2012. Unamortized debt discount amounted to $550,000 at December 31, 2012. Effective interest rate on these notes was 210% per annum for the year ended December 31, 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) November 21, 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. Of the total amount outstanding, $200,000 was due to two directors of the Company. The promissory notes are convertible into 2,226,027 shares of the Company's common stock at the option of the note holder upon occurrence of certain events, as defined in the promissory notes. 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 1,113,014 shares of the Company's common stock. The fair value of the warrants was determined to be $1,625,890 and was recorded as debt discount. In connection with these promissory notes the Company issued underwriter warrants to purchase 222,603 shares of the Company's common stock. The fair value of the warrants was determined to be $292,368 and was recorded as debt discount. The Company also incurred debt raising cost of $375,000 in connection with these promissory notes which has been recorded as debt discount. During the year ended December 31, 2012, the Company incurred interest expense amounting to $716,488 related to the accretion of the debt discount. Interest expense on these promissory notes, including accretion of debt discount, amounted to $720,099 for the year ended December 31, 2012. Unamortized debt discount amounted to $2,979,167 at December 31, 2012. The effective interest rate on these notes was 133% per annum for the year ended December 31, 2012	270,833	-
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 is convertible into 59,388 shares of the Company's common stock at the option of the note holder upon occurrence of certain events, as defined in the promissory note. 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. Unamortized debt discount amounted to $37,415 at December 31, 2012.	49,292	-
	2,445,836	1,335,260
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, net of debt discount of $0 and $77,430 at December 31, 2012 and 2011, respectively	$ 1,132,690	$ 1,335,260

Maturities of the long-term debt over the succeeding year and thereafter is approximately $5,142,000 (2013); and $1,133,000 (thereafter). The unamortized debt discount of $3,828,711 at December 31, 2012 will be amortized during the year ended December 31, 2013.

Note 9 – Warranty Reserve

The changes in warranty reserve, included in accrued expenses, were as follows:

	2012	2011
Balance, beginning of the year	$ 123,979	$ -
Provisions for warranty and beta replacements	18,900	123,979
Warranty payments or beta replacements	(39,750)	-
Balance, end of the year	$ 103,129	$ 123,979

Note 10 – Common and Preferred Stock

All shares of common and preferred stock have a par value of $0.001. Each holder of common stock is entitled to one vote per share outstanding. Each holder of preferred stock is entitled to the number of votes equal to the number of shares of common stock into which the shares of preferred stock could be converted on the record date. As of December 31, 2012 and 2011, there were no outstanding shares of preferred stock.

Common Stock

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 19,568 shares of the Company's common stock, (2) the issuance of an aggregate 44,846 shares of the Company's common stock with a fair value of $78,994 for services, (3) the issuance of 2,110,897 warrants with a value of $3,088,944 in connection with debt, (4) the issuance of 477,135 warrants with a fair value of $670,947 in connection with consulting services.

During the year ended December 31, 2011, stockholders' equity activity consisted of the following common stock transactions: (1) the issuance to investors in private placement, in consideration of $188,002, of an aggregate 70,741 shares, including 9,783 shares to an executive employee, of the Company's common stock (2) the issuance of an aggregate 44,718 shares, including 13,170 shares to an executive employee, of the Company's common stock with a fair value of $118,840 for services, (3) the issuance of 101,626 warrants with a fair value of $199,104 in connection with debt, (4) repurchase of 1,000 shares of the Company's common stock for $2,658.

Preferred Stock

During the year ended December 31, 2011, the Company converted 122,175 shares of Series Seed Preferred stock into an equal number of shares of the Company's common stock.

Note 11 – Stock Option Plan

In 2011, the Company adopted the 2011 Stock Option/Stock Issuance Plan (the "Plan") and reserved 371,000 shares of common stock for issuance under the Plan. The Plan is administered by the Company's board of directors and is divided into two separate equity programs: 1) the Option Grant Program under which eligible persons may, at the discretion of the Plan Administrator, be granted options to purchase shares of common stock, and (ii) the Stock Issuance Program, under which eligible persons may, at the discretion of the Plan Administrator, be issued shares of common stock directly, either through the immediate purchase of such shares or as a bonus for services rendered to the Company. 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.

During the year ended December 31, 2012, the Company did not grant any awards of common stock or options to purchase common stock from the Plan.

During the year ended December 31, 2011, the Company granted option awards to various employees for the purchase of 38,756 shares of common stock from the Plan at an exercise price of $2.658. The options were to vest over a period of 4 years commencing from the date of grant. The options were valued at approximately $83,000 using the Black-Scholes option pricing model. Pursuant to the terms of the Plan, if stockholder approval was not obtained within 12 months after the date of the board's adoption of the Plan, then all options previously granted under the Plan would terminate and cease to be outstanding, and no further options could be granted and no shares could be issued under the Plan. The Plan was not approved by the Company's stockholders on or before November 5, 2012 and the option grants terminated on that date.

Awards Granted Outside the Plan

During the year ended December 31, 2012, the Company granted 45,155 stock options to purchase shares of common stock at an exercise price of $2.658 to an executive employee. The options vest over a period of 4 years commencing from the date of grant. As permitted by SAB 107, due to the Company's insufficient history of option activity, management utilized the simplified approach to estimate the options expected term, 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 Company has never declared or paid dividends and has no plans to do so in the foreseeable future. The options were valued at approximately $85,000 using the Black-Scholes option pricing model. Amount of approximately $12,400 relating to these options was charged to expense during the year ended December 31, 2012.

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

	For the year ended December 31,	
	2012	2011
Risk-free interest rate	1.41%	1.41%
Expected dividend yield	0%	0%
Expected lives	5.25 years	9 years
Expected volatility	90%	90%

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

	2012			2011		
	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	370,056	$ 1.115	8.9	331,300	$ 0.934	9.9
Granted	45,155	2.658		38,756	2.658	
Exercised	-	-		-	-	
Forfeited/Expired/Exchanged	(38,756)	2.658		-	-	
Outstanding at December 31	376,455	$ 1.141	7.8	370,056	$ 1.115	8.9
Exercisable at December 31	326,570	$ 0.958	8.0	279,095	$ 0.884	9.0

The following table sets forth additional information about stock options outstanding at December 31, 2012:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Life (in years)	Weighted Average Exercise Price	Options Exercisable
$ 0.04 - $0.99	94,650	8.7	$ 0.1493	94,650
$ 1.00 - $1.99	236,650	7.6	$ 1.2480	225,335
$ 2.00- $2.66	45,155	7.4	$ 2.6575	6,585
	376,455			326,570

The estimated aggregate pretax intrinsic value (the difference between the Company's estimated stock price on the last day of the year ended December 31, 2012 and the exercises price, multiplied by the number of in-the-money options) is approximately $373,000. This amount changes based on the fair value of the Company's stock.

As of December 31, 2012, there was $79,371 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 3.4 years.

Note 12 – Warrants

During the year ended December 31, 2012, the Company issued 2,110,897 warrants to purchase shares of the Company's common stock to various promissory note holders with exercise prices ranging from $0.001 to $2.658. The warrants vest through November 2013. The warrants were valued at approximately $3,089,000 using the Black-Scholes option pricing model. See Note 8.

During the year ended December 31, 2012, the Company issued 477,135 warrants to purchase shares of the Company's common stock to a consultant in connection with consulting services. The warrants have an exercise price of $1.46. The warrants vested immediately. The warrants were valued at approximately $671,000 using the Black-Scholes option pricing model which was charged to expense during 2012.

During the year ended December 31, 2011, the Company issued 101,626 warrants to purchase shares of the Company's common stock in connection with Promissory Note with an exercise price of $0.001. The warrants vested over a period of 9 months from the date of issuance. The warrants were valued at approximately $199,000 using the Black-Scholes option pricing model. See Note 8.

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

	For the year ended December 31,	
	2012	2011
Risk-free interest rate	0.46% -0.69%	1.41%
Expected dividend yield	0%	0%
Expected lives	3.5 – 4 years	10 years
Expected volatility	90%	90%

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

	2012		2011	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Outstanding at January 1	221,451	$ 0.00072	119,825	$ 0.00043
Granted	2,588,032	1.87	101,626	0.0010
Exercised	-	-	-	-
Forfeited/Expired	-	-	-	-
Outstanding at December 31	2,809,483	$ 1.52	221,451	$ 0.00072

Note 13 – Income Taxes

Income taxes are disproportionate to income due to net operating loss carryforwards, which are fully reserved. As of December 31, 2012, the Company has federal net operating loss carryforwards of approximately $5,313,000 which will begin to expire in 2031. Management has concluded that it is more likely than not that the Company will not have sufficient 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, 2012 and 2011.

The following is a summary of the significant components of the Company's net deferred income tax assets and liabilities as of December 31, 2012 and 2011:

	Year ended December 31,	
	2012	2011
Current deferred income tax assets:		
Inventory – uniform capitalization	$ 18,000	$ 10,000
Less valuation allowance	(18,000)	(10,000)
	$ -	$ -
Non-current deferred income tax assets and (liabilities):		
Net operating loss	$ 1,806,000	$ 675,000
Research and development credit	18,000	18,000
Warrant reserve	35,000	42,000
Depreciation and amortization	7,000	1,000
Other	(139,000)	(29,000)
Less valuation allowance	(1,727,000)	(707,000)
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, 2012 and 2011, 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, 2012 and 2011, 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 jurisdiction. The Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2008. 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,	
	2012	2011
Statutory federal income tax rate	(34) %	(34) %
Debt discount	12	4
Other	-	1
Valuation allowance	22	29
	-%	-%

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, 2012 and 2011 amounted to $34,932 and $31,833, respectively.

Future estimated lease payments are as follows:

Year ending December 31,	
2013	$ 38,000
2014	16,000
	$ 54,000

Employment Agreement

The Company has entered into an employment agreement, subsequently amended on May 8, 2013, with executive management personnel that provides 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 agreement, the severance expense due would be a minimum six month salary of approximately $88,000, plus any pro-rated bonuses and vacation days earned.

Note 15 – Consulting Services

During the years ended December 31, 2112 and 2011, the Company incurred $50,069, and $75,823 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 $4,198 and $1,939 for the years ended December 31, 2012 and 2011, respectively.

Note 17 - Unaudited Pro Forma Stockholders' Deficit

The Company is in the process of filing a registration statement on Form S-1 with the U.S. Securities and Exchange Commission in connection with a proposed offering of its securities. If the offering contemplated by the registration statement is consummated and the Company raises sufficient equity to meet the listing requirements of the NASDAQ Capital Market, the board of directors has been authorized by the Company's stockholders to effect a reverse stock split of its common stock after the effectiveness of the registration statement and prior to the closing of the offering. The unaudited proforma stockholders' deficit as of December 31, 2012 gives effect to the assumed 1-for-2.381 reverse stock split (see Note 18).

Since the 1-for-2.381 reverse stock split is to be effected after the effectiveness of the registration statement, the historical share information included in the accompanying financial statements and notes hereto does not assume the 1-for-2.381 reverse stock split, and accordingly has not been adjusted.

Note 18– Subsequent Events

Consulting Agreement

On April 19, 2013, the Company entered into an agreement effective May 1, 2013 with an unrelated party to provide public relations services for a monthly fee of $7,500 for a period of 12 months.

Employment Agreements

On May 8, 2013, the Company entered into employment agreements with the Chief Technology Officer and Chief Executive Officer of the Company 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 month salary of approximately $212,000, plus any pro-rated bonuses and vacation days earned.

Reverse Stock Split

On June 13, 2013, the Company’s Board of Directors, and on July 5, 2013, stockholders holding a majority of the Company’s outstanding voting power, approved resolutions authorizing the Board of Directors to effect a reverse split of the Company’s common stock at an exchange ratio of between one-for-two and one-for-ten, with the Board of Directors retaining the discretion as to whether to implement the reverse split and which exchange ratio to implement. The reverse stock split is intended to allow the Company to meet the minimum share price requirement of The Nasdaq Capital Market. During August 2013, the Board of Directors determined that, following the effectiveness of the registration statement and prior to the closing of the offering, the Board of Directors will effect the reverse stock split at a ratio of one share for each 2.381

shares.

Exhibit 3.1

STATE OF DELAWARE
CERTIFICATE OF CONVERSION
FROM A NON-DELAWARE CORPORATION
TO A DELAWARE CORPORATION
PURSUANT TO SECTION 265 OF THE
DELAWARE GENERAL CORPORATION LAW

1. The jurisdiction where the Non-Delaware Corporation first formed is the State of Texas.

2. The jurisdiction immediately prior to filing this Certificate is the State of Texas.

3. The date the Non-Delaware Corporation first formed is May 17, 2007.

4. The name of the Non-Delaware Corporation immediately prior to filing this Certificate is Ideal Power Inc.

5. The name of the Corporation as set forth in the Certificate of Incorporation is Ideal Power Inc.

IN WITNESS WHEREOF, the undersigned being duly authorized to sign on behalf of the converting Non-Delaware Corporation executed this Certificate on the 5th day of July 2013.

By: /s/ Paul Bundschuh
Name: Paul Bundschuh

Print or Type

Title: Chief Executive Officer

Print or Type

CERTIFICATE OF INCORPORATION

OF

IDEAL POWER INC.

Article 1. Name

The name of the Corporation is Ideal Power Inc.

Article 2. Registered Office

The address of the registered office of the Corporation in the State of Delaware is 1811 Silverside Road, Wilmington, Delaware 19810, County of New Castle. The name of its registered agent at such address is VCorp Services, LLC.

Article 3. Purpose

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware, as may be amended from time to time. The Corporation shall have perpetual existence.

Article 4. Authorized Capital Stock

The aggregate number of shares which the Corporation shall have authority to issue is 60,000,000, to be divided into (a) 50,000,000 shares of Common Stock, par value $.001 per share and (b) 10,000,000 shares of Preferred Stock, par value $.001 per share.

The Board of Directors is hereby empowered to cause the Preferred Stock to be issued from time to time for such consideration as it may from time to time fix, and to cause such Preferred Stock to be issued in series with such voting powers and such designations, preferences and relative, participating, optional or other special rights as designated by the Board of Directors in the resolution providing for the issue of such series. Shares of Preferred Stock of any one series shall be identical in all respects.

Article 5. Bylaws

In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to make, repeal, alter, amend and rescind the bylaws of the Corporation.

Article 6. Election of Directors

The number of directors that shall constitute the whole Board of Directors shall be fixed by, or in the manner provided in, the bylaws of the Corporation. At each annual meeting of stockholders of the Corporation all directors shall be elected for a term expiring at the next succeeding annual meeting of stockholders. Each director shall hold office until his or her successor is duly elected and qualified or until his or her prior death, resignation, retirement, disqualification or removal from office.

Notwithstanding the foregoing, whenever the holders of any one or more classes or series of Preferred Stock issued by the Corporation shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of stockholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the terms of this Certificate of Incorporation or the resolution or resolutions adopted by the Board of Directors pursuant to Article 4 hereof.

Elections of directors need not be by written ballot unless the bylaws of the Corporation shall so provide.

Article 7. Removal of Directors

Subject to the rights, if any, of the holders of shares of Preferred Stock then outstanding, any or all of the directors of the Corporation may be removed from office by the stockholders at any annual or special meeting of stockholders of the Corporation, the notice of which shall state that the removal of a director or directors is among the purposes of the meeting, with or without cause, by the affirmative vote of at least a majority of the outstanding shares of stock of the Corporation entitled to vote generally in the election of directors of the Corporation.

Article 8. Board of Directors Vacancies

Subject to the rights, if any, of the holders of shares of Preferred Stock then outstanding, newly created directorships resulting from any increase in the number of directors or any vacancy on the Board of Directors resulting from death, resignation, disqualification, removal or other cause shall be filled solely by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum, or by a sole remaining director. The term of any director elected in accordance with the preceding sentence shall expire at the next annual meeting of the stockholders following such director's election. Each such director shall hold office until his or her successor is duly elected and qualified or until his or her prior death, resignation, retirement, disqualification or removal from office. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

Article 9. No Stockholder Action by Written Consent

Any action required or permitted to be taken at any annual or special meeting of stockholders may be taken only upon the vote of the stockholders at an annual or special meeting duly called and may not be taken by written consent of the stockholders.

Article 10. Special Meetings of the Stockholders

Special meetings of the stockholders of the Corporation (i) may be called by the Chairman of the Board of Directors, the Chief Executive Officer, or the Board of Directors at any time and for any purpose or purposes as shall be stated in the notice of the meeting, and (ii) shall be called by the Secretary upon the written request of the holders of record of at least 25% of the outstanding shares of common stock of the Corporation at the time such request is validly submitted by the holders of such requisite percentage of such outstanding shares, subject to and in compliance with this Article 10 and the bylaws of the Corporation. Except in accordance with, and subject to this Article 10 and the bylaws of the Corporation, stockholders shall not be permitted to propose business or nominations to be brought before a special meeting of the stockholders.

Article 11. Annual Meetings of Stockholders

At an annual meeting of stockholders, only such business shall be conducted, and only such proposals shall be acted upon, as shall have been brought before the annual meeting (a) by, or at the direction of, a majority of the directors, or (b) by any stockholder of the Corporation who complies with the notice procedures set forth in this Article 11. For a proposal to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered to, or mailed and received at, the principal executive offices of the Corporation not less than 30 days nor more than 60 days prior to the scheduled annual meeting, regardless of any postponements, deferrals or adjournments of that meeting to a later date; provided, however, that if less than 40 days' notice or prior public disclosure of the date of the scheduled annual meeting is given or made, notice by the stockholder, to be timely, must be so delivered or received not later than the close of business on the tenth day following the earlier of the day on which such notice of the date of the scheduled annual meeting was mailed or the day on which such public disclosure was made. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (a) a brief description of the proposal desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and address, as they appear on the Corporation's books, of the stockholder proposing such business and any other stockholders known by such stockholder to be supporting such proposal, (c) the class and number of shares of the Corporation's stock which are beneficially owned by the stockholder on the date of such stockholder notice and by any other stockholders known by such stockholder to be supporting such proposal on the date of such stockholder notice, and (d) any financial interest of the stockholder in such proposal.

The presiding officer of the annual meeting shall determine and declare at the annual meeting whether the stockholder proposal was made in accordance with the terms of this Article 11. If the presiding officer determines that a stockholder proposal was not made in accordance with the terms of this Article 11, he shall so declare at the annual meeting and any such proposal shall not be acted upon at the annual meeting.

This provision shall not prevent the consideration and approval or disapproval at the annual meeting of reports of officers, directors and committees of the Board of Directors, but, in connection with such reports, no new business shall be acted upon at such annual meeting unless stated, filed and received as herein provided.

Article 12. Stockholder Nomination of Directors

Subject to the rights, if any, of the holders of shares of Preferred Stock then outstanding, only persons who are nominated in accordance with the following procedures shall be eligible for election as directors. Nominations of persons for election to the Board of Directors of the Corporation may be made at a meeting of stockholders by or at the direction of the Board of Directors by any nominating committee or person appointed by the Board of Directors or by any stockholder of the Corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this Article 12. Such nominations, other than those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered to, or mailed and received at, the principal executive offices of the Corporation not less than 30 days nor more than 60 days prior to the scheduled annual meeting, regardless of any postponements, deferrals or adjournments of that meeting to a later date; provided, however, that if less than 40 days' notice or prior public disclosure of the date of the scheduled annual meeting is given or made, notice by the stockholder, to be timely, must be so delivered or received not later than the close of business on the tenth day following the earlier of the day on which such notice of the date of the scheduled annual meeting was mailed or the day on which such public disclosure was made. A stockholder's notice to the Secretary shall set forth (a) as to each person whom the stockholder proposes to nominate for election or re-election as a director, (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class and number of shares of capital stock of the Corporation which are beneficially owned by the person and (iv) any other information relating to the person that is required to be disclosed in solicitations for proxies for election of directors pursuant to Rule 14a under the Securities Exchange Act of 1934, as amended; and (b) as to the stockholder giving the notice (i) the name and address, as they appear on the Corporation's books, of the stockholder and (ii) the class and number of shares of the Corporation's stock which are beneficially owned by the stockholder on the date of such stockholder notice. The Corporation may require any proposed nominee to furnish such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as director of the Corporation.

The presiding officer of the annual meeting shall determine and declare at the annual meeting whether the nomination was made in accordance with the terms of this Article 12. If the presiding officer determines that a nomination was not made in accordance with the terms of this Article 12, he shall so declare at the annual meeting and any such defective nomination shall be disregarded.

Article 13. Limitation of Director Liability

A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit. If the Delaware General Corporation Law is amended after the date hereof to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the Delaware General Corporation Law, as so amended.

Article 14. Indemnification

(a) Each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans (hereinafter an "indemnitee"), whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the Corporation to the fullest extent permitted by the Delaware General Corporation Law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such indemnitee in connection therewith. Such indemnification shall continue as to an indemnitee who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that, except as provided in subparagraph (b) hereof, the Corporation shall indemnify any such indemnitee seeking indemnification in connection with a proceeding (or part thereof) initiated by such indemnitee only if such proceeding (or part thereof) was authorized by the Board of Directors of the Corporation. The right to indemnification conferred in this Article 14 shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its final disposition (an "expense advancement"); provided, however, that, if the Delaware General Corporation Law so requires, the payment of such expenses incurred by an indemnitee in his or her capacity as a director or officer of the Corporation (and not in any other capacity in which service was or is rendered by such indemnitee while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, shall be made upon delivery to the Corporation of an undertaking, by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that such indemnitee is not entitled to be indemnified under this Article 14 or otherwise; and provided, further, that no expense advancement shall be paid by the Corporation if independent legal counsel shall advise the Board of Directors in a written opinion that, based upon the facts known to such counsel at the time, (a) the indemnitee acted in bad faith or deliberately breached his or her duty to the Corporation or its stockholders, and (b) as a result of such conduct by the indemnitee, it is more likely than not that it will ultimately be determined that such indemnitee has not met the standards of conduct which make it permissible under the Delaware General Corporation Law for the Corporation to indemnify such indemnitee. The Corporation may, by action of its Board of Directors, provide indemnification to employees and agents of the Corporation with the same scope and effect as the foregoing indemnification of directors and officers.

(b) The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Article 14 shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of this Certificate of Incorporation, bylaw, agreement, vote of stockholders or disinterested directors or otherwise.

(c) The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any such expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the Delaware General Corporation Law.

Article 15. Board Considerations

The Board of Directors, each committee of the Board and each individual director, in discharging their respective duties under applicable law and this Certificate of Incorporation and in determining what they each believe to be in the best interests of the Corporation and its stockholders, may consider the effects, both short-term and long-term, of any action or proposed action taken or to be taken by the Corporation, the Board of Directors or any committee of the Board on the interests of (i) the employees, distributors, customers, suppliers and/or creditors of the Corporation and its subsidiaries and (ii) the communities in which the Corporation and its subsidiaries own or lease property or conduct business, all to the extent that the Board, any committee of the Board or any individual director deems pertinent under the circumstances; provided, however, that the provisions of this Article 15 shall not limit in any way the right of the Board to consider any other lawful factors in making its determinations, including, without limitation, the effects, both short-term and long-term, of any action or proposed action on the Corporation or its stockholders directly; and provided further that this Article 15 shall be deemed solely to grant discretionary authority to the Board, each committee of the Board and each individual director and shall not be deemed to provide to any specific constituency any right to be considered.

Article 16. Amendment of Certificate of Incorporation

The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation. In addition to any affirmative vote required by applicable law or any other provision of this Certificate of Incorporation, and in addition to any voting rights granted to or held by the holders of any series of Preferred Stock, the affirmative vote of the holders of not less than a majority of the outstanding shares of stock of the Corporation entitled to vote generally in the election of directors of the Corporation shall be required to amend or repeal, or adopt any provisions inconsistent with, the provisions of this Certificate of Incorporation.

Article 17. Name and Address of Incorporator

The name and address of the incorporator is Christopher Cobb, 5004 Bee Creek Road, Suite 600, Spicewood, Texas 78669.

IN WITNESS WHEREOF, I, the undersigned, for the purpose of forming a corporation under the laws of the State of Delaware, do make, file, and record this Certificate, and do certify that the facts herein stated are true, and I have accordingly hereunto set my hand this 15th day of July, 2013.

/s/ Christopher Cobb

Christopher Cobb, Incorporator

Exhibit 3.2

BYLAWS

OF

IDEAL POWER INC.

ARTICLE I: OFFICES

SECTION 1. Registered Office. The registered office of Ideal Power Inc. (the "Corporation") shall be at 1811 Silverside Road, City of Wilmington, County of New Castle, State of Delaware 19808, and the name of the registered agent in charge thereof shall be VCorp Services, LLC.

SECTION 2. Principal Office. The principal office for the transaction of the business of the Corporation shall be at such place as the Board of Directors of the Corporation (the "Board") may determine. The Board is hereby granted full power and authority to change said principal office from one location to another.

SECTION 3. Other Offices. The Corporation may also have an office or offices at such other place or places, either within or without the State of Delaware, as the Board may from time to time determine or as the business of the Corporation may require.

ARTICLE II: MEETINGS OF STOCKHOLDERS

SECTION 1. Place of Meetings. All annual meetings of stockholders and all other meetings of stockholders shall be held either at the principal office of the Corporation or at any other place within or without the State of Delaware that may be designated by the Board pursuant to authority hereinafter granted to the Board.

SECTION 2. Annual Meetings. Annual meetings of stockholders of the Corporation for the purpose of electing directors and for the transaction of such other proper business as may come before such meetings may be held at such time and place and on such date as the Board shall determine by resolution.

SECTION 3. Special Meetings. Special meetings of the stockholders of the Corporation (i) may be called by the Chairman of the Board, the Chief Executive Officer or the Board, at any time and for any purpose or purposes, and (ii) shall be called by the Secretary upon the written request of the holders of record of at least twenty-five percent (25%) of the outstanding shares of common stock of the Corporation (the "Requisite Percentage"), subject to and in compliance with Article 10 of the Certificate of Incorporation of the Corporation (as the same may be amended and/or restated from time to time, the "Certificate of Incorporation"), or any successor provision thereto, and this Section 3.

(A) In order for a special meeting to be called upon stockholder request ("Stockholder Requested Special Meeting"), one or more requests for a special meeting (each, a "Special Meeting Request" and, collectively, the "Special Meeting Requests"), in the form required by this section (A) of this Section 3, must be signed by Proposing Persons (as defined below) that have a combined Net Long Beneficial Ownership (as defined below) of at least the Requisite Percentage. Only Proposing Persons who are stockholders of record at the time the Special Meeting Requests representing the Requisite Percentage are validly delivered pursuant to this Section 3 shall be entitled to sign a Special Meeting Request. In determining whether a Stockholder Requested Special Meeting has been properly requested by Proposing Persons that have a combined Net Long Beneficial Ownership of at least the Requisite Percentage, multiple Special Meeting Requests delivered to the Secretary will be considered together only if (i) each Special Meeting Request identifies the same purpose or purposes of the Stockholder Requested Special Meeting and the same matters proposed to be acted on at such meeting (in each case as determined in good faith by the Board), and (ii) such Special Meeting Requests have been dated and delivered to the Secretary within thirty (30) days of the earliest dated Special Meeting Request. To be in proper form, such Special Meeting Request(s) shall comply with, and shall include and set forth, the following:

(1) As to each Proposing Person, (a) the name and address of each Proposing Person (including, if applicable, the name and address as they appear on the Corporation's books), (b) the class and number of shares of the Corporation which are owned beneficially and of record by such Proposing Person (with evidence of such ownership attached), except that such Proposing Person shall be deemed for such purpose to beneficially own any shares of any class or series of capital stock of the Corporation as to which such Proposing Person has the right to acquire (whether such right is exercisable immediately or only after the passage of time or the fulfillment of a condition or both), (c) a representation that such Proposing Person intends to hold the shares of the Corporation described in the immediately preceding clause (b) through the date of the Stockholder Requested Special Meeting and (d) an acknowledgement by the Proposing Person that any reduction in such Proposing Person's Net Long Beneficial Ownership with respect to which a Special Meeting Request relates following the delivery of such Special Meeting Request to the Secretary shall constitute a revocation of such Special Meeting Request to the extent of such reduction;

(2) As to the purpose or purposes of the Stockholder Requested Special Meeting, a reasonably brief statement of the specific purpose or purposes of the Stockholder Requested Special Meeting, the matter(s) proposed to be acted on at the Stockholder Requested Special Meeting and the reasons for conducting such business at the Stockholder Requested Special Meeting, and the text of any proposal or business to be considered at the Stockholder Requested Special Meeting (including the text of any resolutions proposed to be considered and, in the event that such business includes a proposal to amend the Bylaws, the language of the proposed amendment); and

(3) Such other information and representations as would be required by Article 12 of the Certificate of Incorporation and Section 9 of Article II of these Bylaws if incorporated in this Section 3, including, without limitation, all such information regarding any material interest of the Proposing Person in the matter(s) proposed to be acted on at the Stockholder Requested Special Meeting, all agreements, arrangements or understandings between or among any Proposing Person and any other record holder or beneficial owner of shares of any class or series of capital stock of the Corporation in connection with the Special Meeting Record Date Request, the Special Meeting Request, or the matter(s) proposed to be brought before the Stockholder Requested Special Meeting.

(4) Definitions.

(a) "Proposing Person" shall mean (i) each stockholder of record that signs a Special Meeting Request pursuant section (A) of this Section 3, (ii) the beneficial owner or beneficial owners, if different, on whose behalf such Special Meeting Request is made, (iii) any participant (as defined in paragraphs (a)(ii)-(vi) of Instruction 3 to Item 4 of Schedule 14A) with such stockholder in such solicitation or associate (within the meaning of Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the "Exchange Act") for purposes of these Bylaws) of such stockholder or beneficial owner, and (iv) any other person with whom such stockholder or such beneficial owner (or any of their respective associates or other participants in such solicitation) is Acting in Concert.

(b) A person shall be deemed to be "Acting in Concert" with another person for purposes of these Bylaws if such person knowingly acts (whether or not pursuant to an express agreement, arrangement or understanding) in concert or in parallel with, or towards a common goal with such other person, relating to changing or influencing the control of the Corporation or in connection with or as a participant in any transaction having that purpose or effect, where (i) each person is conscious of the other person's conduct and this awareness is an element in their decision-making processes and (ii) at least one additional factor suggests that such persons intend to act in concert or in parallel, which such additional factors may include, without limitation, exchanging information (whether publicly or privately), attending meetings, conducting discussions, or making or soliciting invitations to act in concert or in parallel; provided, that a person shall not be deemed to be Acting in Concert with any other person solely as a result of the solicitation or receipt of (x) revocable proxies or consents from such other person in response to a solicitation made pursuant to, and in accordance with, Section 14(a) of the Exchange Act by way of a proxy or consent solicitation statement filed on Schedule 14A or (y) tenders of securities from such other person in a public tender or exchange offer made pursuant to, and in accordance with, Section 14(d) of the Exchange Act by means of a tender offer statement filed on Schedule TO. A person Acting in Concert with another person shall be deemed to be Acting in Concert with any third party who is also Acting in Concert with such other person.

(c) "Net Long Beneficial Ownership" shall mean those shares of issued and outstanding common stock of the Corporation as to which the stockholder or Proposing Person, as applicable, possesses (i) the sole power to vote or direct the voting, (ii) the sole economic incidents of ownership (including the sole right to profits and the sole risk of loss), and (iii) the sole power to dispose of or direct the disposition. The number of shares calculated in accordance with clauses (i), (ii) and (iii) shall not include any derivative security, including but not limited to puts, calls, options, warrants, convertible securities, or other rights or obligations to buy or sell securities.

(B) Notwithstanding anything to the contrary in this Section 3:

(1) The Secretary shall not accept, and shall consider ineffective, a Special Meeting Request if (a) such Special Meeting Request does not comply with Article 10 of the Certificate of Incorporation, these Bylaws, or relates to an item of business that is not a proper subject for stockholder action under applicable law, (b) the Special Meeting Request is received by the Corporation during the period commencing ninety (90) days prior to the first anniversary of the date of the immediately preceding annual meeting of stockholders and ending on the date of the final adjournment of the next annual meeting of stockholders, (c) an identical or substantially similar item (a "Similar Item") to that included in the Special Meeting Request was presented at any meeting of stockholders held within one year prior to receipt by the Corporation of such Special Meeting Request, (d) the Board calls an annual or special meeting of stockholders (in lieu of calling the Stockholder Requested Special Meeting) in accordance with section (B)(3) of this Section 3, (e) a Similar Item is already included in the Corporation's notice as an item of business to be brought before a meeting of the stockholders that has been called but not yet held, or (f) such Special Meeting Request was made in a manner that involved a violation of Regulation 14A under the Exchange Act, or other applicable law.

(2) Business transacted at any Stockholder Requested Special Meeting shall be limited to the purpose stated in the valid Special Meeting Request; provided, however, that nothing herein shall prohibit the Board from submitting matters to the stockholders at any Stockholder Requested Special Meeting. If none of the Proposing Persons who submitted the Special Meeting Request appears at or sends a qualified representative to the Stockholder Requested Special Meeting to present the matters to be presented for consideration that were specified in the Stockholder Meeting Request, the Corporation need not present such matters for a vote at such meeting. A "qualified representative" of a Proposing Person shall be, if such Proposing Person is (a) a general or limited partnership, any general partner or person who functions as a general partner of the general or limited partnership or who controls the general or limited partnership, (b) a corporation, a duly appointed officer of the corporation, (c) a limited liability company, any manager or officer (or person who functions as an officer) of the limited liability company or any officer, director, manager or person who functions as an officer, director or manager of any entity ultimately in control of the limited liability company or (d) a trust, any trustee of such trust.

(3) If a Special Meeting Request is made that complies with this Section 3 and Article 10 of the Certificate of Incorporation, the Board may (in lieu of calling the Stockholder Requested Special Meeting) present a Similar Item for stockholder approval at any other meeting of stockholders that is held within one hundred twenty (120) days after the Corporation receives such Special Meeting Request.

(4) Any Proposing Person may revoke a Special Meeting Request by written revocation delivered to, or mailed and received by, the Secretary at any time prior to the date of the Stockholder Requested Special Meeting. In the event any revocation(s) are received by the Secretary after the Secretary's receipt of a valid Special Meeting Request(s) from the holders of the Requisite Percentage of stockholders or any Special Meeting Request is deemed to be revoked as a result of section (A)(1)(d) of this Section 3, and as a result of such revocation(s), there no longer are valid unrevoked Special Meeting Request(s) from the Requisite Percentage of stockholders to call a special meeting, the Board shall have the discretion to determine whether or not to proceed with the Stockholder Requested Special Meeting.

(5) Notwithstanding anything in these Bylaws to the contrary, the Secretary shall not be required to call a special meeting except in accordance with Article 10 of the Certificate of Incorporation and this Section 3. If the Board shall determine that any Special Meeting Request was not properly made in accordance with Article 10 of the Certificate of Incorporation or these Bylaws, or shall determine that the stockholder or stockholders submitting such Special Meeting Request have not otherwise complied with Article 10 of the Certificate of Incorporation or these Bylaws, then the Board shall not be required to take any action in connection with the Stockholder Requested Special Meeting, and the Secretary shall not be required to call such meeting. In addition to the requirements of this Section 3, each Proposing Person shall comply with all requirements of applicable law, including all requirements of the Exchange Act, with respect to any request to fix a Special Meeting Request.

(C) In connection with a Stockholder Requested Special Meeting called in accordance with this Section 3, each Proposing Person that signed and delivered a Special Meeting Request shall further update and supplement the information previously provided to the Corporation in connection with such request, if necessary, so that the information provided or required to be provided in such request pursuant to this Section 3 shall be true and correct as of the record date for notice of the Stockholder Requested Special Meeting and as of the date that is ten (10) business days prior to the Stockholder Requested Special Meeting or any adjournment or postponement thereof. Such update and supplement shall be delivered to, or mailed and received by, the Secretary at the principal executive offices of the Corporation not later than five (5) business days after the record date for notice of the special meeting (in the case of the update and supplement required to be made as of such record date), and not later than eight (8) business days prior to the date for the special meeting or any adjournment or postponement thereof. As used herein, the term "business day" shall mean any day that is not a Saturday or Sunday or a day on which banks in the city of the Corporation's principal place of business are required or permitted to close.

(D) Any special meeting of stockholders, including any Stockholder Requested Special Meeting, shall be held at such date and time as may be fixed by the Board in accordance with these Bylaws and in compliance with applicable law.

SECTION 4. Notice of Meetings. Except as otherwise required by law, notice of each meeting of stockholders, whether annual or special, shall be given not less than ten (10) days nor more than sixty (60) days before the date of the meeting to each stockholder of record entitled to vote at such meeting by delivering a typewritten or printed notice thereof to such stockholder personally, or by depositing such notice in the United States mail, in a postage prepaid envelope, directed to such stockholder at such stockholder's post office address furnished by such stockholder to the Secretary of the Corporation for such purpose, or, if such stockholder shall not have furnished an address to the Secretary for such purpose, then at such stockholder's post office address last known to the Secretary, or by transmitting a notice thereof to such stockholder at such address by electronic transmission in accordance with Section 232 of the General Corporation Law of the State of Delaware (the "Delaware General Corporation Law"). Except as otherwise expressly required by law, no publication of any notice of a meeting of stockholders shall be required. Every notice of a meeting of stockholders shall state the place, date and hour of the meeting and, in the case of a special meeting, shall also state the purpose for which the meeting is called. Notice of any meeting of stockholders shall not be required to be given to any stockholder to whom notice may be omitted pursuant to applicable law or who shall have waived such notice, and such notice shall be deemed waived by any stockholder who shall attend such meeting in person or by proxy, except a stockholder who shall attend such meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Except as otherwise expressly required by law, notice of any adjourned meeting of stockholders need not be given if the time and place thereof are announced at the meeting at which the adjournment is taken.

SECTION 5. Quorum. Except as otherwise required by law, the holders of record of a majority in voting interest of the shares of stock of the Corporation entitled to be voted thereat, present in person or by proxy, shall constitute a quorum for the transaction of business at any meeting of stockholders of the Corporation or any adjournment thereof. Subject to the requirement of a larger percentage vote contained in the Certificate of Incorporation, these Bylaws (these "Bylaws") or by statute, the stockholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding any withdrawal of stockholders that may leave less than a quorum remaining, if any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum. In the absence of a quorum at any meeting or any adjournment thereof, a majority in voting interest of the stockholders present in person or by proxy and entitled to vote thereat or, in the absence therefrom of all the stockholders, any officer entitled to preside at, or to act as secretary of, such meeting may adjourn such meeting from time to time. At any such adjourned meeting at which a quorum is present, any business may be transacted that might have been transacted at the meeting as originally called.

SECTION 6. Voting. Each stockholder shall, at each meeting of stockholders, be entitled to vote in person or by proxy each share of stock of the Corporation that has voting rights on the matter in question and that shall have been held by such stockholder and registered in such stockholder's name on the books of the Corporation:

(A) on the date fixed pursuant to Article VI, Section 5 of these Bylaws as the record date for the determination of stockholders entitled to notice of and to vote at such meeting; or

(B) if no such record date shall have been so fixed, then (i) at the close of business on the day immediately preceding the day upon which notice of the meeting shall be given or (ii) if notice of the meeting shall be waived, at the close of business on the day immediately preceding the day upon which the meeting shall be held. Shares of its own stock belonging to the Corporation or to another corporation, if a majority of the shares entitled to vote in the election of directors in such other corporation is held, directly or indirectly, by the Corporation, shall neither be entitled to vote nor be counted for quorum purposes. Persons holding stock of the Corporation in a fiduciary capacity shall be entitled to vote such stock. Persons whose stock is pledged shall be entitled to vote, unless in the transfer by the pledgor on the books of the Corporation the pledgor shall have expressly empowered the pledgee to vote thereon, in which case only the pledgee, or the pledgee's proxy, may represent such stock and vote thereon. Stock having voting power standing of record in the names of two (2) or more persons, whether fiduciaries, members of a partnership, joint tenants, tenants in common, tenants by the entirety or otherwise, or with respect to which two (2) or more persons have the same fiduciary relationship, shall be voted in accordance with the provisions of the Delaware General Corporation Law.

Any such voting rights may be exercised by the stockholder entitled thereto in person or by such stockholder's proxy appointed by an instrument in writing (or in such manner prescribed by the Delaware General Corporation Law) by such stockholder or by such stockholder's attorney thereunto authorized and delivered to the secretary of the meeting; provided, however, that no proxy shall be voted or acted upon after three (3) years from its date unless said proxy shall provide for a longer period. The attendance at any meeting of a stockholder who may theretofore have given a proxy shall not have the effect of revoking the same unless such stockholder shall in writing so notify the secretary of the meeting prior to the voting of the proxy. At any meeting of stockholders, all matters, except as otherwise provided in the Certificate of Incorporation, in these Bylaws or by law, shall be decided by the vote of a majority in voting interest of the stockholders present in person or by proxy and entitled to vote thereat and thereon, a quorum being present. The vote at any meeting of stockholders on any question need not be by ballot, unless so directed by the chairman of the meeting. On a vote by ballot, each ballot shall be signed by the stockholder voting, or by such stockholder's proxy, if there be such proxy, and it shall state the number of shares voted.

SECTION 7. List of Stockholders. The Secretary of the Corporation shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order and showing the address of each stockholder and the number of shares registered in the name of such stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, in such manner as prescribed by the Delaware General Corporation Law. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

SECTION 8. Judges. If at any meeting of stockholders a vote by written ballot shall be taken on any question, the chairman of such meeting may appoint a judge or judges to act with respect to such vote. Each judge so appointed shall first subscribe an oath faithfully to execute the duties of a judge at such meeting with strict impartiality and according to the best of such judge's ability. Such judges shall decide upon the qualification of the voters and shall report the number of shares represented at the meeting and entitled to vote on such question, shall conduct and accept the votes, and, when the voting is completed, shall ascertain and report the number of shares voted respectively for and against the question. Reports of judges shall be in writing and subscribed and delivered by them to the Secretary of the Corporation. The judges need not be stockholders of the Corporation, and any officer of the Corporation may be a judge on any question other than a vote for or against a proposal in which such officer shall have a material interest.

SECTION 9. Notice of Stockholder Business and Nominations. In addition to the provisions governing a stockholder's notice of nominations of persons for election to the Board or the proposal of other business to be considered by the stockholders provided for in Articles 11 and 12 of the Certificate of Incorporation:

(A) Such stockholder's notice shall also set forth: (i) as to each person whom the stockholder proposes to nominate for election as a director, (a) such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected, and (b) a description of any agreement, arrangement or understanding with any Noticing Person (defined below); (ii) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the text of the proposal or business (including the text of any resolutions proposed for consideration and, in the event that such business includes a proposal to amend these Bylaws, the language of the proposed amendment), the reasons for conducting such business at the meeting and any interest in such business of such stockholder or the beneficial owner, if any, on whose behalf the proposal is made; and (iii) as to all Noticing Persons giving the notice (a) a description of any agreement, arrangement or understanding with respect to the nomination or proposal the Noticing Persons of such person (except that the term "Proposing Person" where it appears in sections (A)(1) and (2) of Section 3 shall be deemed to refer to the Noticing Person), (b) a representation that the stockholder of record submitting the notice is a holder of record of stock of the Corporation entitled to vote at such meeting, intends to continuously hold such stock of the Corporation through such meeting and intends to appear in person or by a qualified representative at the meeting to propose such business or nomination, and (c) a representation as to whether the stockholder of record submitting the notice or any Noticing Person intends (1) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Corporation's outstanding capital stock required to approve or adopt the proposal or elect the nominee and/or (2) otherwise to solicit proxies from stockholders in support of such proposal or nomination. The Corporation may require any proposed nominee to furnish such other information as it may reasonably require to determine the eligibility of such proposed nominee to serve as a director of the Corporation. The term "Noticing Person" shall mean (i) the stockholder providing the notice of business proposed to be brought before an annual meeting, (ii) the beneficial owner or beneficial owners, if different, on whose behalf the notice of the business proposed to be brought before the annual meeting is made, (iii) any participant (as defined in paragraphs (a)(ii)-(vi) of Instruction 3 to Item 4 of Schedule 14A) with such stockholder in such solicitation or associate (within the meaning of Rule 12b-2 under the Exchange Act for purposes of these Bylaws) of such stockholder or beneficial owner, and (iv) any other person with whom such stockholder or such beneficial owner (or any of their respective associates or other participants in such solicitation) is Acting in Concert.

(B) A Noticing Person shall update and supplement its notice to the Corporation of its intent to propose business at an annual meeting, if necessary, so that the information provided or required to be provided in such notice pursuant to this Section 9 shall be true and correct as of the record date for notice of the meeting and as of the date that is ten (10) business days prior to the meeting or any adjournment or postponement thereof, and such update and supplement shall be delivered to, or mailed and received by, the Secretary at the principal executive offices of the Corporation not later than five (5) business days after the record date for notice of the meeting (in the case of the update and supplement required to be made as of such record date), and not later than eight (8) business days prior to the date for the meeting or, if practicable, any adjournment or postponement thereof.

(C) The foregoing notice requirements of this Section 9 and Articles 11 and 12 of the Certificate of Incorporation shall be deemed satisfied by a stockholder with respect to business other than a nomination if the stockholder has notified the Corporation of his, her or its intention to present a proposal at an annual meeting in compliance with applicable rules and regulations promulgated under the Exchange Act and such stockholder's proposal has been included in a proxy statement that has been prepared by the Corporation to solicit proxies for such annual meeting.

(D) Only such persons who are nominated in accordance with the procedures set forth in this Section 9 and Articles 11 and 12 of the Certificate of Incorporation shall be eligible to be elected at an annual meeting of stockholders of the Corporation to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 9 and Articles 11 and 12 of the Certificate of Incorporation. The only matters that may be brought before a special meeting of stockholders are the matters specified in the notice of meeting given by or at the direction of the person calling the meeting pursuant Section 3 of these Bylaws, and stockholders shall not otherwise be permitted to nominate directors or propose business to be brought before a special meeting of stockholders. Except as otherwise provided by law, the chairman of the meeting shall have the power and duty: (i) to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Section 9 and Articles 11 and 12 of the Certificate of Incorporation (including whether the stockholder or beneficial owner, if any, on whose behalf the nomination or proposal is made solicited (or is part of a group which solicited) or did not so solicit, as the case may be, proxies in support of such stockholder's nominee or proposal in compliance with such stockholder's representation as required by clause (A)(iii)(c) of this Section 9) and (ii) if any proposed nomination or business was not made or proposed in compliance with this Section 9 and Articles 11 and 12 of the Certificate of Incorporation, to declare that such nomination shall be disregarded or that such proposed business shall not be transacted. Notwithstanding the foregoing provisions of this Section 9 and Articles 11 and 12 of the Certificate of Incorporation, unless otherwise required by law, if the stockholder (or a qualified representative of the stockholder) does not appear in person at the annual meeting of stockholders of the Corporation to present a nomination or proposed business, such nomination shall be disregarded and such proposed business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the Corporation. For purposes of this Section 9, to be considered a qualified representative of the stockholder, a person must be a duly authorized officer, manager or partner of such stockholder or must be authorized by a writing executed by such stockholder or an electronic transmission delivered by such stockholder to act for such stockholder as proxy at the meeting of stockholders and such person must produce such writing or electronic transmission, or a reliable reproduction of the writing or electronic transmission, at the meeting of stockholders.

(E) Notwithstanding the foregoing provisions of this Section 9 and Articles 11 and 12 of the Certificate of Incorporation, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 9 and Articles 11 and 12 of the Certificate of Incorporation; provided, however, that any references in these Bylaws or in the Certificate of Incorporation to the Exchange Act or the rules promulgated thereunder are not intended to and shall not limit any requirements applicable to nominations or proposals as to any business to be considered pursuant to this Section 9 and Articles 11 and 12 of the Certificate of Incorporation and compliance with this Section 9 and Articles 11 and 12 of the Certificate of Incorporation shall be the exclusive means for a stockholder to make nominations or submit other business matters brought properly under and in compliance with Rule 14a-8 of the Exchange Act. Nothing in this Section 9 and Articles 11 and 12 of the Certificate of Incorporation shall be deemed to affect any rights (i) of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to applicable rules and regulations promulgated under the Exchange Act or (ii) of the holders of any series of preferred stock to elect directors pursuant to any applicable provisions of the Certificate of Incorporation.

ARTICLE III: BOARD OF DIRECTORS

SECTION 1. General Powers. Subject to any requirements in the Certificate of Incorporation, these Bylaws, and of the Delaware General Corporation Law as to action which must be authorized or approved by the stockholders, any and all corporate powers shall be exercised by or under the authority of, and the business and affairs of the Corporation shall be under the direction of, the Board to the fullest extent permitted by law. Without limiting the generality of the foregoing, it is hereby expressly declared that the Board shall have the following powers, to wit:

(A) to select and remove all of the officers, agents and employees of the Corporation, prescribe such powers and duties for them as may not be inconsistent with law, the Certificate of Incorporation or these Bylaws, fix their compensation, and require from them security for faithful service;

(B) to conduct, manage and control the affairs and business of the Corporation, and to make such rules and regulations therefor not inconsistent with law, the Certificate of Incorporation or these Bylaws, as it may deem best;

(C) to change the location of the registered office of the Corporation in Article I, Section 1 hereof; to change the principal office for the transaction of the business of the Corporation from one location to another as provided in Article I, Section 2 hereof; to fix and locate from time to time one or more subsidiary offices of the Corporation within or without the State of Delaware as provided in Article I, Section 3 hereof; to designate any place within or without the State of Delaware for the holding of any meeting or meetings of stockholders; and to adopt, make and use a corporate seal, and to prescribe the forms of certificates of stock, and to alter the form of such seal and of such certificates from time to time, and in its judgment as it may deem best, provided such seal and such certificate shall at all times comply with the provisions of law;

(D) to authorize the issuance of shares of stock of the Corporation from time to time, upon such terms and for such considerations as may be lawful;

(E) to borrow money and incur indebtedness for the purposes of the Corporation, and to cause to be executed and delivered therefor, in the corporate name, promissory notes, bonds, debentures, deeds of trust and securities therefor; and

(F) by resolution adopted by a majority of the authorized number of directors, to designate an executive and other committees, each consisting of one or more directors, to serve at the pleasure of the Board, and to prescribe the manner in which proceedings of such committee or committees shall be conducted.

SECTION 2. Number and Term of Office. The authorized number of directors of the Corporation shall be not less than five (5) nor more than fifteen (15) until this Section 2 is amended by a resolution duly adopted by the Board or by the stockholders of the Corporation. The exact number of directors shall be fixed from time to time within the limits specified by resolution of the Board or the stockholders. Directors need not be stockholders. Each of the directors of the Corporation shall hold office until such director's successor shall have been duly elected and shall qualify or until such director shall resign or shall have been removed in the manner provided for in the Certificate of Incorporation.

SECTION 3. Election of Directors. Each director to be elected by the stockholders of the Corporation shall be elected by the affirmative vote of a plurality of the votes cast by the shares represented and entitled to vote at such meeting with respect to the election of such director.

SECTION 4. Resignations. Any director of the Corporation may resign at any time upon notice given in writing or by electronic transmission to the Board or to the Secretary of the Corporation. Any such resignation shall take effect at the time specified therein, or, if the time be not specified, it shall take effect immediately upon receipt; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 5. Vacancies. Except as otherwise provided in the Certificate of Incorporation, and subject to the rights, if any, of the holders of shares of Preferred Stock then outstanding, newly created directorships resulting from any increase in the number of directors or any vacancy on the Board resulting from death, resignation, disqualification, removal or other cause shall be filled solely by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum, or by a sole remaining director. Each director so chosen to fill a vacancy shall hold office until such director's successor shall have been elected and shall qualify or until such director shall resign or shall have been removed. No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of such director's term of office.

SECTION 6. Place of Meeting. The Board or any committee thereof may hold any of its meetings at such place or places within or without the State of Delaware as the Board or such committee may from time to time by resolution designate or as shall be designated by the person or persons calling the meeting or in the notice or a waiver of notice of any such meeting. Directors may participate in any regular or special meeting of the Board or any committee thereof by means of conference telephone or similar communications equipment pursuant to which all persons participating in the meeting of the Board or such committee can hear each other, and such participation shall constitute presence in person at such meeting.

SECTION 7. First Meeting. The Board shall meet as soon as practicable after each annual election of directors, and notice of such first meeting shall not be required.

SECTION 8. Regular Meetings. Regular meetings of the Board may be held at such times as the Board shall from time to time by resolution determine. If any day fixed for a regular meeting shall be a legal holiday at the place where the meeting is to be held, then the meeting shall be held at the same hour and place on the next succeeding business day that is not a legal holiday. Except as provided by law, notice of regular meetings need not be given.

SECTION 9. Special Meetings. Special meetings of the Board for any purpose or purposes shall be called at any time by the Chairman of the Board or, if the Chairman of the Board is absent or unable or refuses to act, by the Chief Executive Officer or the President. Except as otherwise provided by law or by these Bylaws, special meetings of the Board shall be held upon at least four (4) days written notice or two (2) hours notice given personally, by telephone or by electronic transmission. Any such notice shall be addressed or delivered to each director at such director's address as is shown upon the records of the Corporation or as may have been given to the Corporation by the director for purposes of notice or, if such address is not shown on such records or is not readily ascertainable, at the place in which the meetings of the directors are regularly held. Notice by mail shall be deemed to have been given at the time such notice is deposited in the United States mails, postage prepaid. Any other written notice shall be deemed to have been given at the time it is personally delivered to the recipient or is delivered to a common carrier for delivery or transmission. Notice by electronic transmission shall be deemed to have been given at the time it is actually transmitted by the person giving the notice by electronic means to the recipient. Oral notice shall be deemed to have been given at the time it is communicated, in person or by telephone or similar means of communication, to the recipient or to a person at the office of the recipient whom the person giving the notice has reason to believe will promptly communicate it to the recipient. Except where otherwise required by law or these Bylaws, notice of the purpose of a special meeting need not be given. Notice of any meeting of the Board shall not be required to be given to any director who is present at such meeting, except a director who shall attend such meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

SECTION 10. Quorum and Manner of Acting. Except as otherwise provided in these Bylaws, the Certificate of Incorporation or by applicable law, the presence of a majority of the authorized number of directors shall be required to constitute a quorum for the transaction of business at any meeting of the Board, and all matters shall be decided at any such meeting, a quorum being present, by the affirmative vote of a majority of the directors present. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, provided any action taken is approved by at least a majority of the required quorum for such meeting. In the absence of a quorum, a majority of directors present at any meeting may adjourn the same from time to time until a quorum shall be present. Notice of any adjourned meeting need not be given. The directors shall act only as a Board, and the individual directors shall have no power as such.

SECTION 11. Action by Consent. Any action required or permitted to be taken at any meeting of the Board or of any committee thereof may be taken without a meeting if consent in writing or by electronic transmission is given thereto by all members of the Board or of such committee, as the case may be, and such consent, electronic transmission or transmissions are filed with the minutes of proceedings of the Board or of such committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

SECTION 12. Compensation. Directors who are not employees of the Corporation or any of its subsidiaries may receive an annual fee for their services as directors in an amount fixed by resolution of the Board, and, in addition, a fixed fee, with or without expenses of attendance, may be allowed by resolution of the Board for attendance at each meeting, including each meeting of a committee of the Board. Nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity as an officer, agent, employee, or otherwise, and receiving compensation therefor.

SECTION 13. Committees. The Board may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of one or more of the directors of the Corporation. Any such committee, to the extent provided in the resolution of the Board and subject to any restrictions or limitation on the delegation of power and authority imposed by applicable law, shall have and may exercise all the powers and authority of the Board in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it. Any such committee shall keep written minutes of its meetings and report the same to the Board at the next regular meeting of the Board. Unless the Board or these Bylaws shall otherwise prescribe the manner of proceedings of any such committee, meetings of such committee may be regularly scheduled in advance and may be called at any time by the chairman of the committee or by any two (2) members thereof; otherwise, the provisions of these Bylaws with respect to notice and conduct of meetings of the Board shall govern.

SECTION 14. Interpretation and Application of this Article. The Board shall have the exclusive right and power to interpret and apply the provisions of this Article, including, without limitation, the adoption of written definitions of terms used in and guidelines for the application of this Article (any such definitions and guidelines shall be filed with the Secretary, and such definitions and guidelines as may prevail shall be made available to any stockholder upon written request). Any such definitions or guidelines and any other interpretation or application of the provisions of this Article made in good faith shall be binding and conclusive upon the stockholders.

ARTICLE IV: OFFICERS

SECTION 1. Officers. The officers of the Corporation shall be a Chairman of the Board, a Chief Executive Officer, a President, one or more Vice Presidents (the number thereof and their respective titles to be determined by the Board), a Secretary, a Treasurer and such other officers as may be appointed at the discretion of the Board in accordance with the provisions of Section 3 of this Article IV. At the discretion of the Board, from time to time, the Chairman of the Board may be a director of the Corporation who is not an officer of the Corporation.

SECTION 2. Election. The officers of the Corporation, except such officers as may be appointed or elected in accordance with the provisions of Section 3 or Section 5 of this Article IV, shall be chosen annually by the Board at the first meeting thereof, and each officer shall hold office until such officer shall resign or shall be removed or otherwise disqualified to serve, or until such officer's successor shall be elected and qualified.

SECTION 3. Other Officers. In addition to the officers chosen annually by the Board at its first meeting, the Board also may appoint or elect such other officers as the business of the Corporation may require, each of whom shall have such authority and perform such duties as are provided in these Bylaws or as the Board may from time to time specify, and shall hold office until such officer shall resign or shall be removed or otherwise disqualified to serve, or until such officer's successor shall be elected and qualified.

SECTION 4. Removal and Resignation. Any officer may be removed, either with or without cause, by resolution of the Board passed by a majority of the directors at the time in office, at any regular or special meeting of the Board, or except in the case of an officer chosen by the Board, by any officer upon whom such power of removal may be conferred by the Board.

SECTION 5. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these Bylaws for regular appointment to such office.

SECTION 6. Chairman of the Board. The Chairman of the Board shall preside at all meetings of stockholders and at all meetings of the Board. The Chairman of the Board shall be a member of such committees, if any, and shall have such other powers and duties as may be prescribed by the Board or these Bylaws.

SECTION 7. Chief Executive Officer. The Chief Executive Officer shall, subject to the control of the Board, have general supervision, direction and control of the business and affairs of the Corporation.

SECTION 8. President. The President shall have such powers and perform such duties with respect to the administration of the business and affairs of the Corporation as may from time to time be assigned by the Chief Executive Officer or the Board, or as may be prescribed by these Bylaws.

SECTION 9. Vice President. Each Vice President shall have such powers and perform such duties with respect to the administration of the business and affairs of the Corporation as may from time to time be assigned to such Vice President by the Chief Executive Officer, the President or the Board, or as may be prescribed by these Bylaws.

SECTION 10. Secretary. The Secretary shall keep, or cause to be kept, at the principal office of the Corporation, or such other place as the Board may order, a book of minutes of all meetings of directors and stockholders, with the time and place of holding, whether regular or special, and if special, how authorized and the notice thereof given, the names of those present at meetings of directors, the number of shares present or represented at meetings of stockholders, and the proceedings thereof.

The Secretary shall keep, or cause to be kept, at the principal office of the Corporation's transfer agent, a share register, or a duplicate share register, showing the name and address of each stockholder, the number of shares of each class held by such stockholder, the number and date of certificates issued for certificated shares, the number and date of issuance of uncertificated shares, and the number and date of cancellation of certificated shares surrendered for cancellation or for uncertificated shares.

The Secretary shall give, or cause to be given, notice of all meetings of stockholders and of the Board required by these Bylaws or by law to be given, and shall keep the seal of the Corporation in safe custody and, if necessary or appropriate, shall affix and attest the seal to all documents to be executed on behalf of the Corporation under its seal, and shall have such other powers and perform such other duties as may be prescribed by these Bylaws or assigned by the Board, the Chairman of the Board or any officer of the Corporation to whom the Secretary may report. If for any reason the Secretary shall fail to give notice of any special meeting of the Board called by one or more of the persons identified in Article III, Section 9 hereof, then any such person or persons may give notice of any such special meeting.

SECTION 11. Treasurer. The Treasurer shall supervise, have custody of and be responsible for all funds and securities of the Corporation. The Treasurer shall deposit all moneys and other valuables in the name and to the credit of the Corporation with such depositories as may be designated by the Board or in accordance with authority delegated by the Board. The Treasurer shall disburse the funds of the Corporation as may be ordered or authorized by the Board, shall render to the Board and the Chairman of the Board whenever they request it, an account of all of the Treasurer's transactions, and shall have such other powers and perform such other duties as may be prescribed by these Bylaws or assigned by the Board, the Chairman of the Board or any officer of the Corporation to whom the Treasurer may report.

ARTICLE V: CONTRACTS, CHECKS, DRAFTS, BANK ACCOUNTS, ETC.

SECTION 1. Execution of Contracts. The Board, except as otherwise provided in these Bylaws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances; and unless so authorized by the Board or by these Bylaws, no officer, agent or employee shall have any power or authority to bind the Corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or in any amount.

SECTION 2. Checks, Drafts, Etc. All checks, drafts, or other orders for payment of money, notes or other evidence of indebtedness, issued in the name of or payable to the Corporation, shall be signed or endorsed by such person or persons and in such manner as, from time to time, shall be determined by resolution of the Board. Each such officer, assistant, agent or attorney shall give such bond, if any, as the Board may require.

SECTION 3. Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board may select, or as may be selected by any officer or officers, assistant or assistants, agent or agents, or attorney or attorneys of the Corporation to whom such power shall have been delegated by the Board. For the purpose of deposit and for the purpose of collection for the account of the Corporation, the Chairman of the Board, the Chief Executive Officer, the President, any Vice President, the Treasurer or the Secretary (or any other officer or officers, assistant or assistants, agent or agents, or attorney or attorneys of the Corporation who shall from time to time be determined by the Board) may endorse, assign and deliver checks, drafts and other orders for the payment of money which are payable to the order of the Corporation.

SECTION 4. General and Special Bank Accounts. The Board may from time to time authorize the opening and keeping of general and special bank accounts with such banks, trust companies or other depositories as the Board may select or as may be selected by any officer or officers, assistant or assistants, agent or agents, or attorney or attorneys of the Corporation to whom such power shall have been delegated by the Board. The Board may make such special rules and regulations with respect to such bank accounts, not inconsistent with the provisions of these Bylaws, as it may deem expedient.

ARTICLE VI: SHARES AND THEIR TRANSFER

SECTION 1. Certificates for Stock. The shares of stock of the Corporation may be certificated or uncertificated, as provided under Delaware law. Every holder of stock represented by certificates shall be entitled to have a certificate or certificates, to be in such form as the Board shall prescribe, certifying the number and class of shares of the stock of the Corporation owned by such holder. The certificates representing certificated shares of such stock shall be numbered in the order in which they shall be issued and shall be signed in the name of the Corporation by the Chairman of the Board, the Chief Executive Officer, the President or any Vice President, and by the Secretary or the Treasurer. Any or all of the signatures on the certificates may be a facsimile. In case any officer, transfer agent or registrar who has signed, or whose facsimile signature has been placed upon, any such certificate, shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, such certificate may nevertheless be issued by the Corporation with the same effect as though the person who signed such certificate, or whose facsimile signature shall have been placed thereupon, were such officer, transfer agent or registrar at the date of issue. Every certificate surrendered to the Corporation for exchange or transfer shall be canceled, and no new certificate or certificates or uncertificated shares shall be issued in exchange for any existing certificate until such existing certificate shall have been so canceled, except in cases provided for in Section 4 of this Article VI.

SECTION 2. Transfers of Stock. Transfers of shares of stock of the Corporation shall be made only on the books of the Corporation by the registered holder thereof, or by such holder's attorney thereunto authorized by power of attorney duly executed and filed with the Secretary, or with a transfer clerk or a transfer agent appointed as provided in Section 3 of this Article VI, and, if such shares are represented by a certificate, upon surrender of the certificate or certificates for such shares properly endorsed and the payment of all taxes thereon. The person in whose name shares of stock stand on the books of the Corporation shall be deemed the owner thereof for all purposes with regard to the Corporation. Whenever any transfer of shares shall be made for collateral security, and not absolutely, such fact shall be so expressed in the entry of transfer if, when the certificate or certificates shall be presented to the Corporation for transfer or uncertificated shares are requested to be transferred, both the transferor and the transferee request the Corporation to do so.

SECTION 3. Regulations. The Board may make such rules and regulations as it may deem expedient, not inconsistent with these Bylaws, concerning the issue, transfer and registration of certificates for shares of the stock of the Corporation. It may appoint, or authorize any officer or officers to appoint, one or more transfer clerks or one or more transfer agents and one or more registrars, and may require all certificates for stock to bear the signature or signatures of any of them.

SECTION 4. Lost, Stolen, Destroyed, and Mutilated Certificates. In any case of loss, theft, destruction, or mutilation of any certificate of stock, another certificate or uncertificated shares may be issued in its place upon proof of such loss, theft, destruction, or mutilation and upon the giving of a bond of indemnity to the Corporation in such form and in such sum as the Board may direct; provided, however, that a new certificate or uncertificated shares may be issued without requiring any bond when, in the judgment of the Board, it is proper so to do.

SECTION 5. Fixing Date for Determination of Stockholders of Record. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any other change, conversion or exchange of stock or for the purpose of any other lawful action, the Board may fix, in advance, a record date, which shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other action. If in any case involving the determination of stockholders for any purpose other than notice of or voting at a meeting of stockholders the Board shall not fix such a record date, then the record date for determining stockholders for such purpose shall be the close of business on the day on which the Board shall adopt the resolution relating thereto. A determination of stockholders entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of such meeting; provided, however, that the Board may fix a new record date for the adjourned meeting.

ARTICLE VII: MISCELLANEOUS

SECTION 1. Seal. The Board shall adopt a corporate seal, which shall be in the form of a circle and shall bear the name of the Corporation and words showing that the Corporation was incorporated in the State of Delaware.

SECTION 2. Waiver of Notices. Whenever notice is required to be given by these Bylaws or the Certificate of Incorporation or by law, the person entitled to said notice may waive such notice in writing, either before or after the time stated therein, and such waiver shall be deemed equivalent to notice.

SECTION 3. Amendments. Except as otherwise provided herein or in the Certificate of Incorporation, these Bylaws or any of them may be altered, amended, repealed or rescinded and new Bylaws may be adopted by the Board, subject to repeal or change by action of the stockholders at any annual or special meeting of stockholders, provided that notice of such proposed alteration, amendment, repeal, rescission or adoption is given in the notice of such meeting.

SECTION 4. Representation of Other Corporations. The Chairman of the Board, the Chief Executive Officer, the President, the Secretary or any Vice President of the Corporation is authorized to vote, represent and exercise on behalf of the Corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of the Corporation. The authority herein granted to said officers to vote or represent on behalf of the Corporation any and all shares held by the Corporation in any other corporation or corporations may be exercised either by such officers in person or by any person authorized so to do by proxy or power of attorney duly executed by such officers.

The undersigned Secretary of the Corporation hereby certifies that the foregoing Bylaws were adopted by the Board of Directors of the Corporation on the 13th day of June 2013 and by the Corporation's stockholders on the 5th day of July 2013.

/s/ Charles De Tarr

Charles De Tarr, Secretary

Exhibit 10.1

July 24, 2012

Ideal Power Converters

5004 Bee Creek Road, Suite 600
Spicewood, Texas 78669
Attention: Christopher Cobb, Chief Executive Officer

RE: Engagement Letter for Strategic Consulting Services Dear Christopher:

MDB Capital Group, LLC (together with its affiliates, "MDB") is a financial and strategic advisory firm helping companies develop key assets and plans to support their business objectives. Our unique methodologies maximize returns on innovation and expand shareholder value through strategic consulting, corporate development, and innovation management. As a result of our working together, many clients use MDB's brand to enhance their own brand as top innovators, realizing a sustainable competitive advantage in their respective fields.

We understand that Ideal Power Converters (together with its affiliates, subsidiaries, predecessors, and successors, "IPC" or the "Company") is seeking the services provided by MDB, so as to build and maintain its overall corporate profile and to assist the Company in planning for a possible IPO event towards the end of 2012. We are pleased to propose a program designed to enhance IPC's valuation, develop the investor "story," and set the foundation for long-term stakeholder value.

This letter agreement (the "Agreement") confirms the terms and conditions that will govern IPC's engagement of MDB to provide financial, strategic, and intellectual property advisory services (the "Engagement").

1. Services.

a. Services Provided. MDB shall assist the Company with all aspects of its financial, strategic, and intellectual property development, including:

BUSINESS STRATEGY ACTIVITIES

- Assessing the Company's market landscape;
- Formulation of the Company's business strategy;
- Formulation of the Company's financial plan, including assessment of financing options;
- Defining technology milestones;
- Creating development and commercialization strategy;
- Identifying and recruiting key members of the management team and Board of Directors;
- Corporate structuring; and
- General corporate advice, as needed and requested.

IP RELATED ACTIVITIES

- Inventory and assessment of the Company's intellectual property portfolio (the "Assets"), using PatentVest®, MDB's proprietary IP business intelligence platform;
- Identification and evaluation of specific market or competitive issues pertaining to the Company's intellectual property portfolio;
- Formulation of the Company's IP strategy, including development of a comprehensive plan for invention prioritization and patent development;
- For each individual invention of the Company (an "Invention"), development of a clear strategy for Invention drafting and Invention family development roadmap;
- Preparation of a complete Invention package with technical disclosure documentation (each, a "Disclosure") for use in the Company's patent applications;
- Invention extraction including meetings with team to identify additional patentable technology;
- Identification of companies with intellectual property profiles best matching the Company's portfolio and those which will likely have the greatest value for the Company's portfolio;
- Selecting IP assets and companies for acquisition;
- Assessment of the monetization method which would be most appropriate for realizing the value of the Company's current patent assets, including but not limited to full or partial patent sale, spin-out, additional financing, etc;
- Preparation of an internal valuation memorandum, with a valuation range predicated on the most likely monetization method, with tactical recommendations on realizing the portfolio value; and
- Access to PatentVest and MDB's Patent Factory.

b. Additional Services/Exclusions. It is expressly understood and agreed that MDB has not provided nor is undertaking to provide any advice to the Company relating to legal, regulatory, investment banking, accounting, or tax matters. The services provided to the Company hereunder are designed to assist, but not replace, the Company's own intellectual property counsel.

Should the Company request MDB to perform any services or act in any capacity not specifically addressed in this Agreement, such services or activities shall constitute separate engagements, the terms and conditions of which will be embodied in separate written agreement(s).

2. Compensation. As consideration for the services provided under this Agreement, the Company will pay MDB a fee as follows:

a. Warrant. Upon execution of this Agreement, the Company shall sell to MDB, for the total amount of $1,000, warrants (the "Warrants") to purchase shares of IPC common stock (the "Common Stock") in an amount equal to ten percent (10%) of the total issued and outstanding Common Stock of IPC after giving effect to the conversion or exercise of all options, warrants and other rights to acquire securities of IPC as of the date hereof except for securities or warrants associated with the Texas Emerging Technologies Fund. In the event that MBD does not raise a total of at least $4,000,000 for the Company, the Company will have the option to purchase back all of these Warrants for the total amount of $1,000.00 The Warrants will be for a term of seven (7) years at an exercise price equal to the price per share paid by (or if convertible securities, the conversion price per share allowed to) investors in the Offering of securities made by IPC and shall contain cashless exercise and anti-dilution provisions and representations and warranties normal and customary for warrants issued to placement agents or underwriters, and will not be callable or terminable prior to the expiration date. No adjustment will be made to the exercise price or number of shares underlying the Warrants in the event of subsequent financings. The Common Stock underlying the Warrants will have registration rights no less favorable than those granted to any other person, including "piggyback" registration rights on the registrations of IPC or demand registrations by any later round of investors. IPC shall bear all costs and expenses of registration, including the filing and clearing of one or more registration statements. The Warrants may be issued to any persons or entities designated by MDB.

b. Expenses. The Company shall fund MDB's travel and reasonable related expenses in connection with visits by the MDB team to the Company's site. The Company shall also promptly reimburse MDB for any expenses related to the Engagement that are approved by the Company in advance.

c. Payments. All payments to be made to MDB hereunder will be made in cash by wire transfer of immediately available U.S. funds. Except as expressly set forth herein, no fee payable to MDB hereunder shall be credited against any other fee due to MDB. The obligation to pay any fee or expense set forth herein shall be absolute and unconditional and shall not be subject to reduction by way of setoff, recoupment or counterclaim.

3. Representations and Warranties of the Company. The Company warrants and agrees that it is the true and rightful owner of all intellectual property rights in each of the Assets and Inventions submitted to MDB for analysis; that any and all technical Invention information provided to MDB may be transmitted across country borders; and that no U.S. agency has suspended, revoked, or denied the Company's export privileges.

4. Term and Termination. MDB's Engagement will commence upon the execution of this Agreement and shall continue in effect for a period of 90 (ninety) days (the "Initial Term"). After the expiration of the Initial Term, the Agreement shall automatically renew and continue in effect until it is terminated by either party with thirty (30) days' written notice to the other pursuant to Section 9. Upon termination of this Agreement for any reason, the rights and obligations of the parties hereunder shall terminate, except for the obligations set forth in Sections 2-3 and 5-14, which shall survive termination.

5. Indemnification. The Company hereby agrees to indemnify and hold harmless MDB Capital, its directors, officers, agents, employees, members, affiliates, subsidiaries, and counsel (collectively, the "MDB Indemnified Parties") to the fullest extent permitted by law from and against any and all losses, claims, damages, expenses, or liabilities (or actions in respect thereof) ("Losses"), joint or several, to which they or any of them may become subject under any statute or at common law, and to reimburse such MDB Indemnified Parties for any reasonable legal or other expense (including but not limited to the cost of any investigation, preparation, response to third party subpoenas) incurred by them in connection with any litigation or administrative or regulatory action ("Proceeding"), whether pending or threatened, and whether or not resulting in any liability, insofar as such losses, claims, liabilities, or litigation arise out of or are based upon: the Company's use or misuse (including use contrary to federal or state law) of the Disclosure(s), the Company's breach of the Representations and Warranties contained in Section 3 hereof, or any violation of U.S or other import or export controls; provided, however, that while the indemnity provisions herein shall include any and all claims regardless of whether MDB Capital's sole negligence, active or passive, contributed to losses, they shall not apply to (i) amounts paid in settlement of any such litigation if such settlement is effected without the consent of the Company, which consent will not be unreasonably withheld, or (ii) Losses arising solely from the willful misconduct or gross negligence of MDB Indemnified Parties.

MDB hereby agrees to indemnify and hold harmless the Company, its directors, officers, agents, employees, members, affiliates, subsidiaries, and counsel (collectively, the "Company Indemnified Parties") to the fullest extent permitted by law from and against any and all Losses, joint or several, to which they or any of them may become subject under any statute or at common law, and to reimburse such Company Indemnified Parties for any reasonable legal or other expense (including but not limited to the cost of any investigation, preparation, response to third party subpoenas) incurred by them in connection with any Proceeding, whether pending or threatened, and whether or not resulting in any liability, insofar as such losses, claims, liabilities, or litigation arise solely out of MDB's willful misconduct or gross negligence; provided, however, that the indemnity provisions herein shall not apply to CO amounts paid in settlement of any such litigation if such settlement is effected without the consent of MDB, which consent will not be unreasonably withheld, or (ii) Losses arising from the willful misconduct or gross negligence of Company Indemnified Parties.

The provisions of this Section 5 shall survive any termination or expiration of this Agreement.

6. Work Product and Announcements. MDB's advice shall be the sole proprietary work product and intellectual property of MDB, and such advice may not be disclosed, in whole or in part, to other parties by the Company without the prior written permission of MDB unless such disclosure is required by law. Any document or information prepared by MDB in connection with this Engagement shall not be duplicated by the Company except as explicitly provided for hereunder or required by law and shall be returned by the Company to MDB upon request. The Company acknowledges that MDB, at its option and expense, may place announcements and advertisements or otherwise publicize the Engagement (which may include the reproduction of the Company's logo and a hyperlink to the Company's website) on MDB's website and in such financial and other newspapers and journals as it may choose.

7. Limitation of Liability. MDB shall employ due care and attention in providing the services hereunder. However, the Company acknowledges that MDB does not warrant or represent the accuracy or completeness of any public information or any information provided solely by the Company used in any analysis and that inaccurate or incomplete data may affect the validity and reliability of MDB's work product, including any draft patent Disclosures. Similarly, MDB makes no representation or warranty with respect to the non-infringement of any of the Assets or Inventions described in the Disclosure(s). MDB makes no warranty, representation, promise, or undertaking with respect to any legal or financial consequences of, or any other consequences or benefits obtained from the use of any work product hereunder, including the Disclosure(s), including any representation that any patent(s) will be granted. The Company assumes all risks related to documentation or technical information and data which may be subject to U.S. export controls or export or import restrictions in other countries. MDB SPECIFICALLY DISCLAIMS ANY OTHER WARRANTY, EXPRESS, IMPLIED OR STATUTORY, INCLUDING ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. MDB SHALL NOT BE LIABLE ON ACCOUNT OF ANY ERRORS, OMISSIONS, DELAYS, OR LOSSES UNLESS CAUSED BY ITS GROSS NEGLIGENCE OR WILLFUL MISCONDUCT. TO THE FULLEST EXTENT PERMITTED BY LAW, MDB WILL NOT BE LIABLE FOR ANY LOSS, DAMAGE OR INJURY (INCLUDING WITHOUT LIMITATION LOST PROFITS, INDIRECT, SPECIAL, OR CONSEQUENTIAL DAMAGES) ALLEGED TO BE CAUSED BY USE OF THE DISCLOSURE(S).

THE COMPANY'S LIABILITY ARISING OUT OF THIS AGREEMENT SHALL BE LIMITED TO THE COMPENSATION PAID TO MDB IN ACCORDANCE WITH SECTION 2. MDB'S LIABILITY ARISING UNDER THIS AGREEMENT SHALL BE LIMITED TO THE AMOUNTS PAID BY THE COMPANY TO MDB WITH REGARD TO THE PROVISION OF THE SPECIFIC SERVICES THAT GAVE RISE TO THE CLAIM OF LIABILITY, BUT IN NO EVENT WILL SUCH LIABILITY EXCEED THE TOTAL AMOUNT ACTUALLY PAID TO MDB PURSUANT TO SECTION 2. IN NO EVENT SHALL EITHER PARTY BE LIABLE FOR ANY CONSEQUENTIAL, INCIDENTAL, INDIRECT OR SPECIAL DAMAGES, HOWEVER CAUSED, WHETHER UNDER THEORY OF CONTRACT, TORT (INCLUDING NEGLIGENCE), OR OTHERWISE.

8. Other Transactions: Disclaimers. The Company acknowledges that MDB is engaged in a wide range of investing, investment banking and other activities (including investment management, corporate finance, securities issuance, trading and research and brokerage activities) from which conflicting interests or duties, or the appearance thereof, may arise. Information held elsewhere within MDB but not accessible (absent a breach of internal procedures) to its investment banking personnel providing services to the Company will not under any circumstances affect MDB's responsibilities to the Company hereunder. The Company further acknowledges that MDB and its affiliates have and may continue to have investment banking, broker-dealer and other relationships with parties other than the Company pursuant to which MDB may acquire information of interest to the Company. MDB shall have no obligation to disclose to the Company or to use for the Company's benefit any such non-public information or other information acquired in the course of engaging in any other transaction (on MDB's own account or otherwise) or otherwise carrying on the business of MDB. The Company further acknowledges that from time to time MDB's independent research department may publish research reports or other materials, the substance and/or timing of which may conflict with the views or advice of MDB's investment banking department and/or which may have an adverse effect on the Company's interests in connection with the transactions contemplated hereby or otherwise. In addition, the Company acknowledges that, in the ordinary course of business, MDB may trade the securities of the Company for its own account and for the accounts of its customers, and may at any time hold a long or short position in such securities. MDB shall nonetheless remain fully responsible for compliance with federal securities laws in connection with such activities.

The Company further acknowledges and agrees that MDB will act solely as an independent contractor hereunder, and that MDB's responsibility to the Company is solely contractual in nature and that MDB does not owe the Company or any other person or entity, including but not limited to its shareholders, any fiduciary or similar duty as a result of the Engagement or otherwise.

9. Notice. All notices, demands, and other communications to given pursuant to this Agreement shall be in writing and shall be personally delivered, mailed by United States mail, sent by overnight delivery using a nationally recognized courier service, sent by facsimile transmission, or emailed. Notice shall be deemed received: (a) if personally delivered, upon the date of delivery to the address of the receiving party; (b) if mailed, three business days after date the item is placed in the United States mail; (c) if sent by overnight courier, the date actually received by the recipient; (d) if sent by facsimile or email, when sent. The parties will each promptly notify the other of any changes to the following contact information.

Notices to MDB shall be sent to:
MDB Capital Group, LLC
Attn: Anthony DiGiandomenico 401 Wilshire Blvd.,
Suite 1020 Santa Monica, California 90401 Fax: (310) 526-5020
Email: d@mdb.com

Notices to the Company shall be sent to:
Ideal Power Converters
Attn: Christopher Cobb
5004 Bee Creek Road, Suite 600
Spicewood, TX 78669
Fax: (512) 687-5357
Email: Christopher.cobb@idealpowerconverters.com

10. Complete Agreement: Amendments: Assignment. This Agreement sets forth the entire understanding of the parties relating to the subject matter hereof and supersedes and cancels any prior communications, understandings and agreements, whether oral or written, between MDB and the Company. This Agreement may not be amended or modified except in writing. The rights of MDB hereunder shall be freely assignable to any affiliate of MDB, and this Agreement shall apply to, inure to the benefit of and be binding upon and enforceable against MDB and its successors and assigns.

11. Third Party Beneficiaries. This Agreement is intended solely for the benefit of the parties hereto and, with the exception of the rights and benefits conferred upon the Indemnified Parties by Section 5 and Exhibit A of this Agreement, shall not be deemed or interpreted to confer any rights upon any third parties.

12. Governing Law: Jurisdiction: Venue. All aspects of the relationship created by this Agreement shall be governed by and construed in accordance with the laws of the State of California, applicable to contracts made and to be performed in California, without regard to its conflicts of laws provisions. All actions and proceedings which are not submitted to arbitration pursuant to Section 13 hereof shall be heard and determined exclusively in the state and federal courts located in the County of Los Angeles, State of California, and the Company and MDB hereby submit to the jurisdiction of such courts and irrevocably waive any defense or objection to such forum, on forum non conveniens grounds or otherwise. The parties agree to accept service of process by mail, to their principal business address, addressed to the chief executive officer and secretary thereof. The parties hereby agree that this Section 12 shall survive the termination and/or expiration of this Agreement.

13. Arbitration. Any dispute, claim or controversy arising out of or relating to this Agreement or the breach, termination, enforcement, interpretation or validity thereof, including the determination of the scope or applicability of this agreement to arbitrate, shall be determined by arbitration before one arbitrator in Los Angeles (with the exception of claims to enforce the indemnity provision contained herein, which may, at the option of the party seeking relief, be submitted either to arbitration or to any court of competent jurisdiction). The arbitration shall be administered by JAMS pursuant to its Streamlined Arbitration Rules and Procedures, unless the parties are required to arbitrate by FINRA Rule 12200 subsection (2), in which event the matter shall be submitted to FINRA Dispute Resolution pursuant to its Code of Arbitration Procedure for Customer Disputes. Judgment on the Award may be entered in any court having jurisdiction. This clause shall not preclude parties from seeking provisional remedies in aid of arbitration from a court of appropriate jurisdiction.

The arbitrator may, in the Award, allocate all or part of the costs of the arbitration, including the fees of the arbitrator and the reasonable attorneys' fees of the prevailing party.

The parties hereby agree that this Section 13 shall survive the termination and/or expiration of this Agreement.

[The Company's consent to Arbitration must be confirmed by initialing below:] [___]

14. Severability. Should any one or more covenants, restrictions and provisions contained in this Agreement be held for any reason to be void, invalid or unenforceable, in whole or in part, such unenforceability will not affect the validity of any other term of this Agreement, and the invalid provision will be binding to the fullest extent permitted by law and will be deemed amended and construed so as to meet this intent. To the extent any provision cannot be so amended or construed as a matter of law, the validity of the remaining provisions shall be deemed unaffected and the illegal or invalid provision will be deemed stricken from this Agreement.

15. Section Headings. The section headings herein are for convenience of reference only, and shall not limit or otherwise affect the meaning hereof

16. Accounting. Any calculation, computation or accounting that may be required under this Agreement shall be made in accordance and conformity with the Generally Accepted Accounting Principles and other standards as determined by the Financial Accounting Standards board and regulatory agencies with appropriate jurisdiction.

17. Counterparts. This Agreement may be executed via facsimile transmission and may be executed in separate counterparts, each of which shall be deemed to be an original and all of which together shall constitute a single instrument.

18. Patriot Act. MDB hereby notifies the Company that pursuant to the requirements of the USA PATRIOT ACT (the "Patriot Act"), it is required to obtain, verify and record information that identifies the Company in a manner that satisfies the requirements of the Patriot Act. This notice is given in accordance with the requirements of the Patriot Act.

If the above accords with your understanding and agreement, kindly indicate your consent hereto by signing below. We look forward to a long and successful relationship with you.

Very truly yours,

MDB CAPITAL GROUP LLC

_____

By: Anthony DiGiandomenico Partner

ACCEPTED AND AGREED TO

AS OF THE DATE FIRST ABOVE WRITTEN:

IDEAL POWER CONVERTERS, INC.

By: Christopher Cobb

Its: Chief Executive Officer

Exhibit 10.2

August 8, 2012

Mr. Christopher Cobb Chief Executive Officer Ideal Power
Converters, Inc
5004 Bee Creek Road Spicewood, TX 78669

Re:Intellectual Property Engagement Agreement

Dear Mr. Cobb:

This letter agreement (the "Agreement") confirms the terms and conditions that will govern Ideal Power Converters' (together with its affiliates, subsidiaries, predecessors, and successors, the "Company") engagement (the "Engagement") of MDB Capital Group, LLC (together with its affiliates, "MDB") to provide intellectual property development services.

1. Services.

MDB shall assist the Company with all aspects of its intellectual property development, including:

- an in-depth invention documentation session ("Invention Documentation Session") at the Company's headquarters;
- assessment of the Company's intellectual property portfolio (the "Assets"), including the use of PatentVest®, MDB's proprietary IP business intelligence platform;
- identification and evaluation of specific market or competitive issues pertaining to the Company's intellectual property portfolio;
- development of a comprehensive plan for invention prioritization and patent development;
- for each individual invention of the Company (an "Invention"), development of a clear strategy for Invention Disclosure (see below) drafting and a roadmap for Invention Family development; and
- for each individual Invention, preparation of a complete Invention package with technical disclosure documentation (each, a "Disclosure") for use in the Company's patent applications.

It is expressly understood and agreed that MDB has not provided nor is undertaking to provide any advice to the Company relating to legal, regulatory, accounting, or tax matters. The Disclosures provided to the Company hereunder are designed to assist, but not replace, the Company's own intellectual property counsel.

2. Compensation. As consideration for the services provided under this Agreement, the Company will pay MDB a fee as follows:

a. Drafting Fee. The Company shall pay MDB $4,500 (four thousand five hundred dollars) for each Disclosure ordered and delivered. All amounts will be paid upon MDB invoicing, which will be post-completion of the drafting service.

b. Invention brainstorming and documentation. The Company shall fund MDB's travel and reasonable related expenses, including air fare, business-class accommodations, ground transportation, meals and incidentals, in connection with one visit by the MDB team, comprised of 2-3 personnel, to the Company's site for an Invention Documentation and/or Brainstorming Session that will last 2-3 days. All air travel will be via coach class and total expenses shall not exceed $10,000 in aggregate.

c. Payments. All payments made to MDB hereunder will be made in cash by wire transfer of immediately available U.S. funds. Except as expressly set forth herein, no fee payable to MDB hereunder shall be credited against any other fee due to MDB. The obligation to pay any fee or expense set forth herein shall be absolute and unconditional and shall not be subject to reduction by way of setoff, recoupment or counterclaim. All amounts will be paid upon MDB invoicing, which will be post-completion of the enumerated services.

3. Representations and Warranties of the Company. The Company warrants and agrees that it is the true and rightful owner of all intellectual property rights in each of the Assets and Inventions submitted to MDB for analysis; that any and all technical Invention information provided to MDB may be transmitted across country borders; and that no U.S. agency has suspended, revoked, or denied the Company's export privileges.

4. Confidentiality. MDB acknowledges that in connection with the Engagement, the Company will provide MDB with information which the Company considers to be confidential, including its trade secrets ("Confidential Information"). MDB agrees to employ all reasonable efforts to keep the Confidential Information secret and confidential, using no less than the degree of care employed by MDB to preserve and safeguard its own confidential information, and shall not disclose or reveal the Confidential Information to anyone except its employees, consultants and contractors who have an obligation of confidentiality with MDB. MDB will not use the Confidential Information except in connection with its performance of services hereunder, unless disclosure is required by law, court order, or any government, regulatory or self-regulatory agency or body in the opinion of MDB's counsel, in which event MDB will provide the Company with reasonable advance notice of such disclosure. "Confidential Information" does not include information which (a) was in the public domain or readily available to the trade or the public prior to the date of the disclosure; (b) becomes generally available to the public in any manner or form through no fault of MDB or its representatives; (c) was in MDB's possession or readily available to MDB from another source not under obligation of secrecy to the Company prior to the disclosure; (d) is rightfully received by MDB from another source on a non-confidential basis; (e) is developed by or for MDB without reference to the Company's Confidential Information; or (f) is released for disclosure with the Company's written consent.

5. Indemnification. The Company hereby agrees to indemnify and hold harmless MDB Capital, its directors, officers, agents, employees, members, affiliates, subsidiaries, counsel, and each other person or entity who controls MDB or any of its affiliates within the meaning of Section 15 of the Securities Act (collectively, the "MDB Indemnified Parties") to the fullest extent permitted by law from and against any and all losses, claims, damages, expenses, or liabilities (or actions in respect thereof) ("Losses"), joint or several, to which they or any of them may become subject under any statute or at common law, and to reimburse such MDB Indemnified Parties for any reasonable legal or other expense (including but not limited to the cost of any investigation, preparation, response to third party subpoenas) incurred by them in connection with any litigation or administrative or regulatory action ("Proceeding"), whether pending or threatened, and whether or not resulting in any liability, insofar as such losses, claims, liabilities, or litigation arise out of or are based upon: the Company's use or misuse (including use contrary to federal or state law) of the Disclosure(s), the Company's breach of the Representations and Warranties contained in Section 3 hereof, or any violation of U.S or other import or export controls; provided, however, that while the indemnity provisions herein shall include any and all claims regardless of whether MDB Capital's sole negligence, active or passive, contributed to losses, they shall not apply to (i) amounts paid in settlement of any such litigation if such settlement is effected without the consent of the Company, which consent will not be unreasonably withheld, or (ii) Losses arising solely from the willful misconduct or gross negligence of MDB Indemnified Parties.

The provisions of this Section 5 shall survive any termination or expiration of this Agreement.

6. Term and Termination. MDB's Engagement will commence upon the execution of this Agreement and shall continue in effect for a period of 180 (one hundred eighty) days (the "Initial Term"). After the expiration of the Initial Term, the Agreement shall automatically renew and continue in effect until it is terminated by either party with thirty (30) days' written notice to the other pursuant to Section 19. Upon termination of this Agreement for any reason, the rights and obligations of the parties hereunder shall terminate, except for the obligations set forth in Sections 2, 4, 5, 6, and 7-13, which shall survive termination.

7. Limitation of Liability. MDB shall employ due care and attention in preparing the Disclosure(s) hereunder. However, the Company acknowledges that MDB does not warrant or represent the accuracy or completeness of any public information or any information provided solely by the Company used in any analysis and that inaccurate or incomplete data may affect the validity and reliability of the Disclosure(s). Similarly, MDB makes no representation or warranty with respect to the non-infringement of any of the Assets or Inventions described in the Disclosure(s). MDB makes no warranty, representation, promise, or undertaking with respect to any legal or financial consequences of, or any other consequences or benefits obtained from, the use of any Disclosure(s), including any representation that any patent(s) will be granted. The Company assumes all risks related to documentation or technical information and data which may be subject to U.S. export controls or export or import restrictions in other countries. MDB SPECIFICALLY DISCLAIMS ANY OTHER WARRANTY, EXPRESS, IMPLIED OR STATUTORY, INCLUDING ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. MDB SHALL NOT BE LIABLE ON ACCOUNT OF ANY ERRORS, OMISSIONS, DELAYS, OR LOSSES UNLESS CAUSED BY ITS GROSS NEGLIGENCE OR WILLFUL MISCONDUCT. TO THE FULLEST EXTENT PERMITTED BY LAW, MDB WILL NOT BE LIABLE FOR ANY LOSS, DAMAGE OR INJURY (INCLUDING WITHOUT LIMITATION LOST PROFITS, INDIRECT, SPECIAL, OR CONSEQUENTIAL DAMAGES) ALLEGED TO BE CAUSED BY USE OF THE DISCLOSURE(S).

IN NO EVENT WILL THE TOTAL AGGREGATE LIABILITY OF MDB FOR ANY CLAIMS, LOSSES, OR DAMAGES ARISING UNDER THIS AGREEMENT AND SERVICES PERFORMED HEREUNDER, WHETHER IN CONTRACT OR TORT, INCLUDING NEGLIGENCE, EXCEED THE TOTAL AMOUNT PAID BY THE COMPANY TO MDB FOR THE DISCLOSURE(S) PROXIMATELY CAUSING SUCH CLAIM, LOSS OR DAMAGE.

8. Other Transactions; Disclaimers. The Company acknowledges that MDB is engaged in a wide range of investing, investment banking and other activities (including investment management, corporate finance, securities issuance, trading, research and brokerage activities and intellectual property and patent research, brokerage, development and Disclosure drafting) from which conflicting interests or duties, or the appearance thereof, may arise. Information held elsewhere within MDB but not accessible (absent a breach of internal procedures) to its investment banking personnel providing services to the Company will not under any circumstances affect MDB's responsibilities to the Company hereunder. The Company further acknowledges that MDB and its affiliates have and may continue to have investment banking, broker-dealer, intellectual property research and development and other relationships with parties other than the Company pursuant to which MDB may acquire information of interest to the Company. MDB shall have no obligation to disclose to the Company or to use for the Company's benefit any such non-public information or other information acquired in the course of engaging in any other transaction (on MDB's own account or otherwise) or otherwise carrying on the business of MDB. The Company further acknowledges that, from time to time, MDB's independent research department may publish research reports or other materials, the substance and/or timing of which may conflict with the views or advice of MDB's intellectual property development services team and/or which may have an adverse effect on the Company's interests in connection with the services contemplated hereby or otherwise. In addition, the Company acknowledges that, in the ordinary course of business, MDB may trade the securities of the Company for its own account and for the accounts of its customers, and may at any time hold a long or short position in such securities. MDB shall nonetheless remain fully responsible for compliance with federal securities laws in connection with such activities.

The Company further acknowledges and agrees that MDB will act solely as an independent contractor hereunder, and that MDB's responsibility to the Company is solely contractual in nature and that MDB does not owe the Company or any other person or entity, including but not limited to its shareholders, any fiduciary or similar duty as a result of the Engagement or otherwise.

The Company agrees that neither MDB nor any of its controlling persons, affiliates, directors, officers, employees or consultants shall have any liability to the Company or any person asserting claims on behalf of or in right of the Company for any losses, claims, damages, liabilities or expenses arising out of or relating to the Engagement, unless it is finally judicially determined that such losses, claims, damages, liabilities or expenses resulted solely from the gross negligence or willful misconduct of MDB.

9. Work Product and Announcements. All advice and documentation provided to the Company in connection with this engagement, other than the Invention Disclosures themselves, shall be the sole proprietary work product and intellectual property of MDB, and may not be disclosed, in whole or in part, to other parties by the Company without the prior written permission of MDB unless such disclosure is required by law.

The Company acknowledges that MDB, at its option and expense, may place announcements and advertisements or otherwise publicize the Engagement (which may include the reproduction of the Company's logo and a hyperlink to the Company's website) on MDB's website and in such financial and other newspapers and journals as it may choose.

10. Complete Agreement; Amendments; Assignment. This Agreement sets forth the entire understanding of the parties relating to the subject matter hereof and supersedes and cancels any prior communications, understandings and agreements, whether oral or written, between MDB and the Company. This Agreement may not be amended or modified except in writing. The rights of MDB hereunder shall be freely assignable to any affiliate of MDB, and this Agreement shall apply to, inure to the benefit of and be binding upon and enforceable against MDB and its successors and assigns.

11. Third Party Beneficiaries. This Agreement is intended solely for the benefit of the parties hereto and, with the exception of the rights and benefits conferred upon the Indemnified Parties by Section 5 of this Agreement, shall not be deemed or interpreted to confer any rights upon any third parties.

12. Governing Law; Jurisdiction; Venue. All aspects of the relationship created by this Agreement shall be governed by and construed in accordance with the laws of the State of California, applicable to contracts made and to be performed in California, without regard to its conflicts of laws provisions. All actions and proceedings which are not submitted to arbitration pursuant to Section 13 hereof shall be heard and determined exclusively in the state and federal courts located in the County of Los Angeles, State of California, and the Company and MDB hereby submit to the jurisdiction of such courts and irrevocably waive any defense or objection to such forum, on *forum non conveniens* grounds or otherwise. The parties agree to accept service of process by mail, to their principal business address, addressed to the chief executive officer and secretary thereof. The parties hereby agree that this Section 12 shall survive the termination and/or expiration of this Agreement.

13. Arbitration. Any dispute, claim or controversy arising out of or relating to this Agreement or the breach, termination, enforcement, interpretation or validity thereof, including the determination of the scope or applicability of this agreement to arbitrate, shall be determined by arbitration in Los Angeles (with the exception of claims to enforce the indemnity provision contained herein, which may, at the option of the party seeking relief, be submitted either to arbitration or to any court of competent jurisdiction). The arbitration shall be administered either by FINRA Dispute Resolution pursuant to its Code of Arbitration Procedure, or if FINRA cannot or does not accept the arbitration, by JAMS pursuant to its Streamlined Arbitration Rules and Procedures. Judgment on the Award may be entered in any court having jurisdiction. This clause shall not preclude parties from seeking provisional remedies in aid of arbitration from a court of appropriate jurisdiction.

The arbitrator may, in the Award, allocate all or part of the costs of the arbitration, including the fees of the arbitrator and the reasonable attorneys' fees of the prevailing party.

The parties hereby agree that this Section 13 shall survive the termination and/or expiration of this Agreement.

[The Company's consent to Arbitration must be confirmed by initialing below:]

14. Severability. Should any one or more covenants, restrictions and provisions contained in this Agreement be held for any reason to be void, invalid or unenforceable, in whole or in part, such unenforceability will not affect the validity of any other term of this Agreement, and the invalid provision will be binding to the fullest extent permitted by law and will be deemed amended and construed so as to meet this intent. To the extent any provision cannot be so amended or construed as a matter of law, the validity of the remaining provisions shall be deemed unaffected and the illegal or invalid provision will be deemed stricken from this Agreement.

15. Section Headings. The section headings herein are for convenience of reference only, and shall not limit or otherwise affect the meaning hereof.

16. Accounting. Any calculation, computation or accounting that may be required under this Agreement shall be made in accordance and conformity with the Generally Accepted Accounting Principles and other standards as determined by the Financial Accounting Standards board and regulatory agencies with appropriate jurisdiction.

17. Counterparts. This Agreement may be executed via facsimile transmission and may be executed in separate counterparts, each of which shall be deemed to be an original and all of which together shall constitute a single instrument.

18. Patriot Act. MDB hereby notifies the Company that pursuant to the requirements of the USA PATRIOT ACT (the "Patriot Act"), it is required to obtain, verify and record information that identifies the Company in a manner that satisfies the requirements of the Patriot Act. This notice is given in accordance with the requirements of the Patriot Act.

19. Notice. All notices, demands, and other communications to given pursuant to this Agreement shall be in writing and shall be personally delivered, mailed by United States mail, sent by overnight delivery using a nationally recognized courier service, sent by facsimile transmission, or emailed. Notice shall be deemed received: (a) if personally delivered, upon the date of delivery to the address of the receiving party; (b) if mailed, three business days after date the item is placed in the United States mail; (c) if sent by overnight courier, the date actually received by the recipient; (d) if sent by facsimile or email, when sent. The parties will each promptly notify the other of any changes to the following contact information.

Notices to MDB shall be sent to:Notices to the Company shall be sent to:

MDB Capital Group, LLC
401 Wilshire Blvd., Suite 1020
Santa Monica, California 90401
Fax: (310) 526-5020
Email: d@mdb.com
christopher.cobb@idealpowerconverters.com

Ideal Power Converters, Inc.
5004 Bee Creek Road
Spicewood, TX 78669
Fax: (512) 264-1542
Email:

If the above accords with your understanding and agreement, kindly indicate your consent hereto by signing below. We look forward to a long and successful relationship with you.

Very truly yours,

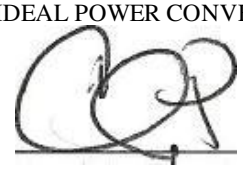
MDB CAPITAL GROUP LLC

By: Adam Holiber
Its: Managing Director, IP Development Services

ACCEPTED AND AGREED TO

AS OF THE DATE FIRST ABOVE WRITTEN:

IDEAL POWER CONVERTERS, INC.



By: Christopher Cobb

Its: Chief Executive Officer

Exhibit 10.3

Dated as of September __, 2013

MDB Capital Group, LLC
401 Wilshire Boulevard
Santa Monica, CA 90401

Ladies and Gentlemen:

This agreement is being delivered to you in connection with the proposed Underwriting Agreement (the "Underwriting Agreement") between Ideal Power Converters, Inc., a Delaware corporation (the "Company"), and MDB Capital Group, LLC ("MDB") relating to a proposed underwritten public offering of shares (the "Shares") of the Company's Common Stock (the "Common Stock").

In order to induce MDB to enter into the Underwriting Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the undersigned agrees that, during the period beginning on and including the date of the Underwriting Agreement through and including the date that is the one year anniversary of the date of the Underwriting Agreement (the "Lock-Up Period"), the undersigned, or any affiliated party of the undersigned, will not, without the prior written consent of MDB, directly or indirectly:

(i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock, whether now owned or hereafter acquired by the undersigned or with respect to which the undersigned has or hereafter acquires the power of disposition, or

(ii) enter into any swap or other agreement, arrangement or transaction that transfers to another, in whole or in part, directly or indirectly, any of the economic consequence of ownership of any Common Stock or any securities convertible into or exercisable or exchangeable for any Common Stock,

whether any transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock, other securities, in cash or otherwise. Moreover, if:

(1) during the last 17 days of the Lock-Up Period, the Company issues an earnings release or material news or a material event relating to the Company occurs, or

(2) prior to the expiration of the Lock-Up Period, the Company announces that it will release earnings results during the 16-day period beginning on the last day of the Lock-Up Period,

the Lock-Up Period shall be extended and the restrictions imposed by this agreement shall continue to apply until the expiration of the 18-day period beginning on the date of issuance of the earnings release or the occurrence of the material news or material event, as the case may be, unless MDB waives, in writing, such extension.

Notwithstanding the provisions set forth in the immediately preceding paragraph, the undersigned may, without the prior written consent of MDB, (1) transfer any Common Stock or any securities convertible into or exchangeable or exercisable for Common Stock as a bona fide gift or gifts, or by will or intestacy, to any member of the immediate family (as defined below) of the undersigned or to a trust the beneficiaries of which are exclusively the undersigned or members of the undersigned's immediate family or to a charity or educational institution; provided, however, that it shall be a condition to the transfer that (A) the transferee executes and delivers to MDB not later than one business day prior to such transfer, a written agreement, in substantially the form of this agreement and otherwise satisfactory in form and substance to MDB, and (B) if the undersigned is required to file a report under Section 16(a) of the Securities Exchange Act of 1934, as amended, reporting a reduction in beneficial ownership of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock by the undersigned during the Lock-Up Period (as the same may be extended as described above), the undersigned shall include a statement in such report to the effect that such transfer or distribution is not a transfer for value and that such transfer is being made as a gift or by will or intestacy, as the case may be or (2) exercise or convert currently outstanding warrants, options and convertible debentures, as applicable, and exercise options under an acceptable stock option plan, so long as the undersigned agrees that the shares of Common Stock received from any such exercise or conversion will be subject to this agreement. For purposes of this paragraph, "immediate family" shall mean a spouse, child, grandchild or other lineal descendant (including by adoption), father, mother, brother or sister of the undersigned.

The undersigned further agrees that (i) it will not, during the Lock-Up Period (as the same may be extended as described above), make any demand for or exercise any right with respect to the registration under the Securities Act of 1933, as amended (the "1933 Act"), of any Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock, and (ii) the Company may, with respect to any Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock owned or held (of record or beneficially) by the undersigned, cause the transfer agent or other registrar to enter stop transfer instructions and implement stop transfer procedures with respect to such securities during the Lock-Up Period (as the same may be extended as described above).

In addition, the undersigned hereby waives any and all notice requirements and rights with respect to the registration of any securities pursuant to any agreement, instrument, understanding or otherwise, including any registration rights agreement or similar agreement, to which the undersigned is a party or under which the undersigned is entitled to any right or benefit and any tag-along rights or other similar rights to have any securities (debt or equity) included in the offering contemplated by the Underwriting Agreement or sold in connection with the sale of Common Stock pursuant to the Underwriting Agreement, provided that such waiver shall apply only to the public offering of Common Stock pursuant to the Underwriting Agreement and each registration statement filed under the 1933 Act in connection therewith.

The undersigned hereby represents and warrants that the undersigned has full power and authority to enter into this agreement and that this agreement has been duly executed and delivered by the undersigned and is a valid and binding agreement of the undersigned. This agreement and all authority herein conferred are irrevocable and shall survive the death or incapacity of the undersigned and shall be binding upon the heirs, personal representatives, successors and assigns of the undersigned.

[Signature Page Immediately Follows]

IN WITNESS WHEREOF, the undersigned has executed and delivered this agreement as of the date first set forth above.

_____

Print Name: _____

Exhibit 10.10

Securities Purchase Agreement

Investor Package

August __, 2012

Ideal Power Converters, Inc.
5004 Bee Creek Road, Suite 600
Spicewood, Texas 78669

INSTRUCTIONS FOR INVESTING

If you wish to purchase the offered securities of Ideal Power Converters, Inc., please:

(1) Review this Securities Purchase Agreement, Registration Rights Agreement, Senior Secured Convertible Promissory Note, Warrant, Security Agreement, and Subordination Agreement.

(2) Indicate where appropriate, in Section 6(a) of the Securities Purchase Agreement, your status as an Accredited Investor by initialing the appropriate accreditation categories.

(3) Type or print all information required in the blank sections in Section 6(b) of the Securities Purchase Agreement, including your requested subscription amount and your federal taxpayer identification number.

(4) Execute the signature pages to the Securities Purchase Agreement, Registration Rights Agreement, Security Agreement, and Subordination Agreement.

(5) If you are an individual, complete and execute, or cause to be executed, the enclosed Spousal Consent by either (i) having your spouse execute such consent or (ii) if you are not married, by confirming your status as single on such consent.

(6) Along with the completed and executed signature pages to this Securities Purchase Agreement, the Registration Rights Agreement, the Security Agreement, and the Subordination Agreement, send the completed Purchaser Information (Section 6 of this Securities Purchase Agreement) as well as the Spousal Consent to the following, preferably by fax or e-mail:

MDB Capital Group
401 Wilshire Boulevard, Suite 1020
Santa Monica, California 90401
Attn.: Mr. Bob Clifford
Fax No.: (310) 526-5020
E-mail address: bclifford@mdb.com

Once all of the signature pages, the Purchaser Information and the Spousal Consent are collected and the Company accepts and countersigns the signature pages, wire instructions will be forwarded to you.

The Company may choose not to accept all or some of any investor's subscription for any reason (regardless of whether any check or wire transfer relating to this subscription is deposited in a bank or trust account). The Company will send to you a fully executed copy of the transaction documents if your subscription is accepted. If you have any questions in completing the transaction documents, please contact Christopher Cobb at Christopher.Cobb@idealpowerconverters.com.

IDEAL POWER CONVERTERS, INC.

SECURITIES PURCHASE AGREEMENT

This Securities Purchase Agreement (the "Agreement") is entered into by and between IDEAL POWER CONVERTERS, INC., a Texas corporation (the "Company"), and the undersigned purchasers (each, a "Purchaser", and collectively, the "Purchasers") as of the latest date set forth on the signature page hereto.

NOW, THEREFORE, in consideration of the mutual covenants and other agreements contained in this Agreement the Company and the Purchasers hereby agree as follows:

1. Purchase of Securities and Matters Related Thereto. (Capitalized terms used below and not otherwise defined are defined in Section 2 of the Agreement.)

(a) Subject to the terms and conditions of this Agreement, the undersigned Purchaser hereby subscribes for (i) a senior secured convertible promissory note in the form attached as Exhibit C ("Note"), and (ii) a warrant for the purchase of shares of the Company's common stock, $0.001 par value (the "Common Stock") in the form attached as Exhibit D ("Warrant") (sometimes the Note and the Warrant are collectively referred to as the "Securities"). The total amount to be paid for the Securities shall be the amount (if any) accepted by the Company in connection with this investment, which may be less than or equal to the amount indicated by the undersigned Purchaser on the signature page hereto (the "Subscription Amount"). The offering, purchase and sale of the Securities is referred to herein as the "Offering."

(b) If, prior to the Calendar Due Date, the Company closes a firm commitment underwritten initial public offering ("IPO") of its Common Stock that raises at least $10 million (the "IPO Financing"), the principal amount of the Note and all accrued but unpaid interest as well as any other amounts payable under the Note will be repaid with shares of the Company's Common Stock in accordance with the terms of the Note. The conversion price will be equal to 0.70 times the IPO Price. In the event that an IPO Financing does not occur prior to the Calendar Due Date of the Note, the Note shall not be convertible but shall be paid on the Calendar Due Date with U.S. dollars. Prior to the Calendar Due Date or a conversion in the event of an IPO financing, each Purchaser will also have the right, but not the obligation, in accordance with the terms set forth in the Note, to convert the Note into shares of the Company's Common Stock, including for the purpose of participating in any other financing undertaken by the Company prior to the Calendar Due Date (so long as such financing is for capital-raising purposes) or in the event of a Change of Control, as defined in the Note. In the event of such conversion, the Note shall be converted into that number of shares of Common Stock determined by dividing (x) the Principal Amount and all accrued interest by (y) the lower of (i) $3.21 or (ii) 0.70 times the per share consideration paid (A) in the event of a Change of Control or (B) in the most recent Private Equity Financing to occur prior to the Holder's election (as appropriately adjusted to reflect stock dividends, stock splits, combinations, recapitalizations and the like). With the permission of the Purchaser, the Company may pre-pay the Note prior to an IPO or the Calendar Due Date with U.S. dollars. In that case, the payment will equal 110% of the principal amount of the Note.

(c) The Purchasers will be granted a first priority senior security interest in and to the assets of the Company, including its intellectual property, pursuant to the terms of a Security Agreement, a form of which is attached hereto as Exhibit E ("Security Agreement"). It is anticipated that the Company may raise up to a total of $4.25 million in additional funds through subsequently issued senior secured convertible promissory notes (the "Subsequent Notes"). In that event, holders of the Subsequent Notes will have security interests identical to those granted to the Purchasers.

(d) The Texas Emerging Technology Fund, which currently holds a senior security interest in the Company's assets, has agreed to subordinate its interest to the interests of the Purchasers in accordance with the Subordination Agreement in the form attached hereto as Exhibit F ("Subordination Agreement").

(e) The Warrant has a term of seven years. The number of shares of Common Stock issuable upon exercise of the Warrant and the exercise price shall be determined as follows: (i) in the event of an IPO, the principal amount of the Note divided by 0.70 of the IPO Price will determine the number of shares covered by the Warrant while the per-share exercise price will be equal to 0.70 times the IPO Price; or (ii) in the event that, prior to the Calendar Due Date, the Company does not complete an IPO but, instead, completes a Private Equity Financing, the principal amount of the Note divided by 0.70 of the Private Equity Financing Price will determine the number of shares covered by the Warrant, with a per-share exercise price equal to 0.70 times the Private Equity Financing Price provided, however, that (A) if the Company undertakes first, a Private Equity Financing and secondly, an IPO prior to the Calendar Due Date and (B) the Private Equity Financing Price is higher than the IPO Price, then the number of shares of Common Stock covered by the Warrant and the per share exercise price will be adjusted to equal the number of shares of Common Stock and the exercise price calculated in accordance with subsection (i) above. If the Company does not complete either a Private Equity Financing or an IPO prior to the Calendar Due Date, then the number of Shares covered by the Warrant will equal the principal amount of the Note divided by $3.32, and the exercise price will be $3.32 per share. The Warrant also includes a cashless exercise provision.

(f) The Purchasers will have certain registration rights relating to the Common Stock underlying the Securities, which rights are set forth in the Registration Rights Agreement, a form of which is attached hereto as Exhibit G ("Registration Rights Agreement").

(g) The Purchasers and their permitted transferees and assignees shall be subject to a 180 day lockup following the IPO as set forth in Section 8 of this Agreement. Officers, directors, employees and owners of 5% or more of the Company's Common Stock will be locked up for the greater of 12 months (i) following the IPO and (ii) 12 months after shares of the Company's Common Stock are listed for trading on NASDAQ or a national securities exchange.

(h) It is anticipated that the Company will raise up to an additional $4.25 million by selling secured convertible promissory notes (the "Second Note Offering"). By executing this Purchase Agreement and the other Transaction Documents and by accepting the Note, the Holder agrees that if the Second Note Offering is consummated, this Note shall be cancelled and replaced with the form of note issued to the investors in the Second Note Offering.

(i) MDB Capital Group, LLC has been retained by the Company as the sole placement agent for the Offering (the "Placement Agent").

The foregoing description of the Note, the Warrant, the Security Agreement and the Subordination Agreement are qualified in their entirety by the terms of those agreements.

2. Certain Definitions. For purposes of this Agreement and the agreements referenced herein, the following terms shall have the respective definitions set forth below:

(a) "Calendar Due Date" shall be a date that is 12 months from the Closing Date of this Offering.

(b) "IPO Price" means the price per share of the Company's Common Stock offered to public investors in an IPO, without regard to any underwriting discount or expense (as appropriately adjusted to reflect stock dividends, stock splits, combinations, recapitalizations and the like with respect to the Company's capital stock after the date hereof).

(c) "Private Equity Financing" means a privately marketed equity financing resulting in gross proceeds in excess of $250,000 which closes before the Calendar Due Date; provided, however, that none of the following issuances of securities shall constitute a "Private Equity Financing": (i) this Offering and any subsequent offerings of senior secured convertible promissory notes or any other debt offering; (ii) securities issued without consideration in connection with any stock or unit split of, or stock or unit dividend on, the Company's Common Stock; (iii) securities issued to the Company's employees, officers, directors, consultants, advisors or service providers pursuant to any plan, agreement or similar arrangement unanimously approved by the Company's board of directors; (iv) securities issued to banks or equipment lessors; (v) securities issued in connection with sponsored research, collaboration, technology license, development, original equipment manufacturing (OEM), marketing or other similar agreements or strategic partnerships; (vi) securities issued in connection with a bona fide business acquisition of or by the Company (whether by merger, consolidation, sale of assets, sale or exchange of stock or otherwise); (vii) the Investment Unit dated October 1, 2010, issued by the Company to the Office of the Governor Economic Development and Tourism, and any securities relating to the conversion or exercise thereof; or (viii) any right, option or warrant to acquire any security convertible into or exercisable for the securities listed in clauses (i) through (vii) above.

(d) "Private Equity Financing Price" means the price per share paid by investors in a Private Equity Financing.

3. Closing.

(a) On or prior to the applicable Closing Date (as defined below), the Purchaser shall deliver or cause to be delivered the following in accordance with the subscription procedures described in Section 2(b) below:

(i) a completed and duly executed signature page of this Agreement;

(ii) the completed Purchaser Information included on pages 14 and 15 of this Agreement;

(iii) a spousal consent substantially in the form of Exhibit B, attached hereto (the "Spousal Consent"); and

(iv) duly executed signature pages of the Registration Rights Agreement, the Security Agreement and the Subordination Agreement.

(b) The Purchaser shall deliver or cause to be delivered, preferably by fax or e-mail, the closing deliveries described above to the Placement Agent at the following address:

MDB Capital Group
401 Wilshire Boulevard, Suite 1020
Santa Monica, California 90401
Attn.: Mr. Bob Clifford
Fax No.: (310) 526-5020
E-mail address: bclifford@mdb.com

Immediately following receipt of the deliverables from all of the Purchasers and acceptance by the Company in accordance with subsection (c) below, wire instructions will be forwarded to the Purchaser and the Purchaser shall be obligated to deliver funds no later than three business days thereafter.

(c) This Agreement sets forth various representations, warranties, covenants and agreements of the Company and of the Purchaser, as the case may be, all of which shall be deemed made, and shall be effective without further action by the Company and the Purchaser, immediately upon the Company's acceptance of the Purchaser's subscription and shall thereupon be binding upon the Company and the Purchaser. Acceptance shall be evidenced only by execution of this Agreement by the Company on its signature page attached hereto and the Company shall have no obligation hereunder to the Purchaser until a fully executed copy of this Agreement shall have been delivered to the Purchaser. Upon the Company's acceptance of the Purchaser's subscription and receipt of the Subscription Amount, on the applicable Closing Date the Placement Agent shall deliver to the Purchaser a duly executed copy of each of the Agreement, the Note, the Warrant, the Registration Rights Agreement, the Security Agreement and the Subordination Agreement.

(d) The purchase and sale of the Securities shall be consummated on or before August 31, 2012 (the "Initial Closing Date"); provided, however, that the Company reserves the right to extend the Offering for up to an additional 30 days beyond the Initial Closing Date (the "Final Closing Date" and together with the Initial Closing Date, the "Closing Date" or the "Closing Dates", depending on the context used).

4. Company Representations and Warranties. The Company hereby represents and warrants that, as of the Closing Date applicable to the Purchaser:

(a) Organization and Business. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Texas and has all requisite corporate power and authority to carry on its business as now conducted and as proposed to be conducted. The Company has no direct or indirect subsidiaries. The Company is duly qualified as a foreign corporation to do business and is in good standing in every jurisdiction in which its ownership or use of property or the nature of the business conducted by it makes such qualification necessary except where the failure to be so qualified or in good standing would not have a Material Adverse Effect. As used in this Agreement, the term "Material Adverse Effect" means any material adverse effect on the business, operations, assets (including intangible assets), liabilities (actual or contingent), financial condition, or prospects of the Company, if any, taken as a whole, or on the transactions contemplated hereby or by the Transaction Documents (as defined below). Information about the Company's business is included on Exhibit A to this Agreement (the "Company Information").

(b) Capitalization.

(i) The Company has two classes of authorized capital stock consisting of 5,000,000 shares of Common Stock and 275,000 shares of Preferred Stock, of which 3,503,757 shares of Common Stock are issued and outstanding and no shares of Preferred Stock are issued and outstanding. The Company has reserved 371,000 shares of Common Stock for issuance in accordance with the terms of the Company's 2011 Stock Option/Stock Issuance Plan (the "Plan"). The number of shares included in the Plan is to be increased to 420,000 shares to accommodate new option grants to the Chief Executive Officer. Schedule 4(b)(i) includes a detailed schedule of the Company's capitalization as of the date of this Agreement.

(ii) Except as set forth on Schedule 4(b)(ii) to this Agreement: (A) there are no outstanding options, warrants, scrip, rights to subscribe for, puts, calls, rights of first refusal, agreements, understandings, claims or other commitments or rights of any character whatsoever relating to, or securities or rights convertible into or exchangeable for, any capital stock of the Company, or arrangements by which the Company is or may become bound to issue additional capital stock, (B) there are no agreements or arrangements under which the Company is obligated to register the sale of any of its or their securities under the Securities Act of 1933, as amended (the "Securities Act") and (C) there are no anti-dilution or price adjustment provisions contained in any security issued by the Company (or in any agreement providing rights to security holders) that will be triggered by the issuance of the Securities.

(iii) No shares of capital stock of the Company are subject to preemptive rights or any other similar rights of anyone or any mortgage, lien, title claim, assignment, encumbrance, security interest, adverse claim, contract of sale, restriction on use or transfer (other than restrictions on transfer under applicable state and federal securities laws or "blue sky" or other similar laws (collectively, the "Securities Laws")) or other defect of title of any kind (each, a "Lien") imposed through the actions or failure to act of the Company.

(c) Authorization; Enforceability. All corporate action on the part of the Company, its officers, directors and shareholders necessary for the authorization, execution and delivery of the Transaction Documents (as defined in subsection (f) below), the performance of all obligations of the Company under the Transaction Documents, and the authorization, issuance, sale and delivery of the Securities has been taken, and each Transaction Document constitutes a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except to the extent limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application affecting enforcement of creditors' rights and general principles of equity that restrict the availability of equitable or legal remedies.

(d) Valid Issuance. The Securities being acquired by the Purchasers hereunder, when issued, sold and delivered in accordance with the terms of this Agreement for the consideration expressed herein, will be duly and validly issued, fully paid, and non-assessable, and will be free of Liens other than restrictions on transfer under this Agreement.

(e) Litigation. There is no action, suit, proceeding or investigation pending or, to the Company's knowledge, currently threatened against the Company. The Company is not a party or subject to the provisions of any order, writ, injunction, judgment or decree of any court or government agency or instrumentality. There is no action, suit, proceeding or investigation by the Company currently pending or that the Company intends to initiate.

(f) No Conflict. The execution, delivery and performance of this Agreement, the Security Agreement, the Note, the Warrant, the Registration Rights Agreement, the Subordination Agreement, and the other agreements entered into by the Company in connection with the Offering (the "Transaction Documents") and the consummation by the Company of the transactions contemplated hereby and thereby will not: (i) conflict with or result in a violation of any provision of the charter or by-laws of the Company or (ii) violate or conflict with, or result in a breach of any provision of, or constitute a default (or an event which with notice or lapse of time or both could become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture, patent, patent license or instrument to which the Company is a party, or (iii) result in a violation of any law, rule, regulation, order, judgment or decree (including federal and state securities laws and regulations and regulations of any self-regulatory organizations to which the Company or its securities are subject) applicable to the Company or by which any property or asset of the Company is bound or affected. The Company is not in violation of its charter, bylaws, or other organizational documents. The business of the Company is not being conducted in violation of any law, rule, ordinance or regulation of any governmental entity, except for possible violations which would not, individually or in the aggregate, have a Material Adverse Effect. Except for filings pursuant to Regulation D of the Securities Act, and applicable state securities laws, which have been made or will be made by the Company in the required time thereunder, the Company is not required to obtain any consent, authorization or order of, or make any filing or registration with, any court, governmental agency, regulatory agency, self-regulatory organization or stock market or any third party in order for it to execute, deliver or perform any of its obligations under this Agreement or any Transaction Document in accordance with the terms hereof or thereof or to issue and sell the Securities in accordance with the terms hereof.

(g) Intellectual Property. Other than inventions of the Company whose patent applications have yet to be filed (the "Confidential IP"), Schedule 4(g) to this Agreement sets forth a complete and accurate listing of all of the Company's patents and patent applications ("Patents"). At the Purchaser's request the Company shall make available to the Purchaser prior to the applicable Closing Date a schedule of Confidential IP, provided that the Purchaser execute and deliver a non-disclosure agreement relating to the Confidential IP that is reasonably acceptable to the Company. The Company owns valid title, free and clear of any Liens, or possesses the requisite valid and current licenses or rights, free and clear of any Liens, to use all Patents in connection with the conduct of its business as now operated, and to the best of the Company's knowledge, as presently contemplated to be operated in the future. There is no claim or action by any person pertaining to, or proceeding pending, or to the Company's knowledge threatened, which challenges the right of the Company with respect to any Patents necessary to enable it to conduct its business as now operated, and to the Company's knowledge, as presently contemplated to be operated in the future. To the Company's knowledge, the Company's current and intended products, services and processes do not infringe on any Intellectual Property or other rights held by any person, and the Company is unaware of any facts or circumstances which might give rise to any of the foregoing. The Company has not received any notice of infringement of, or conflict with, the asserted rights of others with respect to the Patents. It will not be necessary to use any inventions of any of its employees or consultants (or persons it currently intends to hire) made prior to their employment by the Company. Each employee and consultant of the Company has assigned to the Company all intellectual property rights he or she owns that are related to the Company's business as now conducted and as presently proposed to be conducted.

(h) Management. As of the date of this Agreement, the Company's Board of Directors consists of five members, namely, Christopher Cobb, Bill Alexander, Dr. David Breed, Hamo Hacopian and Charles De Tarr, and the Company has the following officers:

Christopher Cobb	Chief Executive Officer
Charles De Tarr	Chief Financial Officer, Secretary
Bill Alexander	Chief Technology Officer
Paul Bundschuh	Vice President of Business Development

Prior to an offering of the Common Stock to the public, the Company intends to enter into a formal employment agreement with the Chief Executive Officer.

(i) Financial Statements. Schedule 4(i) to this Agreement includes a true and complete copy of (A) the audited financial statements for 2011, 2010 and 2009 and (B) un-audited balance sheet as of June 30, 2012 and the un-audited income statement for the six month period ended June, 2012. (the "Income Statements" and collectively with the Balance Sheet, the "Financial Statements"). The Financial Statements fairly present the financial condition and operating results of the Company as of the dates, and for the periods, indicated therein, subject to normal year-end audit adjustments. Except as set forth in the Financial Statements, the Company has no material liabilities or obligations, contingent or otherwise, other than liabilities incurred in connection with the consummation of the transactions contemplated under the Offering, an estimate of which is set forth on Schedule 4(i), and those incurred in the ordinary course of business subsequent to June 30, 2012.

(j) Financial Information and Projections. Any financial estimates and projections in the Company Information and/or Budget have been prepared by management of the Company and are the most current financial estimates and projections available by the Company. Although the Company does not warrant that the results contained in such projections will be achieved, to the best of the Company's knowledge and belief, such projections are reasonable estimations of future financial performance of the Company and its expected financial position, results of operations, and cash flows for the projection period (subject to the uncertainty and approximation inherent in any projection). At the time they were made, all of the material assumptions upon which the projections are based were, to the best of the Company's knowledge and belief, reasonable and appropriate. Nothing in this Section 4(j) is intended to modify or amend in any way the representations and warranties of Purchaser in Section 5.

(k) Tax Matters. Except as set forth on Schedule 4(k) to this Agreement, the Company has made or filed all federal, state and foreign income and all other tax returns, reports and declarations required by any jurisdiction to which it is subject and has paid all taxes and other governmental assessments and charges, shown or determined to be due on such returns, reports and declarations, except those being contested in good faith and has set aside on its books provisions reasonably adequate for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations apply. All such tax returns and reports filed on behalf of the Company were complete and correct and were prepared in good faith without willful misrepresentation. There are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and the officers of the Company know of no basis for any such claim. The Company has not executed a waiver with respect to the statute of limitations relating to the assessment or collection of any foreign, federal, state or local tax. The Company has not received notice that any of its tax returns is presently being audited by any taxing authority.

(l) Certain Transactions. Except as set forth on Schedule 4(l) to this Agreement, there are no loans, leases, royalty agreements or other transactions between: (i) the Company or any of its respective customers or suppliers, and (ii) any officer, employee, consultant or director of the Company or any person owning 5% or more of the ownership interests of the Company or any member of the immediate family of such officer, employee, consultant, director, shareholder or owner or any corporation or other entity controlled by such officer, employee, consultant, director, shareholder or owner, or a member of the immediate family of such officer, employee, consultant, director, shareholder or owner.

(m) Material Agreements. Except as disclosed on Schedule 4(m) to this Agreement (each contract, agreement, commitment or understanding disclosed on Schedule 4(m) being hereinafter referred to as a "Material Agreement") or as contemplated by this Agreement or any Transaction Document, there are no agreements, understandings, commitments, instruments, contracts, employment agreements, proposed transactions or judgments to which the Company is a party or by which it is bound which may involve obligations (contingent or otherwise), or a related series of obligations (contingent or otherwise), of or to, or payments, or a related series of payments, by or to the Company in excess of $10,000 in any one year. All Material Agreements are in full force and effect and constitute legal, valid and binding obligations of the Company, and to the Company's knowledge, the other parties thereto, and are enforceable in accordance with their respective terms. Neither the Company nor any person is in default under the terms of any Material Agreement, and no circumstance exists that would, with the giving of notice or the passage of time, constitute a default under any Material Agreement.

(n) Title to Assets. The Company has good and marketable title to all real and personal property owned by it that is material to the business of the Company, in each case free and clear of all liens and encumbrances, except those, if any, included on Schedule 4(n) or incurred in the ordinary course of business consistent with past practice. Any real property and facilities held under lease by the Company are held by it under valid, subsisting and enforceable leases (subject to laws of general application relating to bankruptcy, insolvency, reorganization, or other similar laws affecting creditors' rights generally and other equitable remedies) with which the Company is in compliance in all material respects.

(o) Subsidiaries; Joint Ventures. Except for the subsidiaries described in Schedule 4(o), the Company has no subsidiaries and (i) does not otherwise own or control, directly or indirectly, any other Person and (ii) does not hold equity interests, directly or indirectly, in any other Person. Except as described in Schedule 4(o), the Company is not a participant in any joint venture, partnership, or similar arrangement material to its business. "Person" means an individual, entity, partnership, limited liability company, corporation, association, trust, joint venture, unincorporated organization, and any government, governmental department or agency or political subdivision thereof.

(p) No General Solicitation. Neither the Company nor any person participating on the Company's behalf in the transactions contemplated hereby has conducted any "general solicitation," as such term is defined in Regulation D promulgated under the Securities Act, with respect to any securities offered in the Offering.

(q) No Integrated Offering. Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf, has directly or indirectly made any offers or sales in any security or solicited any offers to buy any security under circumstances that would require registration under the Securities Act of the issuance of the Securities. The issuance of the Securities will not be integrated (as defined in Rule 502 of the Securities Act) with any other issuance of the Company's securities (past, current or future) that would require registration under the Securities Act of the issuance of the Securities.

(r) No Brokers. The Company has taken no action which would give rise to any claim by any person for brokerage commissions, transaction fees or similar payments relating to this Agreement or the transactions contemplated hereby, other than to the Placement Agent, whose fee is described in Section 5(g).

(s) Offering. Subject to the accuracy of the Purchaser's representations and warranties in Section 5 of this Agreement, and the accuracy of other purchasers' representations and warranties in their respective Securities Purchase Agreements, the offer, sale and issuance of the Securities in the Offering, constitute transactions exempt from the registration requirements of Section 5 of the Securities Act and from the registration or qualification requirements of applicable state securities laws, and neither the Company nor any authorized agent acting on its behalf will take any action hereafter that would cause the loss of such exemption.

(t) Risks Related to the Company and the Offering. An investment in the Securities involves a high degree of risk and uncertainty. Schedule 4(t) includes information about the material risks faced by the Company, however, they may not be the only risks. Additional unknown risks or risks that the Company currently considers to be immaterial may also impair the Company's business operations. If any of the events or circumstances described in Schedule 4(t) actually occurs, the Company's business, financial condition or results of operations could suffer.

5. Purchaser Acknowledgements and Representations. In connection with the purchase of the Securities, Purchaser represents and warrants as of the Closing Date applicable to the Purchaser and/or acknowledges, to the Company, the following:

(a) Acceptance. The Company may accept or reject this Agreement and the number of Securities subscribed for hereunder, in whole or in part, in its sole and absolute discretion. The Company has no obligation to issue any of the Securities to any person who is a resident of a jurisdiction in which the issuance of the Securities would constitute a violation of the Securities Laws.

(b) Irrevocability. This Agreement is and shall be irrevocable, except that the Purchaser shall have no obligations hereunder to the extent that this Agreement is rejected by the Company.

(c) Binding. This Agreement and the rights, powers and duties set forth herein shall be binding upon the Purchaser, the Purchaser's heirs, estate, legal representatives, successors and assigns and shall inure to the benefit of the Company, its successors and assigns.

(d) No Governmental Review. No federal or state agency has made any finding or determination as to the fairness of the Offering for investment, or any recommendation or endorsement of the Securities.

(e) No Preemptive or Voting Rights. Unless and until the entire Principal Amount is converted into Common Stock or the Warrant exercised and the Common Stock issued, the Purchaser is not entitled to voting rights. The Securities do not entitle the Purchaser to preemptive rights.

(f) Professional Advice; Investment Experience. The Company has made available to the Purchaser, or to the Purchaser's attorney, accountant or representative, all documents that the Purchaser has requested, and the Purchaser has requested all documents and other information that the Purchaser has deemed necessary to consider respecting an investment in the Company. The Company has provided answers to all questions concerning the Offering and an investment in the Company. The Purchaser has carefully considered and has, to the extent the Purchaser believes necessary, discussed with the Purchaser's professional technical, legal, tax and financial advisers and his/her/its representative (if any) the suitability of an investment in the Company for the Purchaser's particular tax and financial situation. All information the Purchaser has provided to the Company concerning the Purchaser and the Purchaser's financial position is, to Purchaser's knowledge, correct and complete as of the date set forth below, and if there should be any material adverse change in such information prior to the acceptance of this Agreement by the Company, the Purchaser will immediately provide such information to the Company. The Purchaser has such knowledge, skill, and experience in technical, business, financial, and investment matters so that he/she/it is capable of evaluating the merits and risks of an investment in the Securities. To the extent necessary, the Purchaser has retained, at his/her/its own expense, and relied upon, appropriate professional advice regarding the technical, investment, tax, and legal merits and consequences of this Agreement and owning the Securities. The Purchaser acknowledges and understands that the proceeds from the sale of the Securities will be used as described in Section 7(b).

(g) Brokers and Finders; Placement Agent Services. For the $750,000 in Principal Amount raised in the Offering, the Placement Agent has agreed to charge no fees but the Company has agreed to reimburse the Placement Agent for its expenses of this Offering, including fees of its legal counsel.

(h) Investment Purpose. Purchaser is purchasing the Securities for investment for his, her or its own account only and not with a view to, or for resale in connection with, any "distribution" thereof within the meaning of the Securities Act in violation of such act. Purchaser further represents that he/she/it does not presently have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person, with respect to any of the Securities. If the Purchaser is an entity, the Purchaser represents that it has not been formed for the specific purpose of acquiring the Securities. Purchaser acknowledges that an investment in the Securities is a high-risk, speculative investment.

(i) Reliance on Exemptions. Purchaser understands that the Securities are being offered and sold to it in reliance upon specific exemptions from the registration requirements of United States federal and state securities laws and that the Company is relying upon the truth and accuracy of, and the Purchaser's compliance with, the representations, warranties, agreements, acknowledgments and understandings of Purchaser set forth herein in order to determine the availability of such exemptions and the eligibility of the Purchaser to acquire the Securities.

(j) Restricted Securities. Purchaser understands that the Securities are "restricted securities" under applicable Securities Laws and that, pursuant to these laws, Purchaser must hold the Securities indefinitely unless they are registered with the Securities and Exchange Commission and qualified by state authorities, or an exemption from such registration and qualification requirements is available. Purchaser acknowledges that the Company has no obligation to register or qualify the Securities for resale, except as provided in Section 11 herein. Purchaser further acknowledges that if an exemption from registration or qualification is available, it may be conditioned on various requirements including, but not limited to, the time and manner of sale, the holding period for the Securities, and requirements relating to the Company which are outside of the Purchaser's control, and which the Company is under no obligation and may not be able to satisfy.

(k) Professional Advice. The Company has not received from its legal counsel, accountants or professional advisors any independent valuation of the Company or any of its equity securities, or any opinion as to the fairness of the terms of the Offering or the adequacy of disclosure of materials pertaining to the Company or the Offering.

(l) Risk of Loss. The Purchaser has adequate net worth and means of providing for his/her/its current needs and personal contingencies to sustain a complete loss of the investment in the Company at the time of investment, and the Purchaser has no need for liquidity in the investment in the Securities. The Purchaser understands that an investment in the Securities is highly risky and that he/she/it could suffer a complete loss of his/her/its investment.

(m) Information. The Purchaser understands that any plans, estimates and projections, provided by or on behalf of the Company, involve significant elements of subjective judgment and analysis that may or may not be correct; that there can be no assurance that such plans, projections or goals will be attained; and that any such plans, projections and estimates should not be relied upon as a promise or representation of the future performance of the Company. The Purchaser acknowledges that neither the Company, the Placement Agent nor anyone acting on the Company's behalf makes any representation or warranty, express or implied, as to the accuracy or correctness of any such plans, estimates and projections, and there are no assurances that such plans, estimates and projections will be achieved. The Purchaser understands that the Company's technology and products are new, and not all of the technology and/or products may be tested and commercialized, and that there is no guarantee that the technology and products will be commercially successful. The Purchaser understands that all of the risks associated with the technology are not now known. Before investing in the Offering, the Purchaser has been given the opportunity to ask questions of the Company about the technology and the Company's business and the Purchaser has received answers to those questions.

(n) Authorization; Enforcement. Each Transaction Document to which a Purchaser is a party: (i) has been duly and validly authorized, (ii) has been duly executed and delivered on behalf of the Purchaser, and (iii) will constitute, upon execution and delivery by the Purchaser thereof and the Company, the valid and binding agreements of the Purchaser enforceable in accordance with their terms, except to the extent limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application affecting enforcement of creditors' rights and general principles of equity that restrict the availability of equitable or legal remedies.

(o) Residency. If the Purchaser is an individual, then Purchaser resides in the state or province identified in the address of such Purchaser set forth in Section 6; if the Purchaser is a partnership, corporation, limited liability company or other entity, then the office or offices of the Purchaser in which its principal place of business is identified in the address or addresses of the Purchaser set forth in Section 6.

(p) Communication of Offer. The Purchaser was contacted by either the Company or the Placement Agent with respect to a potential investment in the Securities. The Purchaser is not purchasing the Securities as a result of any "general solicitation" or "general advertising," as such terms are defined in Regulation D of the Securities Act, which includes, but is not limited to, any advertisement, article, notice or other communication regarding the Securities published in any newspaper, magazine or similar media or on the internet or broadcast over television, radio or the internet or presented at any seminar or any other general solicitation or general advertisement.

(q) No Conflicts. The execution, delivery and performance by the Purchaser of this Agreement and the consummation by the Purchaser of the transactions contemplated hereby will not (i) result in a violation of the organizational documents of the Purchaser (if the Purchaser is an entity), (ii) conflict with, or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture or instrument to which the Purchaser is a party, or (iii) result in a violation of any law, rule, regulation, order, judgment or decree (including federal and state securities laws) applicable to the Purchaser.

(r) Organization. If the Purchaser is an entity, it is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization with the requisite corporate or partnership power and authority to enter into and to consummate the transactions contemplated by the applicable Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. If the Purchaser is an entity, the execution, delivery and performance by the Purchaser of the transactions contemplated by this Agreement have been duly authorized by all necessary corporate or, if the Purchaser is not a corporation, such partnership, limited liability company or other applicable like action, on the part of the Purchaser.

(s) No Other Representations. Other than the representations and warranties contained herein, the Purchaser has not received and is not relying on any representation, warranties or assurances as to the Company, its business or its prospects from the Company or any other person or entity.

[*Remainder of Page Intentionally Blank; Agreement Continues on Following Page*]

6. Purchaser Information.

(a) Status as an Accredited Investor. By initialing the appropriate space(s) below, the Purchaser represents and warrants that he/she/it is an "Accredited Investor" within the meaning of Regulation D of the Securities Act.

☐ a.	A director, executive officer or general partner of Company.	
☐ b.	A natural person whose individual net worth or joint net worth with spouse at time of purchase exceeds $1,000,000. (In calculation of net worth, you may include equity in personal property and real estate (excluding your principal residence), cash, short term investments, stocks and securities. Equity in personal property and real estate should be based on the fair market value of such property less debt secured by such property.)	
☐ c.	A natural person who had an individual income in excess of $200,000 in each of two most recent years or joint income with spouse in excess of $300,000 in each of those years and has a reasonable expectation of reaching same level of income in current year.	
☐ d.	A corporation, limited liability company, partnership, tax-exempt organization (under Section 501(c)(3) of Internal Revenue Code of 1986, as amended) or Massachusetts or similar business trust (i) not formed for specific purpose of acquiring Common Stock and (ii) having total assets in excess of $5,000,000.	
☐ e.	An entity which falls within one of following categories of institutional accredited investors, set forth in 501(a) of Regulation D under Securities Act [if you have marked this category, also mark which of following items describes you:]	
	☐ 1.	A bank as defined in Section 3(a)(2) of Securities Act, or any savings and loan association or other institution as defined in Section 3(a)(5)(A) of Securities Act whether acting in its individual or a fiduciary capacity.
	☐ 2.	A broker/dealer registered pursuant to Section 15 of Securities Exchange Act of 1934.
	☐ 3.	An insurance company as defined in Section 2(13) of Securities Act.
	☐ 4.	An investment company registered under Investment Company Act of 1940 or a business development company as defined in Section 2(a)(48) of that act.
	☐ 5.	A Small Business Investment Company licensed by U.S. Small Business Administration under Section 301(c) or (d) of Small Business Investment Act of 1958.
	☐ 6.	Any plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions for benefit of its employees, if such plan has total assets in excess of $5,000,000.
	☐ 7.	Any private business development company as defined in Section 202(a)(22) of Investment Advisers Act of 1940.
	☐ 8.	An employee benefit plan within meaning of Employee Retirement Income Security Act of 1974, if investment decision is made by a plan fiduciary, as defined in Section 3(21) of such act, which is either a bank, savings and loan association, insurance company or registered investment adviser, or if employee benefit plan has total assets in excess of $5,000,000 or, if a self-directed plan, with investment decisions made solely by persons that are accredited investors.
	☐ 9.	A trust, with total assets in excess of $5,000,000, not formed for specific purpose of acquiring Class A Common Stock offered, whose purchase is directed by sophisticated person as described in Rule 506(b)(2)(ii) of Regulation D.
☐ f.	An entity in which all equity owners are accredited investors as described above.	

PURCHASER MUST INDICATE THE APPLICABLE CATEGORY OR CATEGORIES BY INITIALING EACH APPLICABLE SPACE ABOVE; IF JOINT INVESTORS, BOTH PARTIES MUST INITIAL.

(b) Subscription Information. Please complete the following information.

Requested Subscription Amount: $_____
(subject to Company acceptance)

Name of Purchaser as it is to appear on the Senior Secured Convertible Promissory Note and Warrant

Indicate ownership as:

____ (a)	Individual	
____ (b)	Community Property	
____ (c)	Joint Tenants with Right of Survivorship	**) All parties**
____ (d)	Tenants in Common	**) must sign**
____ (e)	Corporate	
____ (f)	Partnership	
____ (g)	Trust	

_____	_____
Address of Residence (or Business, if not an individual)	Address for Sending Notices (if different)
_____	_____
City, State and Zip Code	City, State and Zip Code
_____	_____
Telephone	Telephone
_____	_____
State of Residence (or State of Organization, if an entity)	State of Residence (or State of Organization, if an entity)
_____	_____
SSN/TIN	SSN/TIN
_____	_____
E-mail	E-mail

[R*emainder of Page Intentionally Left Blank; Agreement Continues on Following Page*]

7. Covenants.

(a) In addition to the other agreements and covenants set forth herein, as long as a Note (or any Subsequent Note) is outstanding, without the consent of a majority in interest of the Purchasers, the Company will not, and will not permit any of its subsidiaries to, directly or indirectly, to undertake the following:

(i) The Company will not enter into any equity line of credit or similar agreement, nor issue nor agree to issue any floating or Variable Rate Securities nor any of the foregoing or equity with price reset rights. For purposes hereof, "Equity Line of Credit" shall include any transaction involving a written agreement between the Company and an investor or underwriter whereby the Company has the right to "put" its securities to the investor or underwriter over an agreed period of time and at an agreed price or price formula, and "Variable Rate Securities" shall include: (A) any debt or equity securities which are convertible into, exercisable or exchangeable for, or carry the right to receive additional shares of Common Stock or with a fixed conversion, exercise or exchange price that is subject to being reset at some future date at any time after the initial issuance of such debt or equity security, and (B) any amortizing convertible security which amortizes prior to its maturity date, where the Company is required or has the option to (or any investor in such transaction has the option to require the Company to) make such amortization payments in shares of Common Stock.

(ii) The Company will not enter into an agreement to issue, nor will the Company issue, any equity, convertible debt or other securities convertible into Common Stock or other equity of the Company nor modify any of the foregoing which may be outstanding.

(b) In addition to the other agreements and covenants set forth herein, the Company agrees to the following:

(i) All promissory notes outstanding on the IPO closing date, other than the Notes issued in conjunction with this Offering or any Second Note Offering, will be converted into Common Stock at the IPO Price on the IPO closing date.

(ii) The Company will use the net proceeds from the Offering for the following purposes: (A) approximately $350,000 will be used for accounts payables; (B) approximately $275,000 will be used for payroll and (C) approximately $125,000 will be used for other expenses.

(iii) The Company will retain the services of a PCAOB registered auditor prior to an IPO and such auditor will perform and complete the audits of the financial statements necessary to meet SEC filing and the listing requirements of NASDAQ or AMEX exchanges.

(iv) The Company will have a capital structure acceptable to the Placement Agent and, as noted above, will cause the conversion of all promissory notes and preferred shares outstanding prior to this Offering (including securities owned by TETF) to Common Stock at the time of an IPO. The promissory notes will convert at the IPO Price according to their terms and the TETF owned securities at the IPO Price less their contractual discount. All rights attached shall be extinguished. Existing warrant holders will continue to maintain the existing warrants under the terms of the warrant agreement as issued.

(v) Within 90 days of the Closing Date, the Company's Board of Directors shall be composed of five members with three independent directors mutually acceptable to the Company and the Placement Agent.

(vi) The Company and the Placement Agent will agree to an intellectual property strategy, which the Company will implement.

(vii) The Company will institute an employee stock option or equity incentive plan acceptable to the Placement Agent.

(viii) In addition to the shares of Common Stock that will be locked up in accordance with Section 8 below, the shares of Common Stock or securities convertible into or exercisable for shares of Common Stock which are held by (A) all officers, directors and employees of the Company, (B) 5% or greater holders as determined pursuant to Rule 13d-3 of the Securities Exchange Act of 1934, as amended, (C) merger participants, if any and (D) the Placement Agent and IP Development Company will be locked up until the later of (x) 12 months following the date of the final prospectus for the IPO and (y) the listing of the Company's Common Stock on an exchange, which may include a listing on any listing level of Nasdaq.

8. Market Stand-Off; Purchaser Distribution.

(a) Lock-Up. In connection with the initial underwritten public offering by the Company of its equity securities pursuant to an effective registration statement filed under the Securities Act, Purchaser shall not, without the prior written consent of the Company's managing underwriter, (i) lend, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock (whether such shares or any such securities are then owned by the Purchaser or are thereafter acquired), or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of stock or such other securities, in cash or otherwise. Such restriction (the "Market Stand-Off") shall be in effect for such period of time following the date of the final prospectus for the offering as may be requested by the Company or such underwriters. In no event, however, shall such period exceed 180 days or such longer period requested by the underwriters to comply with regulatory restrictions on the publication of research reports (including, without limitation, NASD Rule 2711). In the event of the declaration of a stock dividend, a spin-off, a stock split, an adjustment in conversion ratio, a recapitalization or a similar transaction affecting the Company's outstanding securities without receipt of consideration, any new, substituted or additional securities that are by reason of such transaction distributed with respect to any Company Common Stock subject to the Market Stand-Off, or into which such Company Common Stock thereby becomes convertible, shall immediately be subject to the Market Stand-Off. To enforce the Market Stand-Off, the Company may impose stop-transfer instructions with respect to the Securities until the end of the applicable stand-off period. This Section 8(a) shall not apply to Securities registered in the public offering under the Securities Act, and the Purchaser shall be subject to this Section 8(a) only if the directors and officers of the Company are subject to the lockup arrangements included in Section 7(b)(viii) above.

(b) Securities. As used in this Section 8 and in Section 9, the term "securities" also refers to the purchased Securities, all securities received in conversion, exercise, or replacement thereof, or in connection with the Securities pursuant to stock dividends or splits, all securities received in replacement of the Securities in a recapitalization, merger, reorganization, exchange or the like, and all new, substituted or additional securities or other properties to which Purchaser is entitled by reason of Purchaser's ownership of the Securities.

9. Restrictive Legends and Stop-Transfer Orders.

(a) Legends. The certificate or certificates representing the Securities shall bear the following legends (as well as any legends required by applicable state corporate law and the Securities Laws):

(i) THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH SALE OR DISTRIBUTION MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL (OR OTHER EVIDENCE) IN A FORM SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933.

(ii) THE SECURITIES REPRESENTED HEREBY MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE TERMS OF A SECURITIES PURCHASE AGREEMENT BETWEEN THE COMPANY AND THE SECURITY HOLDER DATED _____, 2012, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

(iii) Any legend required to be placed thereon by any appropriate securities commissioner.

(b) Stop-Transfer Notices. The Purchaser agrees that, to ensure compliance with the restrictions referred to herein, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(c) Refusal to Transfer. The Company shall not be required (i) to transfer on its books any Securities that have been sold or otherwise transferred in violation of any of the provisions of this Agreement or (ii) to treat as owner of such Securities or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Securities shall have been so transferred.

(d) Removal of Legend. The Securities held by Purchaser will no longer be subject to the legend referred to in Section 9(a)(ii) following the expiration or termination of the lock-up provisions of Section 8 (and of any agreement entered pursuant to Section 8). After such time, and upon Purchaser's request, a new certificate or certificates representing the Securities shall be issued without the legend referred to in Section 9(a)(ii), and delivered to Purchaser. The Company will bear any cost or expense related to removing the legend.

10. Conditions to Closing.

(a) Conditions to the Company's Obligation to Sell. The obligation of the Company hereunder to issue and sell the Securities to the Purchaser is subject to the satisfaction, at or before the applicable Closing Date of each of the following conditions, provided that these conditions are for the Company's sole benefit and may be waived by the Company at any time in its sole discretion:

(i) The Purchaser shall have complied with Section 3(a);

(ii) The representations and warranties of the Purchaser shall be true and correct in all material respects; and

(iii) No litigation, statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by or in any court or governmental authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby which prohibits the consummation of any of the transactions contemplated by this Agreement.

(b) Conditions to Each Purchaser's Obligation to Purchase. The obligation of the Purchaser hereunder to purchase the Securities is subject to the satisfaction, at or before the applicable Closing Date of each of the following conditions, provided that these conditions are for the Purchaser's sole benefit and may be waived by the Purchaser at any time in his/her/its sole discretion:

(i) The Company shall have complied with Section 3(c);

(ii) The representations and warranties of the Company shall be true and correct as of the applicable Closing Date, and the Company shall have performed, satisfied and complied with the covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Company at or prior to the applicable Closing Date. The Purchaser shall have received a certificate or certificates, executed by the Chief Executive Officer of the Company, dated as of the applicable Closing Date, to the foregoing effect and as to such other matters as may be reasonably requested by the Purchaser including, but not limited to, certificates with respect to the Company's charter, by-laws and Board of Directors' resolutions relating to the transactions contemplated hereby;

(iii) No litigation, statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by or in any court or governmental authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby which prohibits the consummation of any of the transactions contemplated by this Agreement;

(iv) No event shall have occurred which would reasonably be expected to have a Material Adverse Effect;

(v) The Company shall have caused its legal counsel, Richardson & Patel LLP to deliver a legal opinion addressed to the Purchasers and to the Placement Agent with respect to the matters set forth on Exhibit H attached hereto; and

(vi) The Company shall have provided such other documents as the Placement Agent may reasonably request, each in form and substance satisfactory to the Placement Agent.

11. Public Company Status; Registration Rights. The Company will use reasonable best efforts to become a publicly traded and publicly reporting company under both the Securities Act and the Securities Exchange Act of 1934 and the Purchaser shall have certain registration rights, all in accordance with the Registration Rights Agreement of even date herewith.

12. Miscellaneous.

(a) Governing Law. This Agreement and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of New York, without giving effect to principles of conflicts of law.

(b) Entire Agreement; Enforcement of Rights. This Agreement together with the exhibits and schedules attached hereto, set forth the entire agreement and understanding of the parties relating to the subject matter herein and supersedes any and all prior agreements or discussions between them, including any term sheet, letter of intent or other document executed by the parties prior to the date hereof relating to such subject matter. No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, shall be effective unless in writing signed by the parties to this Agreement; provided, however, that the Purchaser acknowledges and agrees that the Placement Agent may, in its sole discretion acting by prior written consent on behalf of Purchaser, waive any covenant of the Company described in Section 7. The failure by either party to enforce any rights under this Agreement shall not be construed as a waiver of any rights of such party.

(c) Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, the parties agree to renegotiate such provision in good faith. If the parties cannot reach a mutually agreeable and enforceable replacement for such provision, then (i) such provision shall be excluded from this Agreement, (ii) the balance of the Agreement shall be interpreted as if such provision were so excluded and (iii) the balance of the Agreement shall be enforceable in accordance with its terms.

(d) Construction. This Agreement is the result of negotiations between and has been reviewed by each of the parties hereto and their respective counsel, if any; accordingly, this Agreement shall be deemed to be the product of all of the parties hereto, and no ambiguity shall be construed in favor of or against any one of the parties hereto.

(e) Notices. Any notice required or permitted by this Agreement shall be in writing and shall be deemed sufficient when delivered personally (including two business days after deposit with a reputable overnight courier service, properly addressed to the party to receive the same) or sent by fax or 48 hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the party to be notified at such party's address or fax number as set forth herein or as subsequently modified by written notice.

(f) Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument.

(g) Successors and Assigns. The rights and benefits of this Agreement shall inure to the benefit of, and be enforceable by the Company's successors and assigns. The covenants and obligations of the Company hereunder shall inure to the benefit of, and be enforceable by the Purchaser against the Company, its successors and assigns, including any entity into which the Company is merged. The rights and obligations of Purchasers under this Agreement may only be assigned with the prior written consent of the Company.

(h) Third Party Beneficiary. This Agreement is intended for the benefit of the undersigned parties and their respective permitted successors and assigns, and the Placement Agent, and is not for the benefit of, nor may any provision hereof be enforced by, any other person.

(i) Further Assurances. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

(j) Expenses. Each party shall pay all costs and expenses that it incurs with respect to the negotiation, execution, delivery and performance of the Agreement; provided, however, that the Company shall, on the Closing Date, reimburse the fees and expenses of counsel to the Placement Agent.

(k) Survival. The representations, warranties, covenants and agreements made herein shall survive the closing of the transaction contemplated hereby. All statements as to factual matters contained in any certificate or other instrument delivered by or on behalf of the Company pursuant hereto in connection with the transactions contemplated hereby shall be deemed to be representations and warranties by the Company hereunder solely as of the date of such certificate or instrument. The representations, warranties, covenants and obligations of the Company, and the rights and remedies that may be exercised by the Purchaser, shall not be limited or otherwise affected by or as a result of any information furnished to, or any investigation made by or knowledge of, any of the Purchasers or any of their representatives.

(l) Attorneys' Fees. In the event that any suit or action is instituted under or in relation to this Agreement, including without limitation to enforce any provision in this Agreement, the prevailing party in such dispute shall be entitled to recover from the losing party all fees, costs and expenses of enforcing any right of such prevailing party under or with respect to this Agreement, including without limitation, such reasonable fees and expenses of attorneys and accountants, which shall include, without limitation, all fees, costs and expenses of appeals.

(m) Remedies. All remedies afforded to any party by law or contract, shall be cumulative and not alternative and are in addition to all other rights and remedies a party may have, including any right to equitable relief and any right to sue for damages as a result of a breach of this Agreement. Without limiting the foregoing, no exercise of a remedy shall be deemed an election excluding any other remedy.

(n) Consent of Spouse. If the Purchaser is married on the date of this Agreement, such Purchaser's spouse shall execute and deliver to the Company the Spousal Consent, effective on the date hereof. Notwithstanding the execution and delivery thereof, such consent shall not be deemed to confer or convey to the spouse any rights in such Purchaser's Securities that do not otherwise exist by operation of law or the agreement of the parties. If any Purchaser should marry or remarry subsequent to the date of this Agreement, such Purchaser shall within 30 days thereafter obtain his/her new spouse's acknowledgement of and consent to the existence and binding effect of all restrictions contained in this Agreement by causing such spouse to execute and deliver a Consent of Spouse acknowledging the restrictions and obligations contained in this Agreement and agreeing and consenting to the same.

[*Remainder of Page Intentionally Left Blank*]

The Purchaser, by his or her signature below, or by that of its authorized representative, confirms that Purchaser has carefully reviewed and understands this Agreement.

IN WITNESS WHEREOF, the Purchaser has executed this Agreement as of August __, 2012.

PURCHASER (if individual):

Signature

Name (*type or print*)

Signature of Co-Signer (*if any*)

Name of Co-Signer (*type or print*)

PURCHASER (if entity):

Name of Entity

By:

Name:

Its:

AGREED AND ACCEPTED as of _____, 2012.

IDEAL POWER CONVERTERS, INC.

By: _____
Christopher Cobb
Chief Executive Officer

Subscription Amount (as accepted by the Company):

$_____

EXHIBIT A

COMPANY INFORMATION

[*see attached*]

EXHIBIT B

SPOUSAL CONSENT

I, _____, spouse of _____, have read and hereby approve the foregoing Agreement. In consideration of the Company's granting my spouse the right to purchase the Securities as set forth in the Agreement, I hereby agree to be irrevocably bound by the Agreement and further agree that any community property or similar interest that I may have in the Securities shall be similarly bound by the Agreement. I hereby appoint my spouse as my attorney-in-fact with respect to any amendment or exercise of any rights under the Agreement.

Spouse of _____

OR

I hereby represent and warrant that I am unmarried as of the date of this Agreement.

Signature

EXHIBIT C

FORM OF NOTE

[*see attached*]

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY OTHER JURISDICTION. BY ACQUIRING THIS NOTE, THE HOLDER REPRESENTS THAT THE HOLDER WILL NOT SELL OR OTHERWISE DISPOSE OF THIS NOTE WITHOUT REGISTRATION OR COMPLIANCE WITH AN EXEMPTION FROM REGISTRATION UNDER THE AFORESAID ACTS AND THE RULES AND REGULATIONS THEREUNDER.

THE SECURITIES REPRESENTED HEREBY MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE TERMS OF A SECURITIES PURCHASE AGREEMENT BETWEEN THE COMPANY AND THE SECURITY HOLDER DATED _____, 2012, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

IDEAL POWER CONVERTERS, INC.

SENIOR SECURED CONVERTIBLE PROMISSORY NOTE

$_____ August __, 2012

FOR VALUE RECEIVED, Ideal Power Converters, Inc. (the "Maker") hereby promises to pay to the order of _____ or its successors or assigns (the "Holder") the principal amount of _____ Dollars ($_____) (the "Principal Amount"). This Senior Secured Convertible Promissory Note shall be referred to herein as the "Note".

1. Purpose. This Note is made and delivered by the Maker to the Holder pursuant to the terms of that certain Securities Purchase Agreement, dated as of August __, 2012 (the "Original Issue Date"), by and among the Maker, the Escrow Agent, the Holder, and the other Purchasers of the Maker's Notes (the "Purchase Agreement"). This Note is one of a series of substantially identical Notes issued by the Maker under the Purchase Agreement. All capitalized terms used and not defined herein shall have the meanings ascribed to them in the Purchase Agreement.

2. Interest. Interest on the Principal Amount from time-to-time remaining unpaid shall accrue from the date of this Note at the higher of: (i) the rate of one percent (1%) per annum, simple interest; or (ii) at the lowest rate that may accrue without causing the imputation of interest under the Internal Revenue Code. Interest shall be computed on the basis of a 360 day year and a 30 day month.

3. Maturity Date. All amounts payable hereunder shall be due and payable on the earlier to occur of (i) August __, 2013 (the "Calendar Due Date"), (ii) the occurrence of an Event of Default (as defined below) or (iii) the closing of an IPO Financing (as defined below).

4. Method of Repayment.

4.1 Mandatory Conversion Upon Initial Public Offering. If, prior to the Calendar Due Date, the Maker closes a firm commitment underwritten initial public offering of its common stock that raises at least $10 million (the "IPO Financing"), the amounts payable hereunder shall be repaid with shares of the Maker's Common Stock in accordance with the terms of paragraph 5.1 of this Note.

4.2 Other Optional Conversions. At any time prior to a conversion pursuant to paragraph 4.1 above or the Calendar Due Date, including in the event that the Maker consummates a Change of Control, at the option of the Holder all amounts payable under this Note may be converted into shares of the Maker's Common Stock. In the event of such conversion, this Note shall be converted into that number of shares of Common Stock determined by dividing (x) Principal Amount and accrued interest by (y) the lower of (i) $3.21 or (ii) 0.70 of the per share consideration paid (A) in the event of a Change of Control or (B) in the most recent Private Equity Financing to occur prior to the Holder's election (as appropriately adjusted to reflect stock dividends, stock splits, combinations, recapitalizations and the like with respect to the Maker's capital stock after the date hereof).

4.3 Repayment Election. If this Note is not repaid prior to the Calendar Due Date in accordance with paragraphs 4.1 or 4.2 above, or if, by the Calendar Due Date this Note is not cancelled and replaced in accordance with the terms of Section 5.8 below, the Holder may elect to be repaid on the Calendar Due Date in one of the following ways: (i) the Holder may elect to receive, and the Maker shall repay, all amounts payable hereunder in a lump sum, in lawful money of the United States, which payment shall be equal to the Principal Amount and all accrued interest or (ii) the Holder may elect to receive the lump sum payment in shares of the Maker's Common Stock in accordance with subparagraph 5.2 below.

4.4 Prepayment Right. The Maker has the right to prepay this Note in lawful money of the United States with the consent of the Holder. If this Note is prepaid in lawful money of the United States prior to an IPO, the payment amount shall equal 110% of the Principal Amount.

5. Conversion of Note. The following provisions shall govern the conversion of any and all amounts due under this Note.

5.1 Conversion in Conjunction with an IPO Financing. In the event of an IPO Financing which closes prior to the Calendar Due Date, the Note shall have a conversion price equal to 0.70 times the IPO Price (the "IPO Conversion Price"). The IPO Price means the price per share paid by public investors in the IPO, without regard to any underwriting discount or expense (as appropriately adjusted to reflect stock dividends, stock splits, combinations, recapitalizations and the like with respect to the Maker's capital stock after the date hereof).

5.2 Conversion in Conjunction with an Election. In the event that the Holder elects to receive payment of this Note in shares of the Maker's Common Stock in accordance with subparagraph 4.3(ii) above, the Note shall have a conversion price equal to 0.70 times the price per share paid by investors in the most recent Private Equity Financing to occur prior to the Calendar Due Date, after giving effect to adjustments that reflect stock dividends, stock splits, combinations, recapitalizations and the like with respect to the Maker's capital stock after the date hereof) (the "Private Financing Conversion Price").

5.3 Conversion Rate. The number of shares of Common Stock issuable upon conversion pursuant to subparagraphs 5.1 or 5.2 shall be determined by dividing (x) the Principal Amount and accrued interest (the "Conversion Amount") by (y) the IPO Conversion Price or the Private Financing Conversion Price, as applicable.

5.4 No Fractional Shares. The Maker shall not issue any fraction of a share of Common Stock upon any conversion. If the issuance would result in the issuance of a fraction of a share of Common Stock, the Maker shall round up such fraction of a share of Common Stock up to the nearest whole share. The Maker shall pay any and all transfer, stamp and similar taxes that may be payable with respect to the issuance and delivery of Common Stock upon conversion.

5.5 Mechanics of Conversion.

5.5.1 Mandatory Conversion. The closing of an IPO Financing prior to the Calendar Due Date will be the "Conversion Date". Within 20 days of the Conversion Date, the Maker shall transmit to the Holder a certificate for the number of shares of Common Stock representing full repayment of the Conversion Amount on the Conversion Date, together with an explanation of the calculation. Upon receipt of such notice, the Holder shall surrender this Note to a common carrier for delivery to the Maker as soon as practicable on or following such date (or an indemnification undertaking with respect to this Note in the case of its loss, theft or destruction). The person or persons entitled to receive the shares of Common Stock issuable upon a conversion of this Note shall be treated for all purposes as the record holder or holders of such shares of Common Stock on the Conversion Date.

5.5.2 Voluntary Conversion. If this Note is voluntarily converted pursuant to paragraphs 4.2 or 4.3, the Holder shall give written notice to the Maker notifying the Maker of its election to convert. Before the Holder shall be entitled to voluntarily convert this Note, the Holder shall surrender this Note at the Maker's principal executive office, or, if this Note has been lost, stolen, destroyed or mutilated, then, in the case of loss, theft or destruction, the Holder shall deliver an indemnity agreement reasonably satisfactory in form and substance to the Maker (without the requirement of a bond) or, in the case of mutilation, the Holder shall surrender and cancel this Note. The Maker shall, as soon as practicable thereafter, issue and deliver to such Holder at such principal executive office a certificate or certificates for the number of shares of Common Stock to which the Holder shall be entitled upon such conversion (bearing such legends as are required by applicable state and federal securities laws in the opinion of counsel to the Maker), together with a replacement Note (if any principal amount or interest is not converted). Such conversion shall be deemed to have been made immediately prior to the close of business on the date of the surrender of this Note or the delivery of an indemnification agreement (or such later date requested by the Holder or such earlier date agreed to by the Maker and the Holder). The person or persons entitled to receive securities issuable upon such conversion shall be treated for all purposes as the record holder or holders of such securities on such date.

5.6 Reservation of Common Stock. Until the Notes are paid in full, the Maker shall at all times keep reserved for issuance under this Note a number of shares of Common Stock as shall be necessary to satisfy the Maker's obligation to issue shares of Common Stock hereunder (without regard to any limitation otherwise contained herein with respect to the number of shares of Common Stock that may be acquirable upon exercise of this Note). If, notwithstanding the foregoing, and not in limitation thereof, at any time while any of the Notes remain outstanding the Maker does not have a sufficient number of authorized and unreserved shares of Common Stock to satisfy its obligation to reserve for issuance upon exercise of the Notes at least a number of shares of Common Stock equal to the number of shares of Common Stock as shall from time to time be necessary to effect the exercise of the Notes then outstanding (the "Required Reserve Amount") (an "Authorized Share Failure"), then the Maker shall immediately take all action necessary to increase the Maker's authorized shares of Common Stock to an amount sufficient to allow the Maker to maintain the Required Reserve Amount for all the Notes then outstanding. Without limiting the generality of the foregoing sentence, as soon as practicable after the date of the occurrence of an Authorized Share Failure, but in no event later than 60 days after the occurrence of such Authorized Share Failure, the Company shall hold a meeting of its shareholders for the approval of an increase in the number of authorized shares of Common Stock. In connection with such meeting, the Maker shall provide each shareholder with a proxy statement and shall use its best efforts to solicit its shareholders' approval of such increase in authorized shares of Common Stock and to cause its board of directors to recommend to the shareholders that they approve such proposal.

5.7 Adjustments. The Conversion Price and number and kind of shares or other securities to be issued upon conversion determined pursuant to Section 5 hereof, shall be subject to adjustment from time to time upon the happening of certain events while this conversion right remains outstanding, as follows:

5.7.1 Merger, Sale of Assets, etc. If the Maker at any time shall consolidate with or merge into or sell or convey all or substantially all its assets to any other corporation, this Note, as to the unpaid Principal Amount thereof and accrued interest thereon, shall thereafter be deemed to evidence the right to purchase such number and kind of shares or other securities and property as would have been issuable or distributable on account of such consolidation, merger, sale or conveyance, upon or with respect to the securities subject to the conversion or purchase right immediately prior to such consolidation, merger, sale or conveyance. The foregoing provision shall similarly apply to successive transactions of a similar nature by any such successor or purchaser. Without limiting the generality of the foregoing, the anti-dilution provisions of this Section shall apply to such securities of such successor or purchaser after any such consolidation, merger, sale or conveyance.

5.7.2 Reclassification, etc. If the Maker at any time shall, by reclassification or otherwise, change the Common Stock into the same or a different number of securities of any class or classes that may be issued or outstanding, this Note, as to the unpaid principal portion thereof and accrued interest thereon, shall thereafter be deemed to evidence the right to purchase an adjusted number of such securities and kind of securities as would have been issuable as the result of such change with respect to the Common Stock immediately prior to such reclassification or other change.

5.7.3 Notice of Adjustment. Whenever the applicable Conversion Price is adjusted pursuant to this Section 5.7, the Maker shall promptly mail to the Holder a notice setting forth the applicable Conversion Price after such adjustment and setting forth a statement of the facts requiring such adjustment.

5.8 Exchange of Note in the Event of Additional Loans. It is anticipated that the Maker will raise up to an additional $4.25 million by selling secured convertible promissory notes (the "Second Note Offering"). By accepting this Note and executing the Purchase Agreement and the other Transaction Documents, the Holder agrees that if the Second Note Offering is consummated, the Holder will, if requested, surrender this Note to the Maker and this Note shall be cancelled and replaced with the form of note issued to the investors in the Second Note Offering.

6. Registration; Book-Entry. The Company shall maintain a register (the "Register") for the recordation of the names and addresses of the holders of each Note and the Principal Amount of the Notes held by such holders (the "Registered Notes"). The entries in the Register shall be conclusive and binding for all purposes absent manifest error. The Maker and the holders of the Notes shall treat each person whose name is recorded in the Register as the owner of a Note for all purposes, including, without limitation, the right to receive payments of the Principal Amount and interest, if any, hereunder, notwithstanding notice to the contrary. A Registered Note may be assigned or sold in whole or in part only in accordance with the terms of paragraph 12.3 of this Note and by registration of such assignment or sale on the Register.

7. Defaults; Remedies.

7.1 Events of Default. The occurrence of any one or more of the following events shall constitute an event of default hereunder (each, an "Event of Default"):

7.1.1 The Maker fails to make any payment when due under this Note;

7.1.2 The Maker fails to observe and perform any of its covenants or agreements on its part to be observed or performed under the Purchase Agreement or any other Transaction Document, and such failure shall continue for more than 30 days after notice of such failure has been delivered to the Maker;

7.1.3 Any representation or warranty made by the Maker in the Purchase Agreement or any other Transaction Document is untrue in any material respect as of the date of such representation or warranty except, in the case of a breach of a covenant which is curable, only if such breach continues for a period of at least 10 consecutive Business Days;

7.1.4 The Maker admits in writing its inability to pay its debts generally as they become due, files a petition in bankruptcy or a petition to take advantage of any insolvency act, makes an assignment for the benefit of its creditors, consents to the appointment of a receiver of itself or of the whole or any substantial part of its property, on a petition in bankruptcy filed against it be adjudicated a bankrupt, or files a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any State thereof;

7.1.5 A court of competent jurisdiction enters an order, judgment, or decree appointing, without the consent of the Maker, a receiver of the Maker or of the whole or any substantial part of its property, or approving a petition filed against the Maker seeking reorganization or arrangement of the Maker under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any State thereof, and such order, judgment, or decree shall not be vacated or set aside or stayed within 60 days from the date of entry thereof;

7.1.6 Any court of competent jurisdiction assumes custody or control of the Maker or of the whole or any substantial part of its property under the provisions of any other law for the relief or aid of debtors, and such custody or control is not be terminated or stayed within 60 days from the date of assumption of such custody or control;

7.1.7. The Notes shall cease to be, or be asserted by the Maker not to be, a legal, valid and binding obligation of the Maker enforceable in accordance with their terms;

7.1.8 A judgment or judgments for the payment of money aggregating in excess of $75,000 are rendered against the Maker which judgments are not, within 60 days after the entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within 60 days after the expiration of such stay; provided, however, that any judgment which is covered by insurance or an indemnity from a credit worthy party shall not be included in calculating the $75,000 amount set forth above so long as the Maker provides the Holder a written statement from such insurer or indemnity provider (which written statement shall be reasonably satisfactory to the Holder) to the effect that such judgment is covered by insurance or an indemnity and the Maker will receive the proceeds of such insurance or indemnity within 30 days of the issuance of such judgment;

7.1.9 Any Event of Default occurs with respect to any of the Notes;

7.1.10 A default by the Maker under any one or more obligations in an aggregate monetary amount in excess of $50,000 for more than 30 days after the due date, unless the Maker is contesting the validity of such obligation in good faith and has segregated cash funds equal to not less than one-half of the disputed amount;

7.1.11 A default by the Maker under the Texas Emerging Technology Fund Award and Security Agreement dated October 1, 2010 or the Investment Unit dated October 1, 2010, each between the Maker and the Office of the Governor Economic Development and Tourism of the State of Texas, which default continues for more than 30 days after notice of such default has been delivered to the Maker;

7.1.12 The Maker fails to deliver the shares of Common Stock to the Holder pursuant to and in the form required by this Note or, if required, a replacement Note more than five Business Days after the required delivery date of such Common Stock or Note;

7.1.13 The Maker fails to have reserved for issuance upon conversion of the Note the amount of Common stock as set forth in this Note; or

7.1.14 The security interest created in the Collateral, as defined in the Security Agreement, is not a perfected first lien.

7.2 Notice by the Maker. The Maker shall notify the Holder in writing as soon as reasonably practicable but in no event more 5 days after the occurrence of any Event of Default of which the Maker acquires knowledge.

7.3 Remedies. Upon the occurrence of any Event of Default, all other sums due and payable to the Holder under this Note shall, at the option of the Holder, become due and payable immediately without presentment, demand, notice of nonpayment, protest, notice of protest, or other notice of dishonor, all of which are hereby expressly waived by the Maker. Any payment under this Note (i) not paid within 10 days following the Calendar Due Date or (ii) due immediately following acceleration by the Holder shall bear interest at the rate of 15% from the date of the Note until paid, subject to paragraph 7.5. To the extent permitted by law, the Maker waives the right to and stay of execution and the benefit of all exemption laws now or hereafter in effect. In addition to the foregoing, upon the occurrence of any Event of Default, the Holder may forthwith exercise singly, concurrently, successively, or otherwise any and all rights and remedies available to the Holder by law, equity, or otherwise.

7.4 Remedies Cumulative, etc. No right or remedy conferred upon or reserved to the Holder under this Note, or now or hereafter existing at law or in equity or by statute or other legislative enactment, is intended to be exclusive of any other right or remedy, and each and every such right or remedy shall be cumulative and concurrent, and shall be in addition to every other such right or remedy, and may be pursued singly, concurrently, successively, or otherwise, at the sole discretion of the Holder, and shall not be exhausted by any one exercise thereof but may be exercised as often as occasion therefor shall occur. No act of the Holder shall be deemed or construed as an election to proceed under any one such right or remedy to the exclusion of any other such right or remedy; furthermore, each such right or remedy of the Holder shall be separate, distinct, and cumulative and none shall be given effect to the exclusion of any other.

7.5 Usury Compliance. All agreements between the Maker and the Holder are expressly limited, so that in no event or contingency whatsoever, whether by reason of the consideration given with respect to this Note, the acceleration of maturity of the unpaid Principal Amount and interest thereon, or otherwise, shall the amount paid or agreed to be paid to the Holder for the use, forbearance, or detention of the indebtedness which is the subject of this Note exceed the highest lawful rate permissible under the applicable usury laws. If, under any circumstances whatsoever, fulfillment of any provision of this Note shall involve transcending the highest interest rate permitted by law which a court of competent jurisdiction deems applicable, then the obligations to be fulfilled shall be reduced to such maximum rate, and if, under any circumstances whatsoever, the Holder shall ever receive as interest an amount that exceeds the highest lawful rate, the amount that would be excessive interest shall be applied to the reduction of the unpaid Principal Amount under this Note and not to the payment of interest, or, if such excessive interest exceeds the unpaid balance of the Principal Amount under this Note, such excess shall be refunded to the Maker. This provision shall control every other provision of all agreements between the Maker and the Holder.

8. Replacement of Note. Upon receipt by the Maker of evidence satisfactory to it of the loss, theft, destruction, or mutilation of this Note and (in case of loss, theft, or destruction) of indemnity satisfactory to it, and upon surrender and cancellation of this Note, if mutilated, the Maker will make and deliver a new Note of like tenor in lieu of this Note.

9. Intentionally omitted.

10. Maker's Covenants.

10.1 Rank. All payments due under this Note (a) shall rank pari passu with all other Notes and (b) shall be senior to all other indebtedness of the Maker.

10.2 Security. This Note and the other Notes are secured to the extent and in the manner set forth in the Security Agreement of even date herewith. However, it is anticipated that the Maker may raise up to a total of $4.25 million in additional funds through subsequently issued senior secured convertible promissory notes (the "Subsequent Notes"). By accepting this Note the Holder agrees that holders of the Subsequent Notes will have security interests identical to and pari passu with those granted to the Holder.

10.3 Existence of Liens. So long as this Note is outstanding, the Maker shall not, and the Maker shall not permit any of its subsidiaries (if any) to, directly or indirectly, allow or suffer to exist any mortgage, lien, pledge, charge, security interest or other encumbrance upon or in any property or assets (including accounts and contract rights) owned by the Maker or any of its subsidiaries (collectively, "Liens") other than Permitted Liens.

10.4 Restricted Payments. The Maker shall not, and the Maker shall not permit any of its subsidiaries (is any) to, directly or indirectly, redeem, defease, repurchase, repay or make any payments in respect of, by the payment of cash or cash equivalents (in whole or in part, whether by way of open market purchases, tender offers, private transactions or otherwise), all or any portion of any indebtedness, whether by way of payment in respect of principal of (or premium, if any) or interest on, such indebtedness if at the time such payment is due or is otherwise made or, after giving effect to such payment, an event constituting, or that with the passage of time and without being cured would constitute, an Event of Default has occurred and is continuing.

10.5 Valid Issuance of Securities. The Maker covenants that the securities issuable upon the conversion of this Note will, upon conversion of this Note, be validly issued, fully paid and nonassessable and free from all taxes, liens and charges in respect of the issue thereof.

10.6 Timely Notice. The Maker shall give the Holder at least 10 days' advance written notice of (i) a proposed financing which would permit the Holder to convert the Principal Amount, accrued interest, and any other amount due under this Note in accordance with paragraph 4.3 or (ii) a proposed Change of Control, provided that the Holder agrees to be bound by any applicable confidentiality agreement or agreements as the Maker shall deem necessary or appropriate.

11. Certain Definitions.

11.1 "Business Days" shall mean any day that is not a Saturday, Sunday or a federal holiday.

11.2 "Change of Control" means any liquidation, dissolution or winding up of the Maker, either voluntary or involuntary, and shall be deemed to be occasioned by, or to include, (i) the acquisition of the Maker by another entity by means of any transaction or series of related transactions (including, without limitation, any stock acquisition, reorganization, merger or consolidation) unless the Maker's shareholders of record as constituted immediately prior to such acquisition or sale will, immediately after such acquisition or sale (by virtue of securities issued as consideration for the Maker's acquisition or sale or otherwise) hold at least a majority of the voting power of the surviving or acquiring entity, or its direct or indirect parent entity (except that any bona fide equity or debt financing transaction for capital raising purposes shall not be deemed a Change of Control for this purpose) or (ii) a sale, exclusive license or other disposition of all or substantially all of the assets of the Maker, including a sale, exclusive license or other disposition of all or substantially all of the assets of the Maker's subsidiaries, if such assets constitute substantially all of the assets of the Maker and such subsidiaries taken as a whole.

11.3 "Permitted Liens" shall have the meaning included in the Security Agreement of even date herewith.

12.1 Amendments, Waivers, and Consents.

12.1 Amendment and Waiver by the Holders. The Notes, including this Note, may be amended, modified, or supplemented, and waivers or consents to departures from the provisions of the Notes may be given, if the Maker and holders of an aggregate majority of the Principal Amount of the Notes then outstanding, consent to the amendment; provided, however, that no term of this Note may be amended or waived in such a way as to adversely affect the Holder disproportionately to the holder or holders of any other Notes without the written consent of the Holder and neither the principal balance or interest rate of the Note may be amended or modified without the consent of the Holder. Such consent may not be effected orally, but only by a signed statement in writing. Any such amendment or waiver shall apply to and be binding upon the Holder of this Note, upon each future holder of this Note, and upon the Maker, whether or not this Note shall have been marked to indicate such amendment or waiver. No such amendment or waiver shall extend to or affect any obligation not expressly amended or waived or impair any right consequent thereon.

12.2 Severability. In the event that for any reason one or more of the provisions of this Note or their application to any person or circumstance shall be held to be invalid, illegal, or unenforceable in any respect or to any extent, such provision shall nevertheless remain valid, legal, and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality, or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal, or unenforceable provision had never been contained herein.

12.3 Assignment; Binding Effect. The Maker may not assign this Note without the prior written consent of the Holder. Any attempted assignment in violation of this Section 12.3 shall be null and void. Subject to the foregoing, this Note inures to the benefit of the Holder, its successors and assigns, and binds the Maker, and their respective successors and permitted assigns, and the words "Holder" and "Maker" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

12.4 Notice Generally. All notices required to be given to any of the parties hereunder shall be given as set forth in the Purchase Agreement.

12.5 Governing Law; Jurisdiction; Jury Trial. This Note shall be construed and enforced in accordance with, and all questions concerning the construction, validity, interpretation and performance of this Note shall be governed by, the internal laws of the State of New York, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of New York or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of New York. The Maker hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in The City of New York, Borough of Manhattan, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. The Maker hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address it set forth on the signature page hereto and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. In the event that any provision of this Note is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of this Note. Nothing contained herein shall be deemed or operate to preclude the Holder from bringing suit or taking other legal action against the Maker in any other jurisdiction to collect on the Maker's obligations to the Holder, to realize on any collateral or any other security for such obligations, or to enforce a judgment or other court ruling in favor of the Holder. THE MAKER HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION WITH OR ARISING OUT OF THIS NOTE OR ANY TRANSACTION CONTEMPLATED HEREBY. **This Note shall be deemed an unconditional obligation of Maker for the payment of money and, without limitation to any other remedies of Holder, may be enforced against Maker by summary proceeding pursuant to New York Civil Procedure Law and Rules Section 3213 or any similar rule or statute in the jurisdiction where enforcement is sought. For purposes of such rule or statute, any other document or agreement to which Holder and Maker are parties or which Maker delivered to Holder, which may be convenient or necessary to determine Holder's rights hereunder or Maker's obligations to Holder are deemed a part of this Note, whether or not such other document or agreement was delivered together herewith or was executed apart from this Note.**

12.6 Section Headings, Construction. The headings of paragraphs in this Note are provided for convenience only and will not affect its construction or interpretation. All words used in this Note will be construed to be of such gender or number as the circumstances require. Unless otherwise expressly provided, the words "hereof" and "hereunder" and similar references refer to this Note in its entirety and not to any specific section or subsection hereof.

12.7 Payment of Collection, Enforcement and Other Costs. If (a) this Note is placed in the hands of an attorney for collection or enforcement or is collected or enforced through any legal proceeding or the Holder otherwise takes action to collect amounts due under this Note or to enforce the provisions of this Note, or (b) there occurs any bankruptcy, reorganization, receivership of the Maker or other proceedings affecting the Maker's creditors' rights and involving a claim under this Note, then the Maker shall pay the costs incurred by the Holder for such collection, enforcement or action or in connection with such bankruptcy, reorganization, receivership or other proceeding, including, but not limited to, attorneys' fees and disbursements.

12.8 Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to the Holder, upon any breach or default of the Maker under this Note shall impair any such right, power, or remedy of the Holder nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default therefore or thereafter occurring. Any waiver, permit, consent, or approval of any kind or character on the part of the Holder of any breach or default under this Note or any waiver on the part of the Holder of any provisions or conditions of this Note must be made in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Note or by law or otherwise afforded to the Holders, shall be cumulative and not alternative.

[EXECUTION PAGE FOLLOWS]

IN WITNESS WHEREOF, Ideal Power Converters, Inc. has caused this Senior Secured Convertible Promissory Note to be executed and delivered on the date set forth above on the cover page of this Note.

IDEAL POWER CONVERTERS, INC.

By:
Christopher Cobb, Chief Executive Officer

By:
Charles Detarr, Chief Financial Officer

EXHIBIT D

FORM OF WARRANT

[*see attached*]

No.__ Issue Date:August____, 2012

THIS WARRANT AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT TO THE SECURITIES UNDER SUCH ACT AND/OR APPLICABLE STATE SECURITIES LAWS,OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED OR UNLESS SOLD PURSUANT TO RULE 144 OF SUCH ACT.

THE SECURITIES REPRESENTED HEREBY MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE TERMS OF A SECURITIES PURCHASE AGREEMENT BETWEEN THE COMPANY AND THE SECURITY HOLDER DATED _____, 2012, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

IDEAL POWER CONVERTERS, INC.

STOCK PURCHASE WARRANT

THIS CERTIFIES that _____ (the "***Holder***") is entitled, upon the terms and subject to the conditions hereinafter set forth in this Warrant (this "***Warrant***"), at any time on or after (except as otherwise limited below) the date of the applicable event specified below and on or prior to the Expiration Date, but not thereafter, to subscribe for and to purchase from Ideal Power Converters, Inc., a Texas corporation (the "***Company***"), shares of the Company's common stock, $0.001 par value (the "***Common Stock***").

This Warrant is issued pursuant to a Securities Purchase Agreement and in connection with the issuance to the Holder of a Convertible Promissory Note (the "***Note***") of even date herewith, and is one of the Warrants (collectively, the "***Warrants***") being issued in connection with the issuance of a series of Senior Secured Convertible Promissory Notes of like tenor (collectively, "***Notes***") being issued by the Company to raise interim financing of up to $750,000 (the "***Offering***"). Capitalized terms used herein, but not otherwise defined, shall have the meanings ascribed to such terms in the Securities Purchase Agreement.
The following is a statement of the rights of the Holder of this Warrant and the conditions to which this Warrant is subject, to which the Holder, by the acceptance of this Warrant, agrees:

1 **Certain Definitions.**

1.1 "Calendar Due Date" shall be a date that is 12 months from the closing date of the Offering.

1.2 "Change of Control"meansany liquidation, dissolution or winding up of the Company, either voluntary or involuntary, and shall be deemed to be occasioned by, or to include, (i) the acquisition of the Company by another entity by means of any transaction or series of related transactions (including, without limitation, any stock acquisition, reorganization, merger or consolidation) unless the Company's shareholders of record as constituted immediately prior to such acquisition or sale will, immediately after such acquisition or sale (by virtue of securities issued as consideration for the Company's acquisition or sale or otherwise) hold at least a majority of the voting power of the surviving or acquiring entity, or its direct or indirect parent entity (except that the sale by the Company of shares of its capital stock to investors in bona fide equity financing transactions shall not be deemed a Change of Control for this purpose) or (ii) a sale, exclusive license or other disposition of all or substantially all of the assets of the Company, including a sale, exclusive license or other disposition of all or substantially all of the assets of the Company's subsidiaries, if such assets constitute substantially all of the assets of the Company and such subsidiaries taken as a whole.

1.3 "Exercise Price" is defined in Section 2 below.

1.4 "Expiration Date" means, unless earlier terminated pursuant to Section 9 hereof, that date that is seven years after the issue date set forth above, provided, however, if the Company closes the IPO after the fifth anniversary date of the issue date but prior to the Expiration Date, then the Expiration Date shall be extended for an additional five years following the close of the IPO.

1.5 "IPO" means a firm commitment underwritten initial public offering of the Company's Common Stock pursuant to a registration statement declared effective by the Securities and Exchange Commission which closes before the Calendar Due Date and results in gross proceeds to the Company of at least $10 million.

1.6 "IPO Price" means the price per share of the Company's Common Stock offered to public investors in an IPO, without regard to any underwriting discount or expense (as appropriately adjusted to reflect stock dividends, stock splits, combinations, recapitalizations and the like with respect to the Company's capital stock after the date hereof).

1.7 "Private Equity Financing" means a privately marketed equity financing resulting in gross proceeds in excess of $250,000 which closes before the Calendar Due Date; provided, however, that none of the following issuances of securities shall constitute a "Private Equity Financing": (i) the Offering and any subsequent offerings of senior secured convertible promissory notes or any other debt offering; (ii) securities issued without consideration in connection with any stock split or stock dividend on, the Company's Common Stock; (iii) securities issued to the Company's employees, officers, directors, consultants, advisors or service providers pursuant to any plan, agreement or similar arrangement unanimously approved by the Company's board of directors; (iv) securities issued to banks or equipment lessors; (v) securities issued in connection with sponsored research, collaboration, technology license, development, original equipment manufacturing (OEM), marketing or other similar agreements or strategic partnerships; (vi) securities issued in connection with a bona fide business acquisition of or by the Company (whether by merger, consolidation, sale of assets, sale or exchange of stock or otherwise); (vii) the Investment Unit dated October 1, 2010, issued by the Company to the Office of the Governor Economic Development and Tourism, and any securities relating to the conversion or exercise thereof; or (viii) any right, option or warrant to acquire any security convertible into or exercisable for the securities listed in clauses (i) through (vii) above.

1.8 "Private Equity Financing Price" means the price per share of Common Stock paid by investors in the Private Equity Financing, which shall be determined by dividing (a) the total consideration received or to be received by each investor assuming exercise in full of all warrants or similar securities, divided by (b) the total number of shares of Common Stock acquirable either directly or by conversion or exercise of instruments, by the Holder, on a fully diluted basis.

1.9 "Shares" means the shares of Common Stock issuable under this Warrant, computed in accordance with Section 2 below.

2. **Number of Shares and Exercise Price.**

The number of shares of Common Stock (the "Shares") covered by this Warrant and the per share Exercise Price shall be determined as follows (subject to appropriate adjustments pursuant to Section 10):

(i) in the event of an IPO that occurs prior to the Calendar Due Date, the principal amount of the Holder's Note divided by .70 of the IPO Price shall determine the number of shares covered by the Warrant while the per-share exercise price shall be equal to 0.70 times the IPO Price; or

(ii) in the event of a Private Equity Financing that occurs prior to the Calendar Due Date, the principal amount of the Holder's Note divided by 0.70 of the Private Equity Financing Price shall determine the number of shares covered by the Warrant, with a per-share exercise price equal to 0.70 times the Private Equity Financing Price; provided, however, that (A) if the Company undertakes first, a Private Equity Financing and secondly, an IPO prior to the Calendar Due Date and (B) the Private Equity Financing Price is higher than the IPO Price, then the number of shares of Common Stock covered by the Warrant and the per share exercise price shall be adjusted to equal the number of shares of Common Stock and the exercise price calculated in accordance with subsection (i) above; or

(iii) If the Company does not undertake either a Private Equity Financing or an IPO prior to the Calendar Due Date, then the number of Shares covered by this Warrant shall equal the original principal amount of the Holder's Note divided by $3.32, and the exercise price shall be $3.32 per share.

3. **Exercise of Warrant.**

3.1 Unless earlier terminated pursuant to Section 9 hereof, the purchase rights represented by this Warrant are exercisable by the Holder, in whole or in part, by the surrender of this Warrant and the Notice of Exercise annexed hereto duly executed at the Company's principal executive office (or such other office or agency of the Company as it may designate by notice in writing to the Holder at the address of the Holder appearing on the books of the Company), and upon payment of the aggregate Exercise Price of the Shares thereby purchased (by cash or by check or bank draft payable to the order of the Company); whereupon the Holder shall be entitled to receive a certificate for the number of Shares so purchased. The Company agrees that if at the time of the surrender of this Warrant and purchase of the Shares, the Holder shall be entitled to exercise this Warrant, the Shares so purchased shall be issued to the Holder as the record owner of such Shares as of the close of business on the date on which this Warrant shall have been exercised as aforesaid or on such later date requested by the Holder or on such earlier date agreed to by the Holder and the Company.

3.2 Unless earlier terminated pursuant to Section 9 hereof, in lieu of exercising this Warrant by payment of cash or check or bank draft payable to the order of the Company pursuant to subsection 3.1 above, the Holder may elect to receive Shares equal to the value of this Warrant (or the portion thereof being exercised), at any time after the date hereof and before the close of business on the Expiration Date, by surrender of this Warrant at the principal executive office of the Company, together with the Notice of Cashless Exercise annexed hereto, in which event the Company will issue to the Holder Shares in accordance with the following formula:

$$X = \frac{Y(A-B)}{A}$$

Where,

X	=	The number of Shares to be issued to Holder;
Y	=	The number of Shares for which the Warrant is being exercised;
A	=	The fair market value of one Share; and
B	=	The Exercise Price.

(a) For purposes of this subsection 3.2, the fair market value of a Share is defined as follows:

(i) if the Holder exercises within three days of the closing of the IPO, then the fair market value shall be the IPO Price;

(ii) if the Holder exercises after receipt of a notice of a Change of Control but before a Change of Control, then the fair market value shall be the value to be received in such Change of Control by the holders of the Company's Common Stock;

(iii) if the exercise occurs more than three days after the closing of the IPO, and:

(1) if the Common Stock is traded on a securities exchange or the Nasdaq Stock Market, the fair market value shall be the last sale price on the trading day immediately prior to the Company's receipt of the Notice of Conversion or, if no sale of the Company's Common Stock took place on the trading day immediately prior to the receipt of the Notice of Conversion, then the fair market value shall be the last sale price on the most recent day prior to the receipt of the Notice of Conversion on which trades were made and reported; or

(2) if the Common Stock is traded over-the-counter, the value shall be deemed to be the last sale price on the trading day immediately prior to the Company's receipt of the Notice of Conversion or, if no sale of the Company's Common Stock took place on the trading day immediately prior to the receipt of the Notice of Conversion, then the fair market value shall be the last sale price on the most recent day prior to the receipt of the Notice of Conversion on which trades were made and reported;

(iv) if there is no active public market for the Common Stock, the fair market value thereof shall be determined in good faith by the Company's Board of Directors.

3.3 The exercise or conversion of this Warrant in connection with a Change of Control may, at the election of the Holder, be conditioned upon the closing of such Change of Control, in which event the Holder shall not be deemed to have exercised or converted this Warrant until immediately prior to the closing of such Change of Control.

4. **Nonassessable.**

The Company covenants that all Shares which may be issued upon the exercise of this Warrant will be validly issued, fully paid and nonassessable and free from all taxes, liens and charges in respect of the issue thereof. Certificates for Shares purchased hereunder shall be delivered to the Holder promptly after the date on which this Warrant shall have been exercised.

5. **Fractional Shares.**

No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. With respect to any fraction of a share called for upon the exercise of this Warrant, such fractional share shall be rounded down to the nearest whole share, and the Company shall pay to the Holder the amount of such fractional share multiplied by an amount equal to such fraction multiplied by the then current fair market value (determined in accordance with Section 3.2(a)) of a Share shall be paid in cash to the Holder.

6. **Charges, Taxes and Expenses.**

Issuance of certificates for Shares upon the exercise of this Warrant shall be made without charge to the Holder hereof for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the Holder.

7. **No Rights as Shareholders.** This Warrant does not entitle the Holder to any voting rights or other rights as a shareholder of the Company prior to the exercise hereof.

8 **Saturdays, Sundays, Holidays, etc.**

If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday, a Sunday or a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day that is not a Saturday, Sunday or legal holiday.

9. **Early Termination.**

Notwithstanding anything in this Warrant to the contrary, this Warrant shall terminate upon the closing of a Change of Control.

10 **Adjustments.**

The Exercise Price and the number of Shares purchasable hereunder are subject to adjustment from time to time as set forth in this Section 10.

10.1 Reclassification, etc. If the Company, at any time while this Warrant, or any portion hereof, remains outstanding and unexpired by reclassification of securities or otherwise, shall change any of the securities as to which purchase rights under this Warrant exist into the same or a different number of securities or any other class or classes, this Warrant shall thereafter represent the right to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities that were subject to the purchase rights under this Warrant immediately prior to such reclassification or other change and the Exercise Price therefor shall be appropriately adjusted, all subject to further adjustment as provided in this Section 10.

10.2 Subdivision or Combination of Shares. In the event that the Company shall at any time subdivide the outstanding securities as to which purchase rights under this Warrant exist, or shall issue a stock dividend on the securities as to which purchase rights under this Warrant exist, the number of securities as to which purchase rights under this Warrant exist immediately prior to such subdivision or to the issuance of such stock dividend shall be proportionately increased, and the Exercise Price shall be proportionately decreased, and in the event that the Company shall at any time combine the outstanding securities as to which purchase rights under this Warrant exist, the number of securities as to which purchase rights under this Warrant exist immediately prior to such combination shall be proportionately decreased, and the Exercise Price shall be proportionately increased, effective at the close of business on the date of such subdivision, stock dividend or combination, as the case may be.

10.3 Cash Distributions. No adjustment on account of cash dividends or interest on the securities as to which purchase rights under this Warrant exist will be made to the Exercise Price under this Warrant.

11. **Notice of Certain Events.**

The Company will provide notice to the Holder with at least 20 days notice prior to the closing of a Change of Control or an IPO. Such notice shall be in accordance with the notice provision included at Section 12(e) of the Securities Purchase Agreement of even date herewith.

12. **Purchase Rights; Fundamental Transactions.** In addition to any adjustments pursuant to Section 10 above, if at any time the Company grants, issues or sells any options, convertible securities or rights to purchase stock, warrants, securities or other property pro rata to the record holders of Common Stock ("Purchase Rights"), then the Holder will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the Holder could have acquired if the Holder had held the number of shares of Common Stock acquirable upon complete exercise of this Warrant immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights.

13. **Put Right.** In conjunction with the Offering, the Holder has received certain registration rights relating to the Shares pursuant to the terms of a Registration Rights Agreement of even date herewith. If the right to have the Shares registered pursuant to the Registration Rights Agreement terminates in accordance with Section 2(f) of the Registration Rights Agreement (the "Registration Rights Termination"), the Holder will have the right to require the Company to purchase the Warrant from the Holder (the "Put Right") at a price equal to 20% of the principal amount of the Holder's Note (the "Put Price"). The Company shall pay the Holder the Put Price as promptly as practicable but in any event not later than 10 days after the Holder delivers notice to the Company of exercise of the Put Right. The Put Right will expire 12 months from the Registration Rights Termination.

14. **Miscellaneous.**

14.1 Loss, Theft, Destruction or Mutilation of Warrant. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, delivery of an indemnity agreement reasonably satisfactory in form and substance to the Company or, in the case of mutilation, on surrender and cancellation of this Warrant, the Company shall execute and deliver, in lieu of this Warrant, a new Warrant executed in the same manner as this Warrant and of like tenor and amount.

14.2 Waivers and Amendments. This Warrant and the obligations of the Company and the rights of the Holder under this Warrant may be amended, waived, discharged or terminated (either generally or in a particular instance, either retroactively or prospectively and either for a specified period of time or indefinitely) with the written consent of the Company (which shall not be required in connection with a waiver of rights in favor of the Company) and the holders of at least a majority of the then-outstanding aggregate principal amount under the Notes; provided, however, that no such amendment or waiver shall reduce the number of Shares represented by this Warrant without the consent of the Holder hereof; and provided further, however, that nothing shall prevent the Holder from individually agreeing to waive the observation of any term of this Warrant. Any amendment, waiver, discharge or termination effected in accordance with this Section14.2 shall be binding upon the Company, the Holder, and except pursuant to a waiver by an individual holder of another Warrant pursuant to the final proviso in the immediately preceding sentence, each other holder of Warrants.

14.3 Notices. Any notice, request or other communication required or permitted hereunder shall be given in accordance with the Purchase Agreement.

14.4 Severability. If one or more provisions of this Warrant are held to be unenforceable under applicable law, such provision(s) shall be excluded from this Warrant and the balance of this Warrant shall be interpreted as if such provision(s) were so excluded and shall be enforceable in accordance with its terms.

14.5 Successors and Assigns. Neither this Warrant nor any rights hereunder are transferable without the prior written consent of the Company. Notwithstanding the foregoing, the Holder shall be permitted to transfer this Warrant to any affiliate (as that term is defined in the Securities Act of 1933) of the Holder. If a transfer is permitted pursuant to this Section, the transfer shall be recorded on the books of the Company upon the surrender of this Warrant, properly endorsed, to the Company at its principal offices, and the payment to the Company of all transfer taxes and other governmental charges imposed on such transfer. In the event of a partial transfer, the Company shall issue to the holders one or more appropriate new warrants. Subject to the foregoing, the provisions of this Warrant shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the Company and the Holder.

14.6 Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to the Holder, upon any breach or default of the Company under this Warrant shall impair any such right, power, or remedy of the Holder nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default therefore or thereafter occurring. Any waiver, permit, consent, or approval of any kind or character on the part of the Holder of any breach or default under this Warrant or any waiver on the part of the Holder of any provisions or conditions of this Warrant must be made in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Warrant or by law or otherwise afforded to the Investors, shall be cumulative and not alternative.

14.7 Titles and Subtitles. The titles of the paragraphs and subparagraphs of this Warrant are for convenience of reference only and are not to be considered in construing this Warrant.

14.8 Construction. The language used in this Warrant will be deemed to be the language chosen by the parties to express their mutual intent and no rules of strict construction will be applied against any party.

14.9 Governing Law. THIS WARRANT SHALL BE GOVERNED IN ALL RESPECTS BY THE LAWS OF THE STATE OF NEW YORK AS SUCH LAWS ARE APPLIED TO AGREEMENTS BETWEEN NEW YORK RESIDENTS ENTERED INTO AND TO BE PERFORMED ENTIRELY WITHIN NEW YORK.

[*Remainder of page intentionally left blank*]

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officers thereunto duly authorized.

Ideal Power Converters, Inc.

By:
Christopher Cobb
Chief Executive Officer

Address: 5004 Bee Creek Rd. Suite 600
Spicewood TX 78669
Attn: Christopher Cobb

NOTICE OF EXERCISE

TO: Ideal Power Converters, Inc.
5004 Bee Creek Road, Suite 600
Spicewood, Texas 78669
Attn: Secretary

The undersigned hereby elects to purchase _____ shares (the "***Shares***") of the Common Stock of Ideal Power Converters, Inc. pursuant to the terms of the attached Warrant and tenders herewith payment of the purchase price in full.

Please issue a certificate or certificates representing the Shares in the name of the undersigned or in such other name as is specified below:

(Print Name)

Address:

The undersigned confirms that the undersigned is an "accredited investor," and that the Shares are being acquired for the account of the undersigned for investment only and not with a view to, or for resale in connection with, the distribution thereof, and that the undersigned has no present intention of distributing or selling the Shares.

(Date) (Signature)
(Print Name)

NOTICE OF CASHLESS EXERCISE

TO: Ideal Power Converters, Inc.
5004 Bee Creek Road, Suite 600
Spicewood, Texas 78669
Attn: Secretary

The undersigned hereby elects to purchase _____ shares (the "***Shares***") of the Common Stock of Ideal Power Converters, Inc. pursuant to the cashless exercise provision of Section 3 of the attached Warrant.

Please issue a certificate or certificates representing the Shares in the name of the undersigned or in such other name as is specified below:

(Print Name)

Address:

The undersigned represents that the undersigned is an "accredited investor," and that the Shares are being acquired for the account of the undersigned for investment and not with a view to, or for resale in connection with, the distribution thereof, and that the undersigned has no present intention of distributing or reselling such shares.

(Date) (Signature)
(Print Name)

EXHIBIT E

SECURITY AGREEMENT

[*see attached*]

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (the "Agreement"), dated as of August __, 2012, is entered into by and among IDEAL POWER CONVERTERS, INC., a Texas corporation ("Debtor"), the Subscribers identified on **Schedule 1** hereto (the "Subscribers"), who are parties to the Securities Purchase Agreement dated as of August __, 2012 (the "Purchase Agreement"), by and among Debtor and such Subscribers, and [*Name of Collateral Agent*] ("Collateral Agent").

RECITALS

WHEREAS, Subscribers are making senior secured loans in one or more tranches or series, initially in the amount $750,000 (the "Initial Senior Debt") and thereafter up to an aggregate principal amount of $5,000,000 inclusive of the Initial Senior Debt (collectively "Senior Loans") to the Debtor, intended, collectively, as a loan secured by a first-priority senior security interest in all assets of the Debtor.

WHEREAS, the Senior Loans will be evidenced by one or more senior secured convertible promissory notes (each a "Note") issued by the Debtor on or about the date of this Agreement pursuant to the Purchase Agreement. The Notes were or will be executed by the Debtor as borrower, in favor of and to document indebtedness to, the Subscribers (each, a "Holder" and collectively the "Holders").

WHEREAS, concurrently with this Agreement, the Debtor, the Subscribers and the Collateral Agent are entering into a Subordination Agreement with The Office of the Governor Economic Development and Tourism, of the State of Texas ("Subordinated Lender") pursuant to which the Subordinated Lender is agreeing to subordinate its rights, priority and claims under its Subordinated Debt Instrument, to the Senior Loans made or being made under the Notes.

WHEREAS, in consideration of the Senior Loans made and to be made by the Subscribers to the Debtor and for other good and valuable consideration, and as security for the performance by the Debtor of its obligations under the Notes, and as security for the repayment of the Senior Loans and all other sums due from the Debtor to the Subscribers arising under the Transaction Documents (as defined in the Purchase Agreement, the Notes, and any other agreement between or among them (collectively, the "Obligations")), the Debtor, for good and valuable consideration, receipt of which is acknowledged, has agreed to grant to the Subscribers and to the Collateral Agent on behalf of the Subscribers a security interest in the Collateral (as such term is hereinafter defined), on the terms and conditions hereinafter set forth.

WHEREAS, the following terms which are defined in the Uniform Commercial Code in effect in the State of New York on the date hereof are included on **Schedule 2** and are used herein as so defined: Account, Chattel Paper, Documents, Equipment, General Intangible, Goods, Instrument, Inventory and Proceeds.

AGREEMENT

1. Definitions; Interpretation. All capitalized terms used in this Agreement and not otherwise defined herein shall have the meanings assigned to them in the Note and Purchase Agreement. As used in this Agreement, the following terms shall have the following meanings:

"Agreement" means this Security Agreement, including any amendments hereto.

"Collateral Agent" shall have the meaning as set forth in the Preamble.

"Collateral" shall have the meaning as set forth in Section 2.2.

"Debtor" shall have the meaning as set forth in the Preamble.

"Event of Default" shall have the meaning as set forth in Section 8.

"Holder" or "Holders" shall have the meaning as set forth in the Recitals.

"Senior Loans" shall have the meaning as set forth in the Recitals.

"Majority in Interest" shall have the meaning as set forth in Section 12.3.

"Note" shall have the meaning as set forth in the Recitals.

"Obligations" shall have the meaning as set forth in the Recitals.

"Permitted Liens" shall have the meaning as set forth in Section 5.1.

"Subscribers" shall have the meaning as set forth in the Preamble.

2. Grant of General Security Interest in Collateral.

2.1 As security for the Obligations of the Debtor, the Debtor hereby grants each of the Subscribers, a security interest in the Collateral.

2.2 "Collateral" shall mean all of the following property of the Debtor:

(A) All now owned and hereafter acquired right, title and interest of the Debtor in, to and in respect of all Accounts, Goods, real or personal property, all present and future books and records relating to the foregoing and all products and Proceeds of the foregoing, and as set forth below:

(i) all now owned and hereafter acquired right, title and interest of the Debtor in, to and in respect of all: Accounts, interests in goods represented by Accounts, returned, reclaimed or repossessed goods with respect thereto and rights as an unpaid vendor; contract rights; Chattel Paper; investment property; General Intangibles (including but not limited to, tax and duty claims and refunds, registered and unregistered patents, trademarks, service marks, certificates, copyrights, trade names, applications for the foregoing, trade secrets, goodwill, processes, drawings, blueprints, customer lists, licenses, whether as licensor or licensee, choses in action and other claims, and existing and future leasehold interests and claims in and to equipment, real estate and fixtures); Documents; Instruments; letters of credit, bankers' acceptances or guaranties; cash moneys, deposits including but not limited to the deposit accounts identified on **Schedule 3**; securities, bank accounts, deposit accounts, credits and other property now or hereafter owned or held in any capacity by Debtors, as well as agreements or property securing or relating to any of the items referred to above;

(ii) Goods. All now owned and hereafter acquired right, title and interest of Debtors in, to and in respect of goods, including, but not limited to:

(a) All Inventory, wherever located, whether now owned or hereafter acquired, of whatever kind, nature or description, including all raw materials, work-in-process, finished goods, and materials to be used or consumed in the Debtor's business; finished goods, timber cut or to be cut, oil, gas, hydrocarbons, and minerals extracted or to be extracted, and all names or marks affixed to or to be affixed thereto for purposes of selling same by the seller, manufacturer, lessor or licensor thereof and all Inventory which may be returned to the Debtor by its customers or repossessed by the Debtor and all of the Debtor's right, title and interest in and to the foregoing (including all of the Debtor's rights as a seller of goods);

(b) All Equipment and fixtures, wherever located, whether now owned or hereafter acquired, including, without limitation, all machinery, furniture and fixtures, and any and all additions, substitutions, replacements (including spare parts), and accessions thereof and thereto (including, but not limited to the Debtor's rights to acquire any of the foregoing, whether by exercise of a purchase option or otherwise);

(iii) Property. All now owned and hereafter acquired right, title and interests of the Debtor in, to and in respect of any other personal property in or upon which the Debtor has or may hereafter have a security interest, lien or right of setoff;

(iv) Books and Records. All present and future books and records relating to any of the above including, without limitation, all computer programs, printed output and computer readable data in the possession or control of the Debtor, any computer service bureau or other third party; and

(v) Products and Proceeds. All products and Proceeds of the foregoing in whatever form and wherever located, including, without limitation, all insurance proceeds and all claims against third parties for loss or destruction of or damage to any of the foregoing.

(B) All now owned and hereafter acquired right, title and interest of the Debtor in, to and in respect of the following:

(i) all additional shares of stock, partnership interests, member interests or other equity interests from time to time acquired by the Debtor, in any subsidiary of the Debtor, the certificates representing such additional shares, and other rights, contractual or otherwise, in respect thereof and all dividends, distributions, cash, instruments, investment property and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such additional shares, interests or equity; and

(ii) all security entitlements of the Debtor in, and all Proceeds of any and all of the foregoing in each case, whether now owned or hereafter acquired by the Debtor and howsoever its interest therein may arise or appear (whether by ownership, security interest, lien, claim or otherwise).

Notwithstanding anything to the contrary set forth in Section 2.2 above, the types or items of Collateral described in such Section shall not include any rights or interests in any contract, lease, permit, license, charter or license agreement covering real or personal property, as such, if under the terms of such contract, lease, permit, license, charter or license agreement, or applicable law with respect thereto, the valid grant of a security interest or lien therein to the Subscribers is prohibited or would result in a breach and such prohibition or breach has not been or is not waived or the consent of the other party to such contract, lease, permit, license, charter or license agreement has not been or is not otherwise obtained or under applicable law such prohibition or breach cannot be waived.

Notwithstanding anything to the contrary set forth in Section 2.2 above, the types or items of Collateral described in such Section shall not include any Equipment which is, or at the time of the Debtor's acquisition thereof shall be, subject to a purchase money mortgage or other purchase money lien or security interest (including capitalized or finance leases) permitted hereunder if: (a) the valid grant of a security interest or lien therein to the Subscribers in such Equipment is prohibited by the terms of the agreement between the Debtor and the holder of such purchase money mortgage or other purchase money lien or security interest or under applicable law and such prohibition has not been or is not waived, or the consent of the holder of the purchase money mortgage or other purchase money lien or security interest has not been or is not otherwise obtained, or under applicable law such prohibition cannot be waived and (b) the purchase money mortgage or other purchase money lien or security interest on such item of Equipment is or shall become valid and perfected. To the extent each of the foregoing conditions is satisfied, the Subscribers shall, through the Collateral Agent, at the request of the Debtor and at the Debtor's expense, execute and deliver a UCC-3 partial release with respect to any such Equipment subject to such a purchase money security interest or lien, provided, that, such partial release shall be in form and substance satisfactory to the Collateral Agent.

"Equipment" shall include all of the Debtor's now owned and hereafter acquired equipment, machinery, laboratory and research equipment and tools, computers and computer hardware and software (whether owned or licensed), vehicles, tools, furniture, fixtures, all attachments, accessions and property now or hereafter affixed thereto or used in connection therewith, and substitutions and replacements thereof, wherever located.

2.3 The Subscribers and the Collateral Agent are hereby specifically authorized, after the Maturity Date (defined in the Note) accelerated or otherwise, and after the occurrence of an Event of Default (as defined herein) and the expiration of any applicable cure period, to transfer any Collateral into the name of the Collateral Agent and to take any and all action deemed advisable to the Subscribers to remove any transfer restrictions affecting the Collateral.

3. Perfection of Security Interest.

3.1 The Debtor shall prepare, execute and deliver to the Collateral Agent UCC-1 Financing Statements or other instruments necessary to perfect a security interest in any item of the Collateral (collectively, the "Lien Documents") in form and substance acceptable to the Collateral Agent. The Collateral Agent is instructed to prepare and file at the Debtor's cost and expense, the Lien Documents in such United States and foreign jurisdictions deemed advisable to the Collateral Agent, including but not limited to Washington, D.C., and the State of Texas.

3.2 All other certificates and instruments constituting Collateral from time to time required to be pledged to the Subscribers pursuant to the terms hereof (the "Additional Collateral") shall be delivered to the Collateral Agent promptly upon receipt thereof by or on behalf of the Debtor. All such certificates and instruments shall be held by or on behalf of the Subscribers pursuant hereto and shall be delivered in suitable form for transfer by delivery, or shall be accompanied by duly executed instruments of transfer or assignment or undated stock powers executed in blank, all in form and substance satisfactory to the Collateral Agent. If any Collateral consists of uncertificated securities, unless the immediately following sentence is applicable thereto, the Debtor shall cause the Collateral Agent to become the registered holder thereof, or cause each issuer of such securities to agree that it will comply with instructions originated by the Collateral Agent with respect to such securities. If any Collateral consists of security entitlements, the Debtor shall transfer such security entitlements to the Collateral Agent or cause the applicable securities intermediary to agree that it will comply with entitlement orders by the Collateral Agent.

3.3 If the Debtor shall receive, by virtue of the Debtor being or having been an owner of any Collateral, any (i) stock certificate (including, without limitation, any certificate representing a stock dividend or distribution in connection with any increase or reduction of capital, reclassification, merger, consolidation, sale of assets, combination of shares, stock split, spin-off or split-off), promissory note or other instrument, (ii) option or right, whether as an addition to, substitution for, or in exchange for, any Collateral, or otherwise, (iii) dividends payable in cash or in securities or other property or (iv) dividends or other distributions in connection with a partial or total liquidation or dissolution or in connection with a reduction of capital, capital surplus or paid-in surplus, the Debtor shall receive such stock certificate, promissory note, instrument, option, right, payment or distribution in trust for the benefit of the Subscribers, shall segregate it from the Debtor's other property and shall deliver it forthwith to the Subscribers, in the exact form received, with any necessary endorsement and/or appropriate stock powers duly executed in blank, to be held by the Subscribers as Collateral and as further collateral security for the Obligations.

4. Voting Power Relating to Collateral/Dividends and Distributions.

4.1 So long as an Event of Default does not exist, the Debtor shall be entitled to exercise all voting power pertaining to any of the Collateral, provided such exercise is not contrary to the interests of the Subscribers and does not impair the Collateral.

4.2. At any time an Event of Default exists or has occurred and is continuing, all rights of the Debtor, upon notice given by the Collateral Agent, to exercise the voting power shall cease and all such rights shall thereupon become vested in the Collateral Agent for the benefit of the Subscribers, which shall thereupon have the sole right to exercise such voting power and receive such payments.

4.3 All dividends, distributions, interest and other payments which are received by Debtor contrary to the provisions of Section 4.2 shall be received in trust for the benefit of the Subscribers as security and Collateral for payment of the Obligations, shall be segregated from other funds of Debtor, and shall be forthwith paid over to the Collateral Agent as Collateral in the exact form received with any necessary endorsement and/or appropriate stock powers duly executed in blank, to be held by the Collateral Agent as Collateral and as further collateral security for the Obligations.

5. Further Action By Debtors; Covenants and Warranties.

5.1 The Subscribers at all times shall have a perfected security interest in the Collateral. The Debtor represents that other than the security interests described on **Schedule 5.1,** it has and will continue to have full title to the Collateral free from any liens, leases, encumbrances, judgments or other claims, except for "Permitted Liens" (defined below). The Subscribers' security interest in the Collateral constitutes and will continue to constitute a first, prior and indefeasible security interest in favor of the Subscribers, subject only to the security interests described on **Schedule 5.1**. The Debtor will do all acts and things, and will execute and file all instruments (including, but not limited to, security agreements, financing statements, continuation statements, etc.) reasonably requested by the Collateral Agent to establish, maintain and continue the perfected security interest of the Subscribers in the perfected Collateral, and will promptly on demand, pay all costs and expenses of filing and recording, including the costs of any searches reasonably deemed necessary by the Collateral Agent from time to time to establish and determine the validity and the continuing priority of the security interest of the Subscribers, and also pay all other claims and charges that, in the opinion of the Subscribers are reasonably likely to materially prejudice, imperil or otherwise affect the Collateral or the Subscribers' security interests therein. For purposes of this Agreement, "Permitted Liens" shall include:

(a) liens for the payment of taxes which are not yet due and payable;

(b) liens arising by statute in connection with worker's compensation, unemployment insurance, old age benefits, social security obligations, taxes, assessments, statutory obligations or other similar charges (other than Liens arising under ERISA), good faith cash deposits in connection with tenders, contracts or leases to which the the Debtor is a party or other cash deposits required to be made in the ordinary course of business, provided in each case that the obligation is not for borrowed money and that the obligation secured is not overdue or, if overdue, is being contested in good faith by appropriate proceedings which prevent enforcement of the matter under contest and adequate reserves have been established therefor;

(c) mechanics', workmen's, materialmen's, landlords', carriers' or other similar liens arising in the ordinary course of business with respect to obligations which are not due or which are being contested in good faith by appropriate proceedings which prevent enforcement of the matter under contest;

(d) any interest or title of a lessor under any operating lease or capital lease; and

(e) liens on real property of the Debtor or created solely for the purpose of securing indebtedness incurred to finance the purchase price of such real property;

(f) cash deposits to secure performance bonds and other obligations of a like nature (in each case, other than for Indebtedness) incurred in the ordinary course of business for obligations not yet due or which are being contested in good faith by appropriate proceedings which prevent enforcement of the matter under contest and adequate reserves have been established therefor;

(g) easements, rights-of-way, zoning and similar restrictions, building codes, reservations, covenants, conditions, waivers, survey exceptions and other similar encumbrances or title defects and, with respect to any interests in real property held or leased by the Debtor or any of its subsidiaries, mortgages, deeds of trust and other encumbrances incurred, created, assumed or permitted to exist and arising by, through or under a landlord or owner of such property encumbering solely such landlord's or owner's interest in such real property, with or without the consent of the lessee;

(h) liens in existence on the date hereof;

(i) any interest of a licensor under a license entered into in the ordinary course of the Debtor's business; and

(j) any lien existing on any part of any business acquired by the Debtor, prior to the acquisition thereof by the Debtor.

5.2 Except in connection with sales of Collateral in the ordinary course of business, for fair value and in cash, and except for Collateral which is substituted by assets of identical or greater value (subject to the consent of the Collateral Agent) or which is not material to the Debtor's business, the Debtor will not sell, transfer, assign or pledge those items of Collateral (or allow any such items to be sold, transferred, assigned or pledged), without the prior written consent of the Collateral Agent other than a transfer of the Collateral to a wholly-owned United States formed and located subsidiary of the Debtor with prior notice to the Collateral Agent, and provided the Collateral remains subject to the security interest herein described. Although Proceeds of Collateral are covered by this Agreement, this shall not be construed to mean that the Collateral Agent or the Subscribers consent to any sale of the Collateral, except as provided herein. Sales of Collateral in the ordinary course of business as described above shall be free of the security interest of the Subscribers and the Collateral Agent shall promptly execute such documents (including without limitation releases and termination statements) as may be required by the Debtor to evidence or effectuate the same.

5.3 The Debtor will, at all reasonable times during regular business hours and upon reasonable notice, allow Collateral Agent or its representatives free and complete access to the Collateral and all of the Debtor's records that in any way relate to the Collateral, for such inspection and examination as the Collateral Agent reasonably deems necessary.

5.4 The Debtor, at its sole cost and expense, will protect and defend the Collateral against the claims and demands of all persons other than the Subscribers.

5.5 The Debtor will promptly notify the Collateral Agent of any levy, distraint or other seizure by legal process or otherwise of any part of the Collateral, and of any threatened or filed claims or proceedings that are reasonably likely to affect or impair any of the rights of the Subscribers under this Security Agreement in any material respect.

5.6 The Debtor will, at its own expense, make, execute, endorse, acknowledge, file and/or deliver to the Collateral Agent from time to time such vouchers, invoices, schedules, confirmatory assignments, conveyances, financing statements, transfer endorsements, powers of attorney, certificates, reports and other reasonable assurances or instruments and take further steps relating to the Collateral and other property or rights covered by the security interest hereby granted, as the Collateral Agent may reasonably require to perfect the security interest of the Subscribers hereunder.

5.7 The Debtor represents and warrants that it is the true and lawful exclusive owner of the Collateral, free and clear of any liens, encumbrances and claims other than those listed on Schedule 5.1.

6. Power of Attorney.

At any time an Event of Default has occurred, and only after the applicable cure period as set forth in this Agreement and the other Transaction Documents, and is continuing, the Debtor hereby irrevocably constitutes and appoints the Collateral Agent as the true and lawful attorney of the Debtor, with full power of substitution, in the place and stead of Debtor and in the name of the Debtor or otherwise, at any time or times, in the discretion of the Collateral Agent, to take any action and to execute any instrument or document which is reasonably and prudently necessary to protect the Subscribers' rights in the Collateral as set forth in this Agreement. This power of attorney is coupled with an interest and is irrevocable until the Obligations are satisfied.

7. Performance by the Subscribers.

If the Debtor fails to perform any material covenant, agreement, duty or obligation of the Debtor under this Agreement, the Collateral Agent may, after any applicable cure period and notice required hereunder, at any time or times in its discretion, take action to effect performance of such obligation. All reasonable expenses of the Subscribers incurred in connection with the foregoing authorization shall be payable by the Debtor as provided in Paragraph 10.1 hereof. No discretionary right, remedy or power granted to the Subscribers under any part of this Agreement shall be deemed to impose any obligation whatsoever on the Subscribers with respect thereto, such rights, remedies and powers being solely for the protection of the Subscribers.

8. Event of Default.

An event of default ("Event of Default") shall be deemed to have occurred hereunder upon the occurrence of any event of default as defined and described in this Agreement, in the Note, the Purchase Agreement, Transaction Documents (as defined in the Purchase Agreement), and any other agreement to which the Debtor and the Subscribers are parties. Upon and after any Event of Default, after the applicable cure period, if any, any or all of the Obligations shall become immediately due and payable at the option of the Collateral Agent, and the Collateral Agent may dispose of Collateral as provided herein. A default by the Debtor of any of its material obligations pursuant to this Agreement and any of the Transaction Documents shall be an Event of Default hereunder and an "Event of Default" as defined in the Note, and Subscription Agreement.

9. Disposition of Collateral.

Upon and after any Event of Default which is then continuing,

9.1 The Collateral Agent may exercise its rights with respect to each and every component of the Collateral, without regard to the existence of any other security or source of payment, in order to satisfy the Obligations. In addition to other rights and remedies provided for herein or otherwise available to it, the Subscribers shall have all of the rights and remedies of a secured party on default under the Uniform Commercial Code then in effect in the State of New York.

9.2 If any notice to the Debtor of the sale or other disposition of Collateral is required by then applicable law, five (5) business days prior written notice (which the Debtor agrees is reasonable notice within the meaning of Section 9.612(a) of the Uniform Commercial Code) shall be given to the Debtor of the time and place of any sale of Collateral which the Debtor hereby agrees may be by private sale. The rights granted in this Section are in addition to any and all rights available to the Subscribers under the Uniform Commercial Code.

9.3 The Collateral Holder is authorized, at any such sale, if the Collateral Holder deems it advisable to do so, in order to comply with any applicable securities laws, to restrict the prospective bidders or purchasers to persons who will represent and agree, among other things, that they are purchasing the Collateral for their own account for investment, and not with a view to the distribution or resale thereof, or otherwise to restrict such sale in such other manner as the Subscribers deem advisable to ensure such compliance. Sales made subject to such restrictions shall be deemed to have been made in a commercially reasonable manner.

9.4 All proceeds received by the Subscribers in respect of any sale, collection or other enforcement or disposition of Collateral, shall be applied (after deduction of any amounts payable to the Subscribers pursuant to Paragraph 10.1 hereof) against the Obligations. Upon payment in full of all Obligations, the Debtor shall be entitled to the return of all Collateral, including cash, which has not been used or applied toward the payment of the Obligations or used or applied to any and all costs or expenses of the Subscribers incurred in connection with the liquidation of the Collateral (unless another person is legally entitled thereto). Any assignment of Collateral by the Collateral Holder to the Debtor shall be without representation or warranty of any nature whatsoever and wholly without recourse. To the extent allowed by law, the Collateral Holder may purchase the Collateral and pay for such purchase by offsetting the purchase price with sums owed to the Subscribers by the Debtor arising under the Obligations or any other source.

9.5 Without limiting, and in addition to, any other rights, options and remedies the Subscribers have under the Transaction Documents, the UCC, at law or in equity, or otherwise, upon the occurrence and continuation of an Event of Default, the Collateral Holder shall have the right to apply for and have a receiver appointed by a court of competent jurisdiction. The Debtor expressly agrees that such a receiver will be able to manage, protect and preserve the Collateral and continue the operation of the business of the Debtor to the extent necessary to collect all revenues and profits thereof and to apply the same to the payment of all expenses and other charges of such receivership, including the compensation of the receiver, until a sale or other disposition of such Collateral shall be finally made and consummated.

9.6 Provided an Event of Default or an event, which with the passage of time or the giving of notice could become an Event of Default is not pending, then from and after the date the Subscriber has exercised its conversion rights with respect to not less than one-half of the Principal Amount of the Subscriber's Note and the Debtor has complied with its obligations with respect to all such conversions, then the Subscriber's security interest granted pursuant to this Agreement shall be automatically released.

10. Miscellaneous.

10.1 Expenses. The Debtor shall pay to the Collateral Agent for the benefit of the Subscribers, on demand, the amount of any and all reasonable expenses, including, without limitation, attorneys' fees, legal expenses and brokers' fees, which the Collateral Agent may incur in connection with (a) exercise or enforcement of any the rights, remedies or powers of the Subscribers hereunder or with respect to any or all of the Obligations upon breach; or (b) failure by the Debtor to perform and observe any agreements of the Debtor contained herein which are performed by Collateral Agent.

10.2 Waivers, Amendment and Remedies. No course of dealing by the Collateral Agent or the Subscribers and no failure by the Collateral Agent or the Subscribers to exercise, or delay by the Collateral Agent or the Subscribers in exercising, any right, remedy or power hereunder shall operate as a waiver thereof, and no single or partial exercise thereof shall preclude any other or further exercise thereof or the exercise of any other right, remedy or power of the Collateral Agent or the Subscribers. No amendment, modification or waiver of any provision of this Agreement and no consent to any departure by the Debtor therefrom shall, in any event, be effective unless contained in a writing signed by the Collateral Agent, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. The rights, remedies and powers of the Collateral Agent, not only hereunder, but also under any instruments and agreements evidencing or securing the Obligations and under applicable law are cumulative, and may be exercised by the Collateral Agent for the benefit of the Subscribers from time to time in such order as the Collateral Agent may elect.

10.3 Notices. All notices or other communications given or made hereunder shall be in writing and shall be personally delivered or deemed delivered the first business day after being faxed (provided that a copy is delivered by first class mail) to the party to receive the same at its address set forth below or to such other address as either party shall hereafter give to the other by notice duly made under this Section:

To Debtors:	Ideal Power Converters, Inc. 5004 Bee Creek Rd., Suite 600 Spicewood, Texas 78669 Attn: Chief Executive Officer Christopher.Cobb@idealpowerconverters.com
With a copy by facsimile only to:	Richardson & Patel LLP 1100 Glendon Avenue, Suite 850 Los Angeles, CA 90024 Fax: (310) 208-1154 Tel: (310) 208-1182
To Holders:	To the addresses specified in the Subscription Agreement for each Holder
To Collateral Agent:	[Name and address of Collateral Agent] [To be provided.]
With a copy (not constituting notice) to:	Law Offices of Aaron A. Grunfeld & Associates 1100 Glendon Avenue, Suite 850 Los Angeles, California 90024 Attention: Aaron A. Grunfeld Tel: (310) 788-7577 agrunfeld@grunfeldlaw.com

Any party may change its address by written notice in accordance with this paragraph.

10.4 Term; Binding Effect. This Agreement shall (a) remain in full force and effect until payment and satisfaction in full of all of the Obligations; (b) be binding upon the Debtor, and its successors and permitted assigns; and (c) inure to the benefit of the Subscribers and its successors and assigns.

10.5 Captions. The captions of Paragraphs, Articles and Sections in this Agreement have been included for convenience of reference only, and shall not define or limit the provisions of this agreement and have no legal or other significance whatsoever.

10.6 Governing Law; Venue; Severability. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to conflicts of laws principles that would result in the application of the substantive laws of another jurisdiction, except to the extent that the perfection of the security interest granted hereby in respect of any item of Collateral may be governed by the law of another jurisdiction. Any legal action or proceeding against the Debtor with respect to this Agreement must be brought only in the courts in the State of New York or United States federal courts located within the State of New York, and, by execution and delivery of this Agreement, the Debtor hereby irrevocably accepts for itself and in respect of its property, generally and unconditionally, the jurisdiction of the aforesaid courts. The Debtor hereby irrevocably waives any objection which it may now or hereafter have to the laying of venue of any of the aforesaid actions or proceedings arising out of or in connection with this Agreement brought in the aforesaid courts and hereby further irrevocably waives and agrees not to plead or claim in any such court that any such action or proceeding brought in any such court has been brought in an inconvenient forum. If any provision of this Agreement, or the application thereof to any person or circumstance, is held invalid, such invalidity shall not affect any other provisions which can be given effect without the invalid provision or application, and to this end the provisions hereof shall be severable and the remaining, valid provisions shall remain of full force and effect.

10.7 Entire Agreement. This Agreement contains the entire agreement of the parties and supersedes all other agreements and understandings, oral or written, with respect to the matters contained herein.

10.8 Counterparts/Execution. This Agreement may be executed in any number of counterparts and by the different signatories hereto on separate counterparts, each of which, when so executed, shall be deemed an original, but all such counterparts shall constitute but one and the same instrument. This Agreement may be executed by facsimile signature and delivered by electronic transmission.

11. Termination; Release. When the Obligations have been indefeasibly paid and performed in full or all outstanding Notes have been converted to Common Stock pursuant to the terms of the Note and the Purchase Agreements, this Agreement shall terminate, and the Subscribers or the Collateral Agent, as appropriate, at the request and sole expense of the Debtor, will execute and deliver to the Debtor the proper instruments (including UCC termination statements) acknowledging the termination of the Security Agreement, and duly assign, transfer and deliver to the Debtor, without recourse, representation or warranty of any kind whatsoever, such of the Collateral, as may be in the possession of the Collateral Agent or Subscribers.

12. Subscribers' Powers.

12.1 Subscribers' Powers. The powers conferred on the Subscribers hereunder are solely to protect Subscribers' interest in the Collateral and shall not impose any duty on the Subscribers to exercise any such powers.

12.2 Reasonable Care. The Collateral Agent is required to exercise reasonable care in the custody and preservation of any Collateral in its possession.

12.3 Majority in Interest. The rights of the Subscribers hereunder, except as otherwise set forth herein shall be exercised upon the approval of Subscribers holding 51% of the outstanding Obligations ("Majority in Interest") at the time such approval is sought or given. Any tangible or physical Collateral shall be delivered to and be held by the Collateral Agent pursuant to this Agreement and on behalf of all Subscribers as to their respective rights.

12.4 Authority of Collateral Agent. By executing this Agreement the Subscribers appoint the Collateral Agent as their agent to exercise all of the rights, benefits and remedies granted to them as secured parties under this Agreement. The Collateral Agent agrees to exercise all of the rights, benefits and remedies conveyed by this Agreement solely for the benefit of the Subscribers and, unless a delay would cause irreparable damage to the Collateral or any part of it, only after consultation with the Majority in Interest. In accordance with its role as the agent for the Subscribers, the Lien Documents will identify the Collateral Agent as the secured party.

12.5 Duties of the Collateral Agent. The Collateral Agent agrees to hold and dispose of the Collateral in accordance with and subject only to the terms of this Agreement.

12.6 Appointment of Attorney-in-Fact. The Debtor hereby irrevocably appoints the Collateral Agent as the Debtor's attorney-in-fact to arrange for the transfer of the Collateral and to do and perform all actions that are necessary or appropriate in order to effect the terms of this Agreement.

12.7 Matters Pertaining to Collateral Agent.

12.7.1 The Collateral Agent shall not be personally liable for any act it may do or omit to do under this Agreement while acting in good faith and in the exercise of its best judgment, and any act done or omitted by the Collateral Agent pursuant to the advice of the Collateral Agent's attorney shall be conclusive evidence of such good faith. Except as expressly provided herein, the Collateral Agent is expressly authorized and directed to disregard any and all notices or warnings given by any of the parties, or by any other person or corporation, excepting only orders or process of court, and is hereby expressly authorized to comply with and obey any and all orders, judgments or decrees of any court. If the Collateral Agent obeys or complies with any such order, judgment or decree of any court, it shall not be liable to the Subscribers or the Debtor or to any other person, firm or corporation by reason of such compliance, notwithstanding that any such order, judgment or decree be subsequently reversed, modified, annulled, set aside or vacated, or found to have been entered without jurisdiction.

12.7.2 The Subscribers and the Debtor expressly agree the Collateral Agent has the absolute right at the Collateral Agent's election, if the Collateral Agent considers it appropriate, to file an action in interpleader in a court of proper jurisdiction requiring the parties to answer and litigate their claims and rights among themselves, and the Collateral Agent is authorized to deposit with the clerk of the court all documents and funds held by him pursuant to this Agreement. In the event such action is filed, the Debtor agrees to pay all costs, expenses and reasonable attorneys' fees that the Collateral Agent incurs in such interpleader action. Upon filing of such action the Collateral Agent shall thereupon be fully released and discharged from all obligations to further perform any duties or obligations otherwise imposed by the terms of this Agreement.

12.7.3 The Collateral Agent shall not be bound in any way by any other agreement between the Subscribers and the Debtor as to which the Collateral Agent is not a party, whether or not the Collateral Agent has knowledge thereof, nor by any notice of a claim or demand with respect to this Agreement or the Collateral. The Collateral Agent shall have no duties or responsibilities except as expressly set forth in this Agreement. The Collateral Agent may rely conclusively on any certificate, statement, request, waiver, receipt, agreement or other instrument that the Collateral Agent believes to be genuine and to have been signed and presented by an appropriate person or persons.

12.7.4 The retention and distribution of the Collateral in accordance with the terms and provisions of this Agreement shall fully and completely release the Collateral Agent from any obligation or liability assumed by the Collateral Agent hereunder as to the Collateral.

12.7.5 The Collateral Agent, while in possession of the Collateral prior to or following the occurrence of an Event of Default, as hereinabove provided, and while acting in accordance with the terms of this Agreement or applicable law, is not responsible for any fluctuations in value or delays in disposing of the Collateral.

12.7.6 The Collateral Agent shall not be liable in any respect for verifying the identity, authority or rights of the parties executing or delivering or purporting to execute and/or deliver this Agreement.

12.7.7 Notwithstanding anything herein to the contrary, the Collateral Agent shall have no duty with respect to the Collateral other than the duty to use reasonable care in the custody and preservation of the Collateral if it is in the Collateral Agent's possession. The Collateral Agent shall be under no obligation to take any steps necessary to preserve rights in the Collateral against any other parties, to sell the Collateral if it threatens to decline in value, or to exercise any rights represented thereby, except as directed by the Majority in Interest pursuant to the terms of this Agreement.

12.7.8 The Debtor and the Subscribers agree to and each does hereby indemnify, defend (with counsel acceptable to the Collateral Agent) and hold the Collateral Agent harmless against any and all losses, damages, claims and expenses, including reasonable attorneys' fees, that may be incurred by the Collateral Agent by reason of it compliance with the terms of this Agreement. If, as a result of any disagreement between the parties and/or adverse demands and claims being made by any or all of them upon the Collateral Agent, the Collateral Agent shall become involved in litigation, including any interpleader brought by the Collateral Agent as provided in this Agreement, the Debtor agrees that it shall be liable to the Collateral Agent on demand for all costs, expenses and attorneys' fees that the Collateral Agent shall incur and/or be compelled to pay by reason of such litigation.

12.8 Replacement of Collateral Agent. In the event the Collateral Agent is or becomes unwilling or unable to act in such capacity for any reason, the Majority in Interest shall appoint a successor. The Majority in Interest (but not Debtor) shall have the right, after delivery of written notice signed by the Majority in Interest to the Collateral Agent, to terminate the Collateral Agent and to name the Collateral Agent's successor.

[THIS SPACE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the undersigned have executed and delivered this Security Agreement, as of the date first written above.

"DEBTOR"

IDEAL POWER CONVERTERS, INC.
a Texas corporation

By: _____ Christopher Cobb
Chief Executive Officer

Agreed and Accepted by:

"COLLATERAL AGENT"

[NAME OF COLLATERAL AGENT]

By: _____

Name: _____

Title: _____

This Security Agreement may be signed by facsimile signature and delivered by confirmed facsimile transmission.

OMNIBUS SUBSCRIBER SIGNATURE PAGE TO
SECURITY AGREEMENT

The undersigned, in its capacity as a Subscriber, hereby executes and delivers the Security Agreement to which this signature page is attached and agrees to be bound by the Security Agreement on the date set forth on the first page of the Security Agreement. This counterpart signature page, together with all counterparts of the Security Agreement and signature pages of the other parties named therein, shall constitute one and the same instrument in accordance with the terms of the Security Agreement.

_____	_____
[Print Name of Subscriber]	[Name of Co-Subscriber, if applicable]
_____	_____
[Signature]	[Signature]
Name:	Name:_____
Title:_____	Title: _____
Mailing Address:	Telephone No.:_____
	Facsimile No:_____
	Email Address:_____
(City, State and Zip)	

IDEAL POWER CONVERTERS, INC.
SECURITY AGREEMENT EXHIBITS AND SCHEDULES

Schedule 1 – Subscribers

Schedule 2 - Provisions of the New York Uniform Commercial Code

Schedule 3 – Deposit Accounts

Schedule 5.1 – Security Interests

SCHEDULE 1

SUBSCRIBERS

SUBSCRIBER AND ADDRESS	NOTE PRINCIPAL AMOUNT	WARRANTS
TOTAL	**$**	

SCHEDULE 2

UNIFORM COMMERCIAL CODE OF NEW YORK

Definitions from § 9.102 of the New York Uniform Commercial Code

(2) "Account", except as used in "account for", means a right to payment of a monetary obligation, whether or not earned by performance, (i) for property that has been or is to be sold, leased, licensed, assigned, or otherwise disposed of, (ii)for services rendered or to be rendered, (iii) for a policy of insurance issued or to be issued, (iv) for a secondary obligation incurred or to be incurred, (v) for energy provided or to be provided, (vi) for the use or hire of a vessel under a charter or other contract, (vii) arising out of the use of a credit or charge card or information contained on or for use with the card, or (viii) as winnings in a lottery or other game of chance operated or sponsored by a state, governmental unit of a State, or person licensed or authorized to operate the game by a State or governmental unit of a State. The term includes health-care-insurance receivables. The term does not include (i) rights to payment evidenced by chattel paper or an instrument, (ii) commercial tort claims, (iii) deposit accounts, (iv) investment property, (v) letter-of-credit rights or letters of credit, or (vi) rights to payment for money or funds advanced or sold, other than rights arising out of the use of a credit or charge card or information contained on or for use with the card.

(11) "Chattel paper" means a record or records that evidence both a monetary obligation and a security interest in specific goods, a security interest in specific goods and software used in the goods, a security interest in specific goods and license of software used in the goods, a lease of specific goods, or a lease of specific goods and license of software used in the goods. In this paragraph, "monetary obligation" means a monetary obligation secured by the goods or owed under a lease of the goods and includes a monetary obligation with respect to software used in the goods. The term does not include (i) charters or other contracts involving the use or hire of a vessel or (ii) records that evidence a right to payment arising out of the use of a credit or charge card or information contained on or for use with the card. If a transaction is evidenced by records that include an instrument or series of instruments, the group of records taken together constitutes chattel paper.

(30) "Document" means a document of title or a receipt of the type described in Section 7--201(2).

7-201(2): Where goods including distilled spirits and agricultural commodities are stored under a statute requiring a bond against withdrawal or a license for the issuance of receipts in the nature of warehouse receipts, a receipt issued for the goods has like effect as a warehouse receipt even though issued by a person who is the owner of the goods and is not a warehouseman.

(33) "Equipment" means goods other than inventory, farm products, or consumer goods.

(42) "General intangible" means any personal property, including things in action, other than accounts, chattel paper, commercial tort claims, deposit accounts, documents, goods, instruments, investment property, letter-of-credit rights, letters of credit, money, and oil, gas, or other minerals before extraction. The term includes payment intangibles and software.

(44) "Goods" means all things that are movable when a security interest attaches. The term includes (i) fixtures, (ii) standing timber that is to be cut and removed under a conveyance or contract for sale, (iii) the unborn young of animals, (iv) crops grown, growing, or to be grown, even if the crops are produced on trees, vines, or bushes, and (v) manufactured homes. The term also includes a computer program embedded in goods and any supporting information provided in connection with a transaction relating to the program if (i) the program is associated with the goods in such a manner that it customarily is considered part of the goods, or (ii) by becoming the owner of the goods, a person acquires a right to use the program in connection with the goods. The term does not include a computer program embedded in goods that consists solely of the medium in which the program is embedded. The term also does not include accounts, chattel paper, commercial tort claims, deposit accounts, documents, general intangibles, instruments, investment property, letter-of-credit rights, letters of credit, money, or oil, gas, or other minerals before extraction.

(47) "Instrument" means a negotiable instrument or any other writing that evidences a right to the payment of a monetary obligation, is not itself a security agreement or lease, and is of a type that in ordinary course of business is transferred by delivery with any necessary indorsement or assignment. The term does not include (i) investment property, (ii) letters of credit, or (iii) writings that evidence a right to payment arising out of the use of a credit or charge card or information contained on or for use with the card.

(48) "Inventory" means goods, other than farm products, which:

(A) are leased by a person as lessor;

(B) are held by a person for sale or lease or to be furnished under a contract of service;

(C) are furnished by a person under a contract of service; or

(D) consist of raw materials, work in process, or materials used or consumed in a business.

(64) "Proceeds", except as used in Section 9--609(b), means the following property:

(A) Whatever is acquired upon the sale, lease, license, exchange, or other disposition of collateral;

(B) whatever is collected on, or distributed on account of, collateral;

(C) rights arising out of collateral;

(D) to the extent of the value of collateral, claims arising out of the loss, nonconformity, or interference with the use of, defects or infringement of rights in, or damage to, the collateral; or

(E) to the extent of the value of collateral and to the extent payable to the debtor or the secured party, insurance payable by reason of the loss or nonconformity of, defects or infringement of rights in, or damage to, the collateral.

SCHEDULE 3

DEPOSIT ACCOUNTS

Bank	Account No.	Bank Address
BBVA Compass Bank (main acct)	0034253943	5800 North Mopac,Austin TX
BBVA Compass Bank (exp acct)	2529218454	5800 North Mopac,Austin TX
BBVA Compass Bank	2532425878	5800 North Mopac,Austin TX

SCHEDULE 5.1

SECURITY INTERESTS

Not applicable.

Interest of the Officer of the Governor, Economics Development and Tourism, has been subordinated.

EXHIBIT F

SUBORDINATION AGREEMENT

[*see attached*]

EXHIBIT G

REGISTRATION RIGHTS AGREEMENT

[*see attached*]

IDEAL POWER CONVERTERS, INC.

REGISTRATION RIGHTS AGREEMENT

This **REGISTRATION RIGHTS AGREEMENT** (this "**Agreement**"), dated as of August ___, 2012, is made and entered into by and between Ideal Power Converters, Inc., a Texas corporation with headquarters located at5004 Bee Creek Rd., Suite 600 Spicewood, Texas 78669 (the "**Company**"), and each of the purchasers set forth on the signature pages hereto (the "**Purchasers**").

WHEREAS, in connection with the Securities Purchase Agreement by and among the parties hereto of even date herewith (the "**Securities Purchase Agreement**"), the Company has agreed, upon the terms and subject to the conditions contained therein, to issue and sell to the Purchasers: (i) Senior Secured Convertible Promissory Notes for an aggregate purchase price of $750,000 (the **"Notes"**), and (ii) warrants to purchase shares of the Company's common stock, $0.001 par value(the **"Common Stock"**) of the Company (the **"Warrants"**);

WHEREAS, the Company intends to issue senior secured convertible promissory notes in a subsequent financing for up to an additional aggregate amount of $4.25 million ("**Subsequent Financing**"); and

WHEREAS, in order to induce the Purchasers to execute and deliver the Securities Purchase Agreement, the Company has agreed to provide certain registration rights under the Securities Act of 1933, as amended, and the rules and regulations thereunder, or any similar successor statute (collectively, the "**Securities Act**"), and applicable state securities laws.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and each Purchaser hereby agree as follows:

1. **Definitions.**

As used in this Agreement, the following capitalized terms shall have the following meanings. Capitalized terms used but not otherwise defined herein shall have the respective meanings set forth in the Securities Purchase Agreement.

(a) "**Business Day**" means any day other than Saturday, Sunday or a federal holiday.

(b) "**Closing Date**" shall have the meaning set forth in the Securities Purchase Agreement.

(c) "**Effectiveness Deadline**" means (i) with respect to any Registration Statement required to be filed pursuant to Section 2(a), 90 days after the Filing Deadline for such initial Registration Statement, and (ii) with respect to any additional Registration Statements that may be required to be filed by the Company pursuant to this Agreement, the earlier of the (A) 90th calendar day following the date on which the Company was required to file such additional Registration Statement and (B) 2nd Business Day after the date the Company is notified (orally or in writing, whichever is earlier) by the SEC that such Registration Statement will not be reviewed or will not be subject to further review.

(d) "**Filing Deadline**" means (i) with respect to any Registration Statement required to be filed pursuant to Section 2(a), within 60 days after receipt of a written request from the Required Holders pursuant to Section 2(a), and (ii) with respect to any additional Registration Statements that may be required to be filed by the Company pursuant to this Agreement, the date on which the Company was required to file such additional Registration Statement pursuant to the terms of this Agreement.

(e) "**Person**" means an individual, a limited liability company, a partnership, a joint venture, a corporation, a trust, an unincorporated organization or a government or any department or agency thereof.

(f) "**Purchasers**" means the Purchasers and any transferee or assignee who agrees to become bound by the provisions of this Agreement in accordance with Section 9 hereof.

(g) "**register**," "**registered**," and "**registration**" refer to a registration effected by preparing and filing a Registration Statement or Statements in compliance with the Securities Act and pursuant to Rule 415 under the Securities Act or any successor rule providing for offering securities on a continuous basis ("**Rule 415**"), and the declaration or ordering of effectiveness of such Registration Statement by the U.S. Securities and Exchange Commission (the "**SEC**"); provided, however, if the Required Holders in good faith determine that under applicable SEC interpretations, rules or policies a Rule 415 registration would not, in light of the circumstances of the Company or the proposed offering, permit the resale of all of the Registrable Securities immediately after effectiveness, or material limitations would be imposed on any such resale, then the registration shall be on Form S-1 or such other form that permits the maximum ability of holders of Registrable Securities to effectuate an unrestricted resale of such securities.

(h) "**Registrable Securities**" means (i) the Common Stock into which the Principal Amount, together with any accrued interest and any other amounts payable under the Notes may be converted and (ii) the shares of Common Stock issuable upon exercise or otherwise pursuant to the Warrants (without regard to any limitations on exercise set forth therein) (the "Warrant Shares"), and (iii) any shares of capital stock issued or issuable in exchange for or otherwise with respect to the foregoing.

(i) "**Registration Statement**" means a registration statement of the Company under the Securities Act which the Company may or is obligated to file hereunder.

(j) "**Required Holders**" means the holders of at least a majority of the Registrable Securities (excluding any Registrable Securities held by the Company or any of its subsidiaries) holding Notes, including senior secured promissory notes issued in the Subsequent Financing, with an aggregate minimum Principal Amount of $3 million.

(k) "**Rule 144**" means Rule 144 promulgated by the SEC under the Securities Act, as such rule may be amended from time to time, or any other similar or successor rule or regulation of the SEC that may at any time permit the Purchasers to sell securities of the Company to the public without registration.

(l) "**Rule 415**" means Rule 415 promulgated by the SEC under the Securities Act, as such rule may be amended from time to time, or any other similar or successor rule or regulation of the SEC providing for offering securities on a continuous or delayed basis.

(m) "**SEC**" means the United States Securities and Exchange Commission or any successor thereto.

2. **Registration.**

(a) Mandatory Registration. Subject to the terms and conditions, and in accordance with the provisions of Section 3 and Section 4 hereof, at any time after the one year anniversary of the Closing Date, if the Company shall receive a written request from the Required Holders that the Company file a registration statement under the Securities Act covering the registration of at least 25% of the Registrable Securities then outstanding, then the Company shall, within 30 days of the receipt thereof, give written notice of such request to the remaining Purchasers, and subject to the limitations of this Section 2, prepare and, as soon as practicable, but in no event later than the Filing Deadline, file with the SEC an initial Registration Statement on Form S-1 covering the resale of all of such Registrable Securities. Such initial Registration Statement, and each other Registration Statement required to be filed pursuant to the terms of this Agreement, shall contain (except if otherwise directed by the Required Holders) the "Selling Shareholders" and "Plan of Distribution" sections in substantially the form attached hereto as Exhibit 1. The Company shall use reasonable best efforts to have such initial Registration Statement, and each other Registration Statement required to be filed pursuant to the terms of this Agreement, declared effective by the SEC as soon as practicable, but in no event later than the applicable Effectiveness Deadline for such Registration Statement.

(b) Piggy-Back Registrations. Subject to the terms and conditions, and in accordance with the provisions of, Section 4 hereof, in the event that all Registrable Securities are not registered for resale, should the Company at any time prior to the expiration of the Registration Period (as hereinafter defined), determine to file with the SEC a Registration Statement relating to an offering for its own account or the account of others under the Securities Act of any of its equity securities (other than on Form S-4 or Form S-8 or their then equivalents relating to equity securities to be issued solely in connection with any acquisition of any entity or business or equity securities issuable in connection with stock option or other bona fide employee benefit plans), the Company shall send to each Purchaser who is entitled to registration rights under this Section 2(b) written notice of such determination and, if within 20 days after the effective date of such notice (as provided for in Section 11(b) hereof), such Purchaser shall so request in writing, the Company shall include in such Registration Statement all or any part of the Registrable Securities such Purchaser requests to be registered. Notwithstanding any other provision of this Agreement, the Company may withdraw any registration statement referred to in this Section 2(b) without incurring any liability to the Purchasers.

(c) Offering. Notwithstanding anything to the contrary contained in this Agreement, in the event the staff of the SEC (the "Staff") or the SEC seeks to characterize any offering pursuant to a Registration Statement filed pursuant to this Agreement as constituting an offering of securities by, or on behalf of, the Company, or in any other manner, such that the Staff or the SEC do not permit such Registration Statement to become effective and used for resales in a manner that does not constitute such an offering and that permits the continuous resale at the market by the Purchasers participating therein (or as otherwise may be acceptable to each Purchaser) without being named therein as an "underwriter," then the Company shall reduce the number of shares to be included in such Registration Statement by all Purchasers until such time as the Staff and the SEC shall so permit such Registration Statement to become effective as aforesaid. In making such reduction, the Company shall reduce the number of shares to be included by all Purchasers on a pro rata basis (based upon the number of Registrable Securities otherwise required to be included for each Purchaser) unless the inclusion of shares by a particular Purchaser or a particular set of Purchasers are resulting in the Staff or the SEC's "by or on behalf of the Company" offering position, in which event the shares held by such Purchaser or set of Purchasers shall be the only shares subject to reduction (and if by a set of Purchasers on a pro rata basis by such Purchasers or on such other basis as would result in the exclusion of the least number of shares by all such Purchasers); provided, that, with respect to such pro rata portion allocated to any Purchaser, such Purchaser may elect the allocation of such pro rata portion among the Registrable Securities of such Purchaser. In addition, in the event that the Staff or the SEC requires any Purchaser seeking to sell securities under a Registration Statement filed pursuant to this Agreement to be specifically identified as an "underwriter" in order to permit such Registration Statement to become effective, and such Purchaser does not consent to being so named as an underwriter in such Registration Statement, then, in each such case, the Company shall reduce the total number of Registrable Securities to be registered on behalf of such Purchaser, until such time as the Staff or the SEC does not require such identification or until such Purchaser accepts such identification and the manner thereof.

(d) Allocation of Registrable Securities. The initial number of Registrable Securities included in any Registration Statement and any increase in the number of Registrable Securities included therein shall be allocated pro rata among the Purchasers based on the number of Registrable Securities held by each Purchaser at the time such Registration Statement covering such initial number of Registrable Securities or increase thereof is declared effective by the SEC. In the event that a Purchaser sells or otherwise transfers any of such Purchaser's Registrable Securities, each transferee or assignee (as the case may be) that becomes an Purchaser shall be allocated a pro rata portion of the then-remaining number of Registrable Securities included in such Registration Statement for such transferor or assignee (as the case may be). Any shares of Common Stock included in a Registration Statement and which remain allocated to any Person which ceases to hold any Registrable Securities covered by such Registration Statement shall be allocated to the remaining Purchasers, pro rata based on the number of Registrable Securities then held by such Purchasers which are covered by such Registration Statement.

(e) No Inclusion of Other Securities. With the exception of any Registrable Securities that result from the Second Note Offering (as defined in the Securities Purchase Agreement), in no event shall the Company include any securities other than Registrable Securities on any Registration Statement without the prior written consent of the Required Holders. With the exception of the investors in the Second Note Offering who will be granted registration rights, until the Applicable Date the Company shall not enter into any agreement providing any registration rights to any of its security holders without the consent of the Required Holders.

(f) Termination. All registration rights under this Section 2 shall terminate and be of no further force and effect upon repayment of the Notes (with respect to each Note); provided, however, that if the Warrant Shares are not registered prior to the termination of the registration rights, then the Purchaser will have the right to require the Company to purchase the Warrant in accordance with Section 13 of the Warrant (the "Put Right"). The Put Right will expire 12 months from the termination of the registration rights in accordance with this Section 2(f).

(g) Late Fees. If for any reason the Company does not file a registration statement by the Filing Deadline ("Filing Default") or if for any reason it is unable to have that registration statement declared effective by the SEC as of the Effectiveness Deadline ("Effectiveness Default"), then the Company shall pay promptly an amount that is determined by (A) multiplying (i) the amount of the Offering, by (ii) 0.03, and then (iii) dividing by 30, followed by (B) multiplying the result by the number of elapsed days needed to cure the Filing Default or the Effectiveness Default. By way of example if the Company cured the Filing Default or the Effectiveness Default 10 days after the Filing Deadline or 10 days after the Effectiveness Deadline, then it would be required to pay the Purchasers as a group an aggregate of $2,250, according to their respective interests, no later than the earlier of (x) 10 business days after cure of the Filing Default or of the Effectiveness Default, or (ii) 10 business days after the month in which the Filing Default or the Effectiveness Default has occurred.

3. **Obligations of the Company**. In connection with the registration of the Registrable Securities, the Company shall have the following obligations:

(a) On or prior to the Filing Deadline the Company will use reasonable best efforts to become a publicly traded and publicly reporting company under both the Securities Act and the Securities Exchange Act of 1934 and will use reasonable best efforts to file a Registration Statement with the Securities and Exchange Commission ("SEC") on Form S-1 covering the registration of Common Stock of the Company, including the Registrable Securities, on or prior to the Filing Deadline and shall use its reasonable best efforts to cause such Registration Statement to be declared effective by the SEC as soon as practicable after such filing (but in no event later than the Effectiveness Date), and the Company shall take all such other actions associated with being a publicly traded company, including filing an application for listing the Common Stock on the NASDAQ Capital Market or such other exchange as agreed to by the Company and the underwriter. Subject to Allowable Grace Periods, upon effectiveness, the Company shall use its reasonable best efforts to keep such Registration Statement effective pursuant to Rule 415 at all times until such date as is the earlier of: (i) the date on which all of the Registrable Securities covered by the Registration Statement have been sold and (ii) the date on which the Registrable Securities (in the opinion of counsel to the Purchasers reasonably acceptable to the Company) may be immediately sold to the public by non-affiliates without registration or restriction (including, without limitation, as to volume by each holder thereof) under the Securities Act (the "**Registration Period**"). Notwithstanding anything to the contrary contained in this Agreement, the Company shall ensure that, when filed and at all times while effective, each Registration Statement (including, without limitation, all amendments and supplements thereto) and the prospectus (including, without limitation, all amendments and supplements thereto) used in connection with such Registration Statement (1) shall not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein, or necessary to make the statements therein (in the case of prospectuses, in the light of the circumstances in which they were made) not misleading and (2) will disclose (whether directly or through incorporation by reference to other SEC filings to the extent permitted) all material information regarding the Company and its securities. The Company shall submit to the SEC, within one Business Day after the later of the date that (i) the Company learns that no review of a particular Registration Statement will be made by the Staff or that the Staff has no further comments on a particular Registration Statement (as the case may be) and (ii) the consent of Legal Counsel is obtained pursuant to Section 3(c) (which consent shall be immediately sought), a request for acceleration of effectiveness of such Registration Statement to a time and date not later than 48 hours after the submission of such request.

(b) The Company shall use reasonable best efforts to prepare and file with the SEC such amendments (including post-effective amendments) and supplements to the Registration Statements and the prospectus used in connection with the Registration Statements, which prospectus is to be filed pursuant to Rule 424 promulgated under the Securities Act, as may be necessary to keep the Registration Statements effective at all times during the Registration Period, and, during such period, comply with the provisions of the Securities Act with respect to the disposition of all Registrable Securities of the Company covered by the Registration Statements; provided, however, by 8:30 a.m. (New York time) on the Business Day immediately following each Effective Date, the Company shall file with the SEC in accordance with Rule 424(b) under the Securities Act the final prospectus to be used in connection with sales pursuant to the applicable Registration Statement (whether or not such a prospectus is technically required by such rule).

(c) If requested by a Purchaser, the Company shall furnish to each Purchaser whose Registrable Securities are included in a Registration Statement promptly (but in no event more than two business days) after the Registration Statement is declared effective by the SEC, such number of copies of a final prospectus and all amendments and supplements thereto and such other documents as such Purchaser may reasonably request in order to facilitate the disposition of the Registrable Securities owned by such Purchaser. The Company will promptly notify each Purchaser of the effectiveness of each Registration Statement or any post-effective amendment. The Company will, as promptly as reasonably practical, respond to any and all comments received from the SEC (which comments relating to such Registration Statement that pertain to the Purchasers as "Selling Shareholders" shall promptly be made available to the Purchasers upon request; provided that, the Company shall not be obligated to make available any comments that would result in the disclosure to the Purchasers of material and non-public information concerning the Company or that contain information for which the Company has sought confidential treatment), with a view towards causing each Registration Statement or any amendment thereto to be declared effective by the SEC as soon as practicable, shall promptly file an acceleration request as soon as practicable following the resolution or clearance of all SEC comments or, if applicable, following notification by the SEC that any such Registration Statement or any amendment thereto will not be subject to review and, if required by law, shall promptly file with the SEC a final prospectus as soon as practicable following receipt by the Company from the SEC of an order declaring the Registration Statement effective.

(d) The Company shall use reasonable best efforts to: (i) register and qualify the Registrable Securities covered by the Registration Statements under such other securities or "blue sky" laws of such jurisdictions in the United States as the Purchasers who hold a majority-in-interest of the Registrable Securities being offered reasonably request (not to exceed 10 states), (ii) prepare and file in those jurisdictions such amendments (including post-effective amendments) and supplements to such registrations and qualifications as may be necessary to maintain the effectiveness thereof during the Registration Period, (iii) take such other actions as may be necessary to maintain such registrations and qualifications in effect at all times during the Registration Period, and (iv) take all other actions reasonably necessary or advisable to qualify the Registrable Securities for sale in such jurisdictions; provided, however, that the Company shall not be required in connection therewith or as a condition thereto to: (a) qualify to do business in any jurisdiction where it would not otherwise be required to qualify but for this Section 3(d), (b) subject itself to general taxation in any such jurisdiction, (c) file a general consent to service of process in any such jurisdiction, (d) provide any undertakings that cause the Company undue expense or burden, or (e) make any change in its charter or bylaws, which in each case the Board of Directors of the Company determines to be contrary to the best interests of the Company and its shareholders.

(e) The Company shall promptly notify each Purchaser (i) when a prospectus or any prospectus supplement or post-effective amendment has been filed, when a Registration Statement or any post-effective amendment has become effective, and when the Company receives written notice from the SEC that a Registration Statement or any post-effective amendment will be reviewed by the SEC, (ii) of any request by the SEC for amendments or supplements to a Registration Statement or related prospectus or related information, (iii) of the Company's reasonable determination that a post-effective amendment to a Registration Statement would be appropriate; and (iv) of the receipt of any request by the SEC or any other federal or state governmental authority for any additional information relating to the Registration Statement or any amendment or supplement thereto or any related prospectus. The Company shall respond as promptly as practicable to any comments received from the SEC with respect to each Registration Statement or any amendment thereto.

(f) The Company shall use its reasonable best efforts to prevent the issuance of any stop order or other suspension of effectiveness of any Registration Statement, and, if such an order is issued, to obtain the withdrawal of such order at the earliest possible moment and to notify each Purchaser who holds Registrable Securities being sold (or, in the event of an underwritten offering, the managing underwriters) of the issuance of such order and the resolution thereof.

(g) The sections of such Registration Statement covering information with respect to the Purchasers, the Purchaser's beneficial ownership of securities of the Company or the Purchasers intended method of disposition of Registrable Securities shall conform to the information provided to the Company by each of the Purchasers.

(h) In connection with an underwritten offering only, at the request of the Required Holders, the Company shall furnish, on the date that Registrable Securities are delivered to an underwriter for sale in connection with any Registration Statement: (i) an opinion, dated as of such date, from counsel representing the Company for purposes of such Registration Statement, in form, scope and substance as is customarily given in an underwritten public offering, addressed to the underwriters, if any, and the Purchasers and (ii) a letter, dated such date, from the Company's independent registered public accounting firm in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, addressed to the underwriters, if any, and the Purchasers.

(i) The Company shall take all reasonable efforts to cause all the Registrable Securities covered by the Registration Statement to be quoted on the NASDAQ Capital Market (or equivalent reasonably acceptable to the Required Holders) or listed on a national exchange.

(j) The Company shall provide a transfer agent and registrar, which may be a single entity, for the Registrable Securities not later than the effective date of the Registration Statement.

(k) The Company shall use its reasonable best efforts to cause the Registrable Securities covered by a Registration Statement to be registered with or approved by such other governmental agencies or authorities as may be necessary to consummate the disposition of such Registrable Securities.

(l) The Company shall make generally available to its security holders as soon as practical, but not later than ninety (90) days after the close of the period covered thereby, an earnings statement (in form complying with, and in the manner provided by, the provisions of Rule 158 under the Securities Act) covering a twelve-month period beginning not later than the first day of the Company's fiscal quarter next following the applicable Effective Date of each Registration Statement.

(m) The Company shall use its reasonable best efforts to comply with all applicable rules and regulations of the SEC in connection with any registration hereunder.

(n) Notwithstanding anything to the contrary herein (but subject to the last sentence of this Section 3(n)), at any time after the Effective Date of a particular Registration Statement, the Company may delay the disclosure of material, non-public information concerning the Company or any of its subsidiaries the disclosure of which at the time is not, in the good faith opinion of the board of directors of the Company, in the best interest of the Company and, upon the advice of counsel to the Company, otherwise required (a "**Grace Period**"), provided that the Company shall promptly notify the Purchasers in writing of the existence of material, non-public information giving rise to a Grace Period (provided that in each such notice the Company shall not disclose the content of such material, non-public information to any of the Purchasers) and the date on which such Grace Period will begin and end.

4. **Underwriting Requirements.** In connection with any Registration Statement involving an underwritten offering of shares of the Company's Common Stock, the Company shall not be required to include any of the Purchasers' Registrable Securities in such underwriting unless the Purchaser accepts the terms of the underwriting as agreed upon between the Company and its underwriters, and then only in such quantity as the underwriter in its sole discretion determines will not jeopardize the success of the offering by the Company. If the total number of Registrable Securities to be included in such offering (the "Requested Securities") exceeds the number of securities to be sold (other than by the Company) that the underwriter in its reasonable discretion determines is compatible with the success of the offering, then the Company shall be required to include in the offering only that number of such Requested Securities which the underwriter, in its sole discretion, determines will not jeopardize the success of the offering. If the underwriter determines that less than all of the Requested Securities requested to be registered can be included in such offering, then the securities to be registered that are included in such offering shall be allocated among the holders of the Registrable Securities (the "Holders") in proportion (as nearly as practicable to) the number of Requested Securities owned by each Holder. To facilitate the allocation of shares in accordance with the above provisions, the Company or the underwriters may round the number of shares allocated to any Holder to the nearest 10 shares. For purposes of the provision in this Section 4 concerning apportionment, for any Holder that is a partnership, limited liability company, or corporation, the partners, members, retired partners, retired members, shareholders, and affiliates of such Holder, or the estates and immediate family members of any such partners, retired partners, members, and retired members and any trusts for the benefit of any of the foregoing persons, shall be deemed to be a single "Holder," and any pro rata reduction with respect to such "Holder" shall be based upon the aggregate number of Requested Securities owned by all persons included in such "Holder," as defined in this sentence. The Purchasers understand that the underwriter may determine that none of the Registrable Securities can be included in the offering.

5. **Obligations of the Purchasers**. In connection with the registration of the Registrable Securities, the Purchasers shall have the following obligations:

(a) It shall be a condition precedent to the obligations of the Company to include any Purchaser's Registrable Securities in any Registration Statement that such Purchaser shall timely furnish to the Company such information regarding itself, the Registrable Securities held by it, the intended method of disposition of the Registrable Securities held by it and any other information as shall be reasonably required to effect the registration of such Registrable Securities and shall provide such information and execute such documents in connection with such registration as the Company may reasonably request. At least three business days prior to the first anticipated filing date of the Registration Statement, the Company shall notify each Purchaser of the information the Company requires from each such Purchaser.

(b) Each Purchaser, by such Purchaser's acceptance of the Registrable Securities, agrees to cooperate with the Company as reasonably requested by the Company in connection with the preparation and filing of the Registration Statements hereunder, unless such Purchaser has notified the Company in writing of such Purchaser's election to exclude all of such Purchaser's Registrable Securities from the Registration Statements.

(c) In the event that Purchasers holding a majority-in-interest of the Registrable Securities being registered determine to engage the services of an underwriter, each Purchaser agrees to enter into and perform such Purchaser's obligations under an underwriting agreement, in usual and customary form, including, without limitation, customary indemnification and contribution obligations, with the managing underwriter of such offering and take such other actions as are reasonably required in order to expedite or facilitate the disposition of the Registrable Securities, unless such Purchaser has notified the Company in writing of such Purchaser's election to exclude all of such Purchaser's Registrable Securities from such Registration Statement.

(d) Each Purchaser agrees that, upon receipt of any notice from the Company of the happening of any event of which the Company has knowledge as a result of which the prospectus included in any Registration Statement, as then in effect, includes an untrue statement of a material fact or omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or of the issuance of a stop order or other suspension of effectiveness of any Registration Statement, such Purchaser will immediately discontinue disposition of Registrable Securities pursuant to the Registration Statement covering such Registrable Securities until such Purchaser's receipt of the copies of the supplemented or amended prospectus and, if so directed by the Company, such Purchaser shall deliver to the Company (at the expense of the Company) or destroy (and deliver to the Company a certificate of destruction) all copies in such Purchaser's possession, of the prospectus covering such Registrable Securities current at the time of receipt of such notice.

(e) No Purchaser may participate in any underwritten registration hereunder unless such Purchaser: (i) agrees to sell such Purchaser's Registrable Securities on the basis provided in any underwriting arrangements in usual and customary form entered into by the Company, (ii) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents reasonably required under the terms of such underwriting arrangements, and (iii) agrees to pay its pro rata share of all underwriting discounts and commissions and any expenses in excess of those payable by the Company pursuant to Section 6 below.

(f) Each Purchaser covenants and agrees that it will comply with the prospectus delivery requirements of the Securities Act as applicable to it or an exemption therefrom in connection with the offer and sale of Registrable Securities pursuant to any Registration Statement.

6. **Expenses of Registration.** All reasonable expenses, other than underwriting discounts and commissions, incurred in connection with registrations, filings or qualifications pursuant to Sections 2 and 3, including, without limitation, all registration, listing and qualification fees, printers and accounting fees, the fees and disbursements of counsel for the Company, and the reasonable fees and disbursements of legal counsel to the underwriter (if any) shall be borne by the Company.

7. **Indemnification**.

(a) To the fullest extent permitted by law, the Company will, and hereby does, indemnify, hold harmless and defend each Purchaser and each of its directors, officers, shareholders, members, partners, employees, agents, advisors, representatives (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding the lack of such title or any other title) and each Person, if any, who controls such Purchaser within the meaning of the Securities Act or the Exchange Act and each of the directors, officers, shareholders, members, partners, employees, agents, advisors, representatives (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding the lack of such title or any other title) of such controlling Persons (each, an "**Indemnified Person**"), against any losses, obligations, claims, damages, liabilities, contingencies, judgments, fines, penalties, charges, costs (including, without limitation, court costs, reasonable attorneys' fees and costs of defense and investigation), amounts paid in settlement or expenses, joint or several, (collectively, "**Claims**") incurred in investigating, preparing or defending any action, claim, suit, inquiry, proceeding, investigation or appeal taken from the foregoing by or before any court or governmental, administrative or other regulatory agency, body or the SEC, whether pending or threatened, whether or not an indemnified party is or may be a party thereto ("**Indemnified Damages**"), to which any of them may become subject insofar as such Claims (or actions or proceedings, whether commenced or threatened, in respect thereof) arise out of or are based upon: (i) any untrue statement or alleged untrue statement of a material fact in a Registration Statement or any post-effective amendment thereto or in any filing made in connection with the qualification of the offering under the securities or other "blue sky" laws of any jurisdiction in which Registrable Securities are offered ("**Blue Sky Filing**"), or the omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus if used prior to the effective date of such Registration Statement, or contained in the final prospectus (as amended or supplemented, if the Company files any amendment thereof or supplement thereto with the SEC) or the omission or alleged omission to state therein any material fact necessary to make the statements made therein, in light of the circumstances under which the statements therein were made, not misleading or (iii) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any other law, including, without limitation, any state securities law, or any rule or regulation thereunder relating to the offer or sale of the Registrable Securities pursuant to a Registration Statement (the matters in the foregoing clauses (i) through (iii) being, collectively, "**Violations**"). Subject to Section 7(c), the Company shall reimburse the Indemnified Persons, promptly as such expenses are incurred and are due and payable, for any legal fees or other reasonable expenses incurred by them in connection with investigating or defending any such Claim. Notwithstanding anything to the contrary contained herein, the indemnification agreement contained in this Section 7(a): (i) shall not apply to a Claim by an Indemnified Person arising out of or based upon a Violation which occurs in reliance upon and in conformity with information furnished in writing to the Company by such Indemnified Person for such Indemnified Person expressly for use in connection with the preparation of such Registration Statement or any such amendment thereof or supplement thereto and (ii) shall not be available to a particular Purchaser to the extent such Claim is based on a failure of such Purchaser to deliver or to cause to be delivered the prospectus made available by the Company (to the extent applicable), including, without limitation, a corrected prospectus, if such prospectus or corrected prospectus was timely made available by the Company and then only if, and to the extent that, following the receipt of the corrected prospectus no grounds for such Claim would have existed; and (iii) shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of the Company, which consent shall not be unreasonably withheld or delayed. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Indemnified Person.

(b) In connection with any Registration Statement in which an Purchaser is participating, such Purchaser agrees to severally and not jointly indemnify, hold harmless and defend, to the same extent and in the same manner as is set forth in Section 7(a), the Company, each of its directors, each of its officers who signs the Registration Statement and each Person, if any, who controls the Company within the meaning of the Securities Act or the Exchange Act (each, an "**Indemnified Party**"), against any Claim or Indemnified Damages to which any of them may become subject, under the Securities Act, the Exchange Act or otherwise, insofar as such Claim or Indemnified Damages arise out of or are based upon any Violation, in each case, to the extent, and only to the extent, that such Violation occurs in reliance upon and in conformity with written information furnished to the Company by such Purchaser expressly for use in connection with such Registration Statement; and, subject to Section 7(c) and the below provisos in this Section 7(b), such Purchaser will reimburse promptly as such expenses are incurred and are due and payable, for any legal fees or other reasonable expenses incurred by them in connection with investigating or defending any such Claim; provided, however, the indemnity agreement contained in this Section 7(b) and the agreement with respect to contribution contained in Section 7 shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of such Purchaser, which consent shall not be unreasonably withheld or delayed, provided further that such Purchaser shall be liable under this Section 7(b) for only that amount of a Claim or Indemnified Damages as does not exceed the net proceeds to such Purchaser as a result of the applicable sale of Registrable Securities pursuant to such Registration Statement. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such Indemnified Party.

(c) Promptly after receipt by an Indemnified Person or Indemnified Party (as the case may be) under this Section 7 of notice of the commencement of any action or proceeding (including, without limitation, any governmental action or proceeding) involving a Claim, such Indemnified Person or Indemnified Party (as the case may be) shall, if a Claim in respect thereof is to be made against any indemnifying party under this Section 7, deliver to the indemnifying party a written notice of the commencement thereof, and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume control of the defense thereof with counsel mutually satisfactory to the indemnifying party and the Indemnified Person or the Indemnified Party (as the case may be); provided, however, an Indemnified Person or Indemnified Party (as the case may be) shall have the right to retain its own counsel with the fees and expenses of such counsel to be paid by the indemnifying party if: (i) the indemnifying party has agreed in writing to pay such fees and expenses; (ii) the indemnifying party shall have failed promptly to assume the defense of such Claim and to employ counsel reasonably satisfactory to such Indemnified Person or Indemnified Party (as the case may be) in any such Claim; or (iii) the named parties to any such Claim (including, without limitation, any impleaded parties) include both such Indemnified Person or Indemnified Party and the indemnifying party, and such Indemnified Person or such Indemnified Party shall have been advised by counsel that a conflict of interest is likely to exist if the same counsel were to represent such Indemnified Person or such Indemnified Party and the indemnifying party (in which case, if such Indemnified Person or such Indemnified Party notifies the indemnifying party in writing that it elects to employ separate counsel at the expense of the indemnifying party, then the indemnifying party shall not have the right to assume the defense thereof and such counsel shall be at the expense of the Indemnifying Party, provided further that in the case of clause (iii) above the indemnifying party shall not be responsible for the reasonable fees and expenses of more than one separate legal counsel for such Indemnified Person or Indemnified Party). The Indemnified Party or Indemnified Person shall reasonably cooperate with the indemnifying party in connection with any negotiation or defense of any such action or Claim by the indemnifying party and shall furnish to the indemnifying party all information reasonably available to the Indemnified Party or Indemnified Person which relates to such action or Claim. The indemnifying party shall keep the Indemnified Party or Indemnified Person reasonably apprised at all times as to the status of the defense or any settlement negotiations with respect thereto. No indemnifying party shall be liable for any settlement of any action, claim or proceeding effected without its prior written consent; provided, however, the indemnifying party shall not unreasonably withhold, delay or condition its consent. No indemnifying party shall, without the prior written consent of the Indemnified Party or Indemnified Person, consent to entry of any judgment or enter into any settlement or other compromise which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party or Indemnified Person of a release from all liability in respect to such Claim or litigation, and such settlement shall not include any admission as to fault on the part of the Indemnified Party. Following indemnification as provided for hereunder, the indemnifying party shall be subrogated to all rights of the Indemnified Party or Indemnified Person with respect to all third parties, firms or corporations relating to the matter for which indemnification has been made. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall not relieve such indemnifying party of any liability to the Indemnified Person or Indemnified Party under this Section 7, except to the extent that the indemnifying party is materially and adversely prejudiced in its ability to defend such action.

(d) No Person involved in the sale of Registrable Securities who is guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) in connection with such sale shall be entitled to indemnification from any Person involved in such sale of Registrable Securities who is not guilty of fraudulent misrepresentation.

(e) The indemnity and contribution agreements contained herein shall be in addition to (i) any cause of action or similar right of the Indemnified Party or Indemnified Person against the indemnifying party or others, and (ii) any liabilities the indemnifying party may be subject to pursuant to the law.

8. **Amendment of Registration Rights**. The terms and provisions of this Agreement may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only with written consent of the Company and the Required Holders. Any amendment or waiver effected in accordance with this Section 8 shall be binding upon each Purchaser and the Company; provided that no such amendment shall be effective to the extent that it (1) applies to less than all of the holders of Registrable Securities or (2) imposes any obligation or liability on any Purchaser without such Purchaser's prior written consent (which may be granted or withheld in such Purchaser's sole discretion). No waiver shall be effective unless it is in writing and signed by an authorized representative of the waiving party. No consideration shall be offered or paid to any Person to amend or consent to a waiver or modification of any provision of this Agreement unless the same consideration also is offered to all of the parties to this Agreement.

9. **Miscellaneous.**

(a) A person or entity is deemed to be a holder of Registrable Securities whenever such person or entity owns of record such Registrable Securities. If the Company receives conflicting instructions, notices or elections from two or more persons or entities with respect to the same Registrable Securities, the Company shall act upon the basis of instructions, notice or election received from the registered owner of such Registrable Securities.

(b) Any notices required or permitted to be given under the terms hereof shall be sent by certified or registered mail (return receipt requested) or delivered personally or by courier (including a recognized overnight delivery service)or by facsimile and shall be effective five days after being placed in the mail, if mailed by regular United States mail, or upon receipt, if delivered personally or by courier (including a recognized overnight delivery service) or by facsimile, in each case addressed to a party. The addresses for such communications shall be:

If to the Company:

Ideal Power Converters, Inc.
5004 Bee Creek Road, Suite 600
Spicewood, Texas 78669
Attention: Chief Executive Officer
Telephone:
Facsimile No.:

If to a Purchaser:

To the address set forth on the signature page of this Agreement.

With a copy (not constituting notice) to:

MDB Capital Group, LLC
401 Wilshire Blvd., Suite 1020
Santa Monica, CA 90401
Attention: Anthony DiGiandomenico
Telephone: (310) 526-5015
Facsimile No.:

Each party shall provide notice to the other party of any change in address.

(c) Failure of any party to exercise any right or remedy under this Agreement or otherwise, or delay by a party in exercising such right or remedy, shall not operate as a waiver thereof.

(d) This Agreement shall be governed by, and construed in accordance with, the internal laws of the State of New York without regard to the choice of law principles thereof. Each of the parties hereto irrevocably submits to the exclusive jurisdiction of the courts of the State of New York located in New York County and the United States District Court for the Southern District of New York for the purpose of any suit, action, proceeding or judgment relating to or arising out of this Agreement and the transactions contemplated hereby. Service of process in connection with any such suit, action or proceeding may be served on each party hereto anywhere in the world by the same methods as are specified for the giving of notices under this Agreement. Each of the parties hereto irrevocably consents to the jurisdiction of any such court in any such suit, action or proceeding and to the laying of venue in such court. Each party hereto irrevocably waives any objection to the laying of venue of any such suit, action or proceeding brought in such courts and irrevocably waives any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum. EACH OF THE PARTIES HERETO WAIVES ANY RIGHT TO REQUEST A TRIAL BY JURY IN ANY LITIGATION WITH RESPECT TO THIS AGREEMENT AND REPRESENTS THAT COUNSEL HAS BEEN CONSULTED SPECIFICALLY AS TO THIS WAIVER.

(e) In the event that any provision of this Agreement is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any provision hereof which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision hereof.

(f) This Agreement and the other Transaction Documents (including all schedules and exhibits thereto) constitute the entire agreement among the parties hereto with respect to the subject matter hereof and thereof. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein and therein. This Agreement and the other Transaction Documents (including all schedules and exhibits thereto) supersede all prior agreements and understandings among the parties hereto with respect to the subject matter hereof and thereof.

(g) This Agreement shall be binding upon and inure to the benefit of the parties and their successors and assigns. This Agreement is not for the benefit of, nor may any provision hereof be enforced by, any Person, other than the parties hereto or their respective permitted successors and assigns.

(h) The headings in this Agreement are for convenience of reference only and shall not form part of, or affect the interpretation of, this Agreement. Unless the context clearly indicates otherwise, each pronoun herein shall be deemed to include the masculine, feminine, neuter, singular and plural forms thereof. The terms "including," "includes," "include" and words of like import shall be construed broadly as if followed by the words "without limitation." The terms "herein," "hereunder," "hereof" and words of like import refer to this entire Agreement instead of just the provision in which they are found.

(i) This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party. This Agreement, once executed by a party, may be delivered to the other party hereto by facsimile transmission or electronic mail delivery of a copy of this Agreement bearing the signature of the party so delivering this Agreement.

(j) Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

(k) Except as otherwise provided herein, all consents and other determinations to be made by the Purchasers pursuant to this Agreement shall be made by the Required Holders.

(l) The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

(m) The obligations of each Purchaser under this Agreement and the other Transaction Documents are several and not joint with the obligations of any other Purchaser, and no Purchaser shall be responsible in any way for the performance of the obligations of any other Purchaser under this Agreement or any other Transaction Document. Nothing contained herein or in any other Transaction Document, and no action taken by any Purchaser pursuant hereto or thereto, shall be deemed to constitute the Purchasers as, and the Company acknowledges that the Purchasers do not so constitute, a partnership, an association, a joint venture or any other kind of group or entity, or create a presumption that the Purchasers are in any way acting in concert or as a group or entity with respect to such obligations or the transactions contemplated by the Transaction Documents or any matters, and the Company acknowledges that the Purchasers are not acting in concert or as a group, and the Company shall not assert any such claim, with respect to such obligations or the transactions contemplated by this Agreement or any of the other the Transaction Documents. Each Purchaser shall be entitled to independently protect and enforce its rights, including, without limitation, the rights arising out of this Agreement or out of any other Transaction Documents, and it shall not be necessary for any other Purchaser to be joined as an additional party in any proceeding for such purpose.

[Remainder of page intentionally left blank; signature pages follow.]

IN WITNESS WHEREOF, the undersigned Purchasers and the Company have caused this Registration Rights Agreement to be duly executed as of the date first above written.

IDEAL POWER CONVERTERS, INC.

By:
Name
Title

PURCHASERS:

The Purchasers executing the Signature Page in the form attached hereto as Annex A and delivering the same to the Company or its agents shall be deemed to have executed this Agreement and agreed to the terms hereof.

Annex A

Registration Rights Agreement
Purchaser Counterpart Signature Page

The undersigned, desiring to: enter into this Registration Rights Agreement dated as of August __, 2012 (the "**Agreement**"), between the undersigned, Ideal Power Converters, Inc., a Texas corporation (the "**Company**"), and the other parties thereto, in or substantially in the form furnished to the undersigned, hereby agrees to join the Agreement as a party thereto, with all the rights and privileges appertaining thereto, and to be bound in all respects by the terms and conditions thereof.

IN WITNESS WHEREOF, the undersigned has executed the Agreement as of August __, 2012.

PURCHASER:

Name and Address, Fax No. and Social Security No./EIN of Purchaser:

_____

_____

_____

_____

Fax No.: _____
Soc. Sec. No./EIN: _____

If a partnership, corporation, trust or other business entity:

By:

_____
Name:
Title:

If an individual:

_____

Signature

EXHIBIT 1

SELLING STOCKHOLDERS

The shares of common stock being offered by the selling shareholders are those issuable to the selling shareholders upon conversion of the senior secured convertible promissory notes and the exercise of the warrants. For additional information regarding the issuance of the senior secured convertible promissory notes and the warrants, see "Private Placement of Senior Secured Convertible Promissory Notes and Warrants" above.We are registering the shares of common stock in order to permit the selling shareholders to offer the shares for resale from time to time. Except for the ownership of the senior secured convertible promissory notes and the warrants issued pursuant to the Securities Purchase Agreement, the selling shareholders have not had any material relationship with us within the past three years.

The table below lists the selling shareholders and other information regarding the beneficial ownership (as determined under Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder) of the shares of common stock beneficially held by each of the selling shareholders, based on their respective beneficial ownership of the shares of common stock as of _____, 2012, assuming conversion of all amounts owed under the senior secured convertible promissory notes and exercise of the warrants held by each such selling shareholder on that date but taking account of any limitations on exercise set forth therein. The third column lists the number of shares of common stock being sold in this offering. The fourth column lists the shares of common stock that will be beneficially owned by each selling shareholder following this offering. We have assumed for purposes of preparing this table that each selling shareholder will sell all of the shares of common stock being offered.

In accordance with the terms of a registration rights agreement with the selling shareholders, this prospectus generally covers the resale of the sum of (i) the number of shares of common stock that may be issued in connection with the conversion of all amounts owed under the senior secured convertible promissory notes, in each case determined as if all amounts owed under the senior secured convertible promissory notes were converted and (ii) 100% of the maximum number of shares of common stock issuable upon exercise of the warrants, in each case, determined as if the outstanding warrants were exercised in full.

Name of Selling Shareholder	Number of Shares of Common Stock Owned Prior to Offering	Maximum Number Of Shares of Common Stock to be Sold Pursuant to this Prospectus	Number of Shares of Common Stock Owned After Offering

PLAN OF DISTRIBUTION

We are registering the shares of common stock issuable upon conversion of all amounts due under the senior secured convertible promissory notes and the exercise of the warrants to permit the resale of these shares of common stock by the holders of these securities from time to time after the date of this prospectus. We will not receive any of the proceeds from the sale by the selling shareholders of the shares of common stock. We will bear all fees and expenses incident to our obligation to register the shares of common stock.

The selling shareholders may sell all or a portion of the shares of common stock held by them and offered hereby from time to time directly or through one or more underwriters, broker-dealers or agents. If the shares of common stock are sold through underwriters or broker-dealers, the selling shareholders will be responsible for underwriting discounts or commissions or agent's commissions. The shares of common stock may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of the sale, at varying prices determined at the time of sale or at negotiated prices. These sales may be effected in transactions, which may involve crosses or block transactions, pursuant to one or more of the following methods:

- on any national securities exchange or quotation service on which the securities may be listed or quoted at the time of sale;
- in the over-the-counter market;
- in transactions otherwise than on these exchanges or systems or in the over-the-counter market;
- through the writing or settlement of options, whether such options are listed on an options exchange or otherwise;
- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- short sales made after the date the Registration Statement is declared effective by the SEC;
- agreements between broker-dealers and the selling shareholders to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

The selling shareholders may also sell shares of common stock under Rule 144 promulgated under the Securities Act of 1933, as amended, if available, rather than under this prospectus. In addition, the selling shareholders may transfer the shares of common stock by other means not described in this prospectus. If the selling shareholders effect such transactions by selling shares of common stock to or through underwriters, broker-dealers or agents, such underwriters, broker-dealers or agents may receive commissions in the form of discounts, concessions or commissions from the selling shareholders or commissions from purchasers of the shares of common stock for whom they may act as agent or to whom they may sell as principal (which discounts, concessions or commissions as to particular underwriters, broker-dealers or agents may be in excess of those customary in the types of transactions involved). In connection with sales of the shares of common stock or otherwise, the selling shareholders may enter into hedging transactions with broker-dealers, which may in turn engage in short sales of the shares of common stock in the course of hedging in positions they assume. The selling shareholders may also sell shares of common stock short and deliver shares of common stock covered by this prospectus to close out short positions and to return borrowed shares in connection with such short sales. The selling shareholders may also loan or pledge shares of common stock to broker-dealers that in turn may sell such shares.

The selling shareholders may pledge or grant a security interest in some or all of the warrants or shares of common stock owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of common stock from time to time pursuant to this prospectus or any amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act amending, if necessary, the list of selling shareholders to include the pledgee, transferee or other successors in interest as selling shareholders under this prospectus. The selling shareholders also may transfer and donate the shares of common stock in other circumstances in which case the transferees, donees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

To the extent required by the Securities Act and the rules and regulations thereunder, the selling shareholders and any broker-dealer participating in the distribution of the shares of common stock may be deemed to be "underwriters" within the meaning of the Securities Act, and any commission paid, or any discounts or concessions allowed to, any such broker-dealer may be deemed to be underwriting commissions or discounts under the Securities Act. At the time a particular offering of the shares of common stock is made, a prospectus supplement, if required, will be distributed, which will set forth the aggregate amount of shares of common stock being offered and the terms of the offering, including the name or names of any broker-dealers or agents, any discounts, commissions and other terms constituting compensation from the selling shareholders and any discounts, commissions or concessions allowed or re-allowed or paid to broker-dealers.

Under the securities laws of some states, the shares of common stock may be sold in such states only through registered or licensed brokers or dealers. In addition, in some states the shares of common stock may not be sold unless such shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with.

There can be no assurance that any selling shareholder will sell any or all of the shares of common stock registered pursuant to the registration statement, of which this prospectus forms a part.

The selling shareholders and any other person participating in such distribution will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, including, without limitation, to the extent applicable, Regulation M of the Exchange Act, which may limit the timing of purchases and sales of any of the shares of common stock by the selling shareholders and any other participating person. To the extent applicable, Regulation M may also restrict the ability of any person engaged in the distribution of the shares of common stock to engage in market-making activities with respect to the shares of common stock. All of the foregoing may affect the marketability of the shares of common stock and the ability of any person or entity to engage in market-making activities with respect to the shares of common stock.

We will pay all expenses of the registration of the shares of common stock pursuant to the registration rights agreement, estimated to be $[_____] in total, including, without limitation, Securities and Exchange Commission filing fees and expenses of compliance with state securities or "blue sky" laws; provided, however, a selling shareholder will pay all underwriting discounts and selling commissions, if any. We will indemnify the selling shareholders against liabilities, including some liabilities under the Securities Act in accordance with the registration rights agreements or the selling shareholders will be entitled to contribution. We may be indemnified by the selling shareholders against civil liabilities, including liabilities under the Securities Act that may arise from any written information furnished to us by the selling shareholder specifically for use in this prospectus, in accordance with the related registration rights agreements or we may be entitled to contribution.

Once sold under the registration statement, of which this prospectus forms a part, the shares of common stock will be freely tradable in the hands of persons other than our affiliates.

EXHIBIT H

FORM OF LEGAL OPINIONS

1. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Texas and has all requisite corporate power and authority to carry on its business as now conducted and as proposed to be conducted. The Company has no direct or indirect subsidiaries. The Company is duly qualified as a foreign corporation to do business and is in good standing in every jurisdiction in which its ownership or use of property or the nature of the business conducted by it makes such qualification necessary except where the failure to be so qualified or in good standing would not have a Material Adverse Effect.

2. The Company has the requisite corporate power and authority to execute, deliver and perform its obligations under the Transaction Documents. The Transaction Documents, and the issuance of the Notes, and Warrants and the reservation and issuance of Common Stock issuable upon conversion of the Notes and exercise of the Warrants have been (a) duly approved by the Board of Directors of the Company, and (b) the Securities, when issued pursuant to the Agreement and upon delivery, shall be validly issued and outstanding, fully paid and non-assessable.

3. The execution, delivery and performance of the Transaction Documents by the Company and the consummation of the transactions contemplated thereby, will not, with or without the giving of notice or the passage of time or both: (a) violate the provisions of the Articles of Incorporation or bylaws of the Company; or (b) to our knowledge, violate any judgment, decree, order or award of any court binding upon the Company.

4. The Transaction Documents constitute the valid and legally binding obligations of the Company and are enforceable against the Company in accordance with their respective terms.

5. The Securities have not been registered under the Securities Act of 1933, as amended (the "Act") or under the laws of any state or other jurisdiction, and are or will be issued pursuant to a valid exemption from registration.

6. The Purchaser has been granted valid security interests in the Collateral pursuant to the Security Agreement, enforceable against the Company in accordance with the respective terms and provisions of the Security Agreement, and to the extent such security interest may be perfected under the Uniform Commercial Code by the filing of financing statements, then upon the due and timely filing of Uniform Commercial Code financing statements respecting the Company, with the Secretary of State of the State of Texas, those security interests will be perfected in such Collateral to the extent described in those statements and the Security Agreement.

7. The Subordination Agreement is a valid and binding obligation of the Company and of TETF, enforceable against TETF in accordance with its respective terms and provisions.

IDEAL POWER CONVERTERS, INC.

Schedules to the

Securities Purchase Agreement

Dated _____, 2012

The following disclosures are intended only to list those items required to be listed in the Sections of the Agreement corresponding to the number of the schedule, and to qualify and limit the representations, warranties and covenants made by IDEAL POWER CONVERTERS, INC., a Texas corporation (the "Company"), in the Securities Purchase Agreement dated _____, 2012 (the "Agreement") between the Company and the Purchasers listed thereto. Unless otherwise noted herein, any capitalized term in the following schedules (the "Schedules") shall have the same meaning assigned to such term in the Agreement.

Ideal Power Converters, Inc.

DISCLOSURE SCHEDULES

August [___], 2012

These Disclosure Schedules are provided in connection with the representations and warranties in Section 4 of the Securities Purchase Agreement dated August [___], 2012 (the "***Agreement***") by and between Ideal Power Converters, Inc., a Texas corporation (the "***Company***"), and the Purchasers named therein. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Agreement.

Nothing contained herein is intended to broaden the scope of any representation or warranty contained in the Agreement or to create any covenant on the part of the Company. Inclusion of any item in these Disclosure Schedules (a) does not represent a determination that such item is material nor shall it be deemed to establish a standard of materiality, except to the extent that the representation or warranty in the Agreement to which such item relates includes a representation or warranty as to materiality; (b) does not represent a determination that such item did not arise in the ordinary course of business, except to the extent that the representation or warranty in the Agreement to which such item relates includes a representation or warranty as to the ordinary course of business; and (c) shall not constitute, or be deemed to be, an admission to any party other than the Purchasers concerning such item.

All references to "Section" or "subsection" refer to a Section or subsection in the Agreement, unless the context otherwise requires. The headings in these Schedules are for convenience of reference only and shall not affect the disclosures contained herein. The disclosures in any section or subsection of these Disclosure Schedules shall qualify other sections and subsections in these Disclosure Schedules only to the extent it is readily apparent from a reading of the disclosure that such disclosure is applicable to such other sections and subsections. As used in these Disclosure Schedules, "Company" means Ideal Power Converters, Inc. only.

These Disclosure Schedules includes descriptions of certain of the Company's agreements or instruments. The descriptions are qualified in their entirety by reference to the detailed terms of the applicable agreement or instrument, provided that each agreement or instrument described herein was previously delivered or made available to a counsel for the Purchasers.

All of the capitalization, share and per share information in this Disclosure Schedule gives effect to the Reclassification and the Stock Split provided for in the Amended and Restated Certificate of Formation of the Company (the "Restated Certificate").

Schedule 4(b)(i) Capitalization

Outstanding Common Shareholders

IDEAL POWER CONVERTERS INC
Outstanding Common Shareholders

Shareholder	Number of Shares Common Stock (as of July 31, 2012)
William C Alexander	**1,280,250**
Hamo Hacopian	**625,000**
Dr. David Breed	**312,500**
Cindy D. Breed	**312,500**
Charles De Tarr	**281,925**
Battery Ventures VIII, L.P.	**122,175**
John Bundschuh	**108,550**
Paul Bundschuh	**106,620**
Dynamic Manufacturing Solutions LLC	**96,150**
Mike Barron	**42,160**
Herman and Ann Breed	**40,000**
John P. Bundschuh	**27,469**
Paul Rousch	**27,195**
Salim A. and Rita S. Momin	**25,000**
Thomas Ryan (was 25,000)	**24,000**
Joel Sher	**18,815**
Peter W. Bundschuh	**14,675**
William D. Bundschuh	**14,675**
Chris Cobb (including options w/vesting) and stock7/31	**12,809**
Mercom Capital LLC	**11,289**
Total	**3,503,757**

Outstanding Preferred Shareholders

Shareholder	Number of Shares Preferred Stock (as of July 18, 2012)
None	0
TOTAL:	0

Schedule 4(b)(ii) Outstanding options, warrants

1. The Company has issued the following warrants, copies of which have been made available to counsel for the Purchasers:

    a. Common Stock Warrant, dated November 3, 2008, granting Entrepreneurs Foundation of Central Texas the right to purchase 85,950 shares of Common Stock of the Company at an exercise price of $0.0004 per share.

    b. Right to Purchase Shares pursuant to that Investment Unit issued by Ideal Power Converters, Inc. to the Office of the Governor Economic Development and Tourism, dated October 1, 2010, which provides for the issuance of shares of the Company's Common Stock or shares of the same class of capital stock or series of preferred stock as shall be issued in the First Qualifying Financing Transaction (defined therein).

2. The following agreements, copies of which have been made available to counsel for the Purchasers, provide for issuance of Common Stock:

    a. In connection with an offer for full employment, Mike Barron is eligible to be granted a stock option with a 2 year vesting period for 9,407 shares with a strike price of $2.65754.

    b. Services Agreement, by and between Dynamic Manufacturing Solutions, LLC and Ideal Power Converters, Inc., dated January 15, 2010, which provided that Dynamic Manufacturing Solutions, LLC would receive $65 per hour, to be paid through issuances of Common Stock of Company. According to the Services Agreement, each share of Common Stock of the Company was valued at $31.20 (prior to the stock split), based on a valuation of approximately $4,000,000 and 128,196 issued and optioned shares. All shares issued pursuant to this agreement shall give effect to the Reclassification and the Stock Split provided in the Restated Certificate. Compensation to Dynamic Manufacturing in the form of Common Stock of the Company is capped at a number of shares representing 3% of the total outstanding shares of Common Stock of the Company. As of December 31, 2010, Dynamic Manufacturing Solutions, LLC reached the cap in the contract with 1,846 hrs at the $65/hr rate valued at $120,000 and 96,150 shares were issued (after stock split). The Company has no outstanding obligations to Dynamic Manufacturing Solutions, LLC under this agreement, except that Dynamic Manufacturing Solutions, LLC, shall be paid an hourly rate of $85 per hour, if the Company fails to provide Dynamic Manufacturing Solutions, LLC with a right of first refusal on certain future manufacturing projects.

The Company has issued the following options, copies of which have been made available to counsel for the Purchasers:

Outstanding Option holders

Option Number	Holder	Date	Number of Shares of Common Stock	Exercise Price	Acceleration?
1	Robert Groover	6/15/2007	15,000	$ 0.04	Fully vested
2	Patrick Holmes	6/15/2007	10,000	$ 0.04	Fully vested
5	Charles De Tarr	1/31/2009	63,675	$ 0.17452	Fully vested
6	Paul Bundschuh	5/12/2009	2,925	$ 0.3416	Fully vested
9	Paul Bundschuh	8/25/2009	3,050	$ 0.334	Fully vested
12	Robert King	2/23/2010	64,100	$ 1.248	Yes, upon a change of control
13-A	Mike Barron	6/30/2010	34,550	$ 1.248	Yes, upon a change of control
14	Paul Bundschuh	6/30/2010	28,050	$ 1.248	Fully vested
15	Donald Haygood	6/30/2010	1,200	$ 1.248	Yes, upon a change of control
16	Hamid Toliyat	9/10/2010	48,375	$ 1.248	Yes, upon a change of control
17	Mike Barron	9/30/2010	26,350	$ 1.248	Yes, upon a change of control
18	Paul Bundschuh	9/30/2010	14,025	$ 1.248	Fully vested
19	Donald Haygood	9/30/2010	1,200	$ 1.248	Yes, upon a change of control
20	Paul Roush	9/30/2010	3,575	$ 1.248	Fully vested
21	Paul Bundschuh	12/31/2010	14,025	$ 1.248	Fully vested
22	Donald Haygood	12/31/2010	1,200	$ 1.248	Yes, upon a change of control
23	Donald Haygood	3/31/2011	564	$ 2.65754	Fully vested
24	Donald Haygood	6/30/2011	564	$ 2.65754	Yes, upon a change of control
25	Donald Haygood	11/14/2011	9,407	$ 2.65754	Yes, upon a change of control, unless assumed by purchaser of company
26	Larry Burns	11/14/2011	9,407	$ 2.65754	Yes, upon a change of control, unless assumed by purchaser of company
27	Paul Roush	11/14/2011	9,407	$ 2.65754	Yes, upon a change of control, unless assumed by purchaser of company
28	Mike Barron	11/14/2011	9,407	$ 2.65754	Yes, upon a change of control, unless assumed by purchaser of company
29	Chris Cobb	**6/01/2012 (new-2012)**	45,155	$ 2.65754	Yes, upon a change of control, unless assumed by purchaser of company
	Total		415,211		

Outstanding Warrant holders

Name - Note holders with warrants	Note Amount	warrant conversion rate	Shares from conversion of notes
Bundschuh, John P	**$ 13,000**	$ 2.65754	4,892
Bundschuh, Paul	**$ 13,000**	$ 2.65754	4,892
Bundschuh, Peter W	**$ 13,000**	$ 2.65754	4,892
Bundschuh, William	**$ 13,000**	$ 2.65754	4,892
Charles De Tarr	**$ 150,000**	$ 2.65754	56,443
Chris Cobb	**$ 200,000**	$ 2.65754	75,258
Dr Breed	**$ 25,000**	$ 2.65754	9,407
Joel Sher	**$ 15,000**	$ 2.65754	5,644
John Mike Barron	$ 26,575	$ 2.65754	10,000
Passel LTD	**$ 100,000**	$ 2.65754	37,629
Mike Barron	$ 26,575	$ 2.65754	10,000
Sher's family Trust	**$ 10,000**	$ 2.65754	3,763
R Andrew Webb	**$ 40,000**	$ 2.65754	15,052
Magnus LeVicki	**$ 50,000**	$ 2.65754	18,814
new notes (w/warrants) total	$ 695,151		261,578
Entrepreneurs Foundation of Central Texas			85,950
	sub-total		347,528
Office of the Governor Economic Development and Tourism			Number and type of shares to be issued dependent upon First Qualifying Financing Transaction (defined therein)

Schedule 4 g IP status

Dkt#	Status	where?	App No	Filed	Priority	Pat No	Pub No
IPC012	issued	US	11/759,006	6/6/2007	6/6/2006	7,599,196	US 2008/0013351
IPC013	issued	US	11/758,970	6/6/2007	6/6/2006	7,778,045	US 2008/0031019
IPC011CN	pending	CN	200780029208.4		6/6/2006		
IPC011EP	pending	EP	7795915.3		6/6/2006		
IPC012A	pending	US	12/479,207	6/5/2009	6/6/2006	-	US 2010/0067272
IPC012E	pending	US	13/205,243	8/8/2011	6/6/2006		US 2012/0020129
IPC012F	pending	US	13/205,250	8/8/2011	6/6/2006		US 2012/0033464
IPC012G	pending	US	13/205,263	8/8/2011	6/6/2006		US 2012/0008353
IPC013B	pending	US	13/214,575	8/22/2011	6/6/2006		US 2012/0051100
IPC020BR	pending	BR	PI1011551-0	12/28/2011	6/29/2009		
IPC020CN	pending	CN	2010800387048	2/29/2012	6/29/2009		
IPC020EP	pending	EP	10800310.4	1/13/2012	6/29/2009		
IPC020KR	pending	KR	2012-7000720	1/10/2012	6/29/2009		
IPC020A	pending	US	13/205,212	8/8/2011	6/29/2009		US 2011/0292697
IPC020B	pending	US	13/541,902	7/5/2012	6/29/2009		
IPC020C	pending	US	13/541,905	7/5/2012	6/29/2009		
IPC020D	pending	US	13/541,910	7/5/2012	6/29/2009		
IPC020E	pending	US	13/541,914	7/5/2012	6/29/2009		
IPC021BR	pending	BR	BR112012003612-2	2/16/2012	8/17/2009		
IPC021A	pending	US	13/205,225	8/8/2011	8/17/2009		US 2012/0014151
IPC021B	pending	US	13/542,223	7/5/2012	8/17/2009		
IPC021C	pending	US	13/542,225	7/5/2012	8/17/2009		
IPC022	pending	US	13/308,200	11/30/2011	11/30/2010		
IPC022WO	pending	PCT	PCT/US11/62689	11/30/2011	11/30/2010		WO 2012/075172
IPC023	pending	US	13/401,771	2/20/2012	2/18/2011		
IPC024	pending	US	13/400,567	2/20/2012	2/18/2011		
IPC028	pending	US	13/308,356	11/30/2011	11/30/2010		
IPC028WO	pending	PCT	PCT/US11/62710	11/30/2011	11/30/2010		WO 2012/075189

Ideal Power Converters
List of Inventions

William C. Alexander

No.	AN or Number	Title(s)	Technology Description	Benefit
1	7,599,196 7,778,045	UNIVERSAL POWER CONVERTER UNIVERSAL POWER CONVERSION METHODS	A unique arrangement of passive and active circuit elements that are operated to transfer power by indirect means between input and output power ports.	Due to the indirect transfer method , which uses a magnetic energy storage device referred to as a "link inductor", input and output ports may have significant differences in common mode voltage, allowing grounded ports to be used without an isolation transformer. Additionally, all switching is very "soft", resulting in very low switching stresses and loss. Many other benefits accrue with this technology, such as multi-port capability and high current control bandwidth.
2	13/205,212	ENERGY-TRANSFER REACTANCE POWER TRANSFER DEVICES, METHODS, AND SYSTEMS WITH CROWBAR SWITCH SHUNTING	A means of shutting down the IPC converter quickly to protect it against transients	A low cost method to provide a high level of external transient (e.g. lightening) protection.
3	**13/205,225**	**POWER CONVERSION WITH ADDED PSEUDO-PHASE**	**Provides for an "port" internal to the IPC converter for temporary storage of energy as needed to buffer the power flow from a steady power source to an unsteady power sink, or vice-versa**	**Eliminates the need for large, expensive, and dangerous electrolytic capacitors to interface a DC input to a single phase AC output**
4	61/418,144	Photovoltaic String Monitoring and Diagnostic	A technique using an IPC inverter to monitor the current-voltage (I-V) curves of an attached solar PV array	Useful for detecting abnormalities in said PV array
5	61/444,365	Sealed Compartment Vent and Dehumidifier	Uses a desiccant and active heater to control the humidity in the power electronics compartment of an IPC PV inverter, using the diurnal heating and cooling cycle of the inverter	Keeps the internal humidity low even in an environment with high humidity, which prolongs the life of the inverter
6	61/444,385	Zero Current Crossing Detection Circuit	A means to detect when the current through the IPC converter's link inductor goes through zero	A low latency, noise free technique for finding when the link inductor current is zero

Schedule 4(i) **Financial Statements**

1. Attached are (A) **the audited financial statements** for 2011, 2010 and 2009 from Maxwell Locke & Ritter (**in a separate pdf file**). (B) the un-audited balance sheet as of June 30, 2012 and the un-audited income statement for the six month period ended June, 2012 (the "Income Statements" and collectively with the Balance Sheet, the "Financial Statements").

Schedule 4(m) Material Agreements

Table of Notes

All notes convertible, some have warrants as noted in warrant section. All at 6% interest

Convertible Notes	Date	Note Amount	Due date	conversion te or lower	shares given 2.65754
Passel LTD	4/26/2011	$ 100,000.00	12/31/2013	2.65754	37,629
Fred Beach	6/21/2011	$ 50,000.00	12/31/2013	2.65754	18,814
Mr Redwine	9/1/2011	$ 70,000.00	12/31/2013	2.65754	26,340
Don Barr	9/29/2011	$ 100,000.00	12/31/2013	2.65754	37,629
Charles De Tarr	10/9/2011	$ 40,000.00	12/31/2013	2.65754	15,052
Bundschuh, John P	4/12/2012	$ 13,000.00	12/31/2013	2.65754	4,892
Bundschuh, Paul	4/12/2012	$ 13,000.00	12/31/2013	2.65754	4,892
Bundschuh, Peter W	4/12/2012	$ 13,000.00	12/31/2013	2.65754	4,892
Bundschuh, William	4/12/2012	$ 13,000.00	12/31/2013	2.65754	4,892
Charles De Tarr	(mul ti pl e)	$ 150,000.00	12/31/2013	2.65754	56,443
Chris Cobb	5/22/2012	$ 200,000.00	12/31/2014	2.65754	75,258
Dr Breed	2/24/2012	$ 25,000.00	12/31/2013	2.65754	9,407
Joel Sher	3/25/2012	$ 15,000.00	12/31/2013	2.65754	5,644
John Mike Barron	4/7/2012	$ 26,575.40	12/31/2013	2.65754	10,000
Passel LTD	4/23/2012	$ 100,000.00	12/31/2013	2.65754	37,629
Mike Barron	4/18/2012	$ 26,575.40	12/31/2013	2.65754	10,000
Sher's family Trust	3/25/2012	$ 10,000.00	12/31/2013	2.65754	3,763
R Andrew Webb	6/11/2012	$ 40,000.00	12/31/2014	2.65754	15,052
Magnus Le'Vicki	7/17/2012	$ 50,000.00	12/31/2013	2.65754	18,814
Totals		$ 1,055,150.80			397,042

1. Commercial Lease, by and between Ideal Power Converters, Inc. and Bee Creek Center, LLC, dated May 1, 2010 with extension dated January 3, 2012.

2 Promissory Note pursuant to that Investment Unit issued by Ideal Power Converters, Inc. to the Office of the Governor Economic Development and Tourism, dated October 1, 2010.

3. Services Agreement, by and between Dynamic Manufacturing Solutions, LLC and Ideal Power Converters, Inc., dated January 15, 2010.

4. Master Services Agreement, by and between Austin Technology Incubator and Ideal Power Converters, Inc, dated October 10, 2008.

5. Research Agreement No. 10-1520, by and between the Texas Engineering Experiment Station and Ideal Power Converters, Inc., dated November 22, 2010. Certain provisions of such agreement provide for joint title and/or license of certain jointly developed Intellectual Property.

6. Consulting Services Agreement, by and between Ray Lowe and Ideal Power Converters, Inc., dated April 23, 2011.

7. Consulting Services Agreement, by and between Selchau Consulting, LLC and Ideal Power Converters, Inc., dated March 1, 2011.

8. Consulting Services Agreement, by and between Scott Wartha and Ideal Power Converters, Inc., dated November 12, 2010.

9. Retainer Agreement by and between Comprehensive Technologies and Ideal Power Converters, Inc. dated April 1. The Agreement covers a period of nine months at $2,000 per month, starting April 1, 2011 and concluding December 31, 2011. Expired.

10. Sales Representative Agreement between Comprehensive Technologies and Ideal Power Converters, Inc. dated May 13, 2011.

11. Westlake Securities d/b/a Focus Strategies. Agreement dated March 7 and expired in July 2012 to assist in non-exclusive attempt to raise capital from a list of 5-6 financial firms.

12. Amplify Capital. Agreement dated December 6, 2011 7 and expired in July 2012 to assist in non-exclusive attempt to raise capital.

13. Grant Award Notice to Ideal Power Converters, Inc. for $40,000 in Eureka Grant Funds under the American Recovery and Reinvestment Act-2009 (ARRA). State Energy Program (Eureka Program). Innovation Marketing Grant. $40,000 received and spent.

14. IPC Cost Share On Department of Energy ARPA-E project. In a three year period, the Company commits to provide $127,965 in labor, while being allocated $427,590 from the $2,777,778 project budget.

15. Brian Quock. Independent sales rep agreement dated May 15th with Brian Quock. Sales in California.

16. Chris Cobb. Signed offer of employment dated May 21, 2012. With details of compensation.

17. Todd Ritter. Not yet finalized. Agreement with sales rep based in Hawaii (new, waiting on final copy).

18. Mercom Capital. Agreement dated May 5, 2012 for marketing and promotion services.

19. Purchase Order, by and between Lockheed Martin Corporation and Ideal Power Converters, Inc., dated September 10, 2010.

20. Purchase Order, by and between Lockheed Martin Corporation and Ideal Power Converters, Inc., dated June 10, 2010.

21. Purchase Order, by and between Lockheed Martin Corporation and Ideal Power Converters, Inc., dated January 14, 2010.

22. License Agreement, by and between Lockheed Martin Corporation and Ideal Power Converters, Inc., dated December 22, 2009, License No. 09-MC-LI-0006

23. Texas Emerging Technology Fund Award and Security Agreement, by and between the State of Texas and Ideal Power Converters, Inc., dated October 1, 2010.

24. Research Agreement No. 10-1520, by and between the Texas Engineering Experiment Station and Ideal Power Converters, Inc., dated November 22, 2010. Certain provisions of such agreement provide for joint title and/or license of certain jointly developed Intellectual Property.

25. Statement of Work, issued by the Company to Texas Engineering Experiment Station, governed by the Research Agreement. Project almost completed.

26. Demonstration Agreement, by and between the City of Austin and Ideal Power Converters, Inc., dated May 20, 2010.

Schedule 4(k) Tax Matters

2011 Federal income Return and Texas Franchise Tax returns were extended and are almost completed by Maxwell Locke and Ritter, the firm that does the tax returns.

Schedule 4(l) Certain Transactions

1. Use of DataCorp for IT services including internet site. Company is owned by Hamo Hacopian who is on the board. Mr. Hamo Hacopian currently owns more than 5%.

2. Convertible promissory notes held by CFO Charles De Tarr ($190,000), Chris Cobb CEO ($200,000), and Dr Breed ($25,000). Both Charles De Tarr and Dr Breed own more than 5%.

3. Some recent payables paid by (same individuals as #2) to be repaid as part of accounts payables.

Schedule 4(r) No Brokers

1. Westlake Securities d/b/a Focus Strategies. Agreement dated March 7 and expired in July 2012. Used to assist in non-exclusive attempt to raise capital from a list of 5-6 financial firms (mainly Texas "Cap-Co's")

2. Amplify Capital. Agreement dated December 6, 2011 and expired in July 2012 to assist in non-exclusive attempt to raise capital.

Schedule 4(t) Risk Factors

An investment in the Securities being offered under this Securities Purchase Agreement is speculative and involves a high degree of risk. You should purchase the Securities being offered hereby only if you can afford to sustain a total loss of your investment. Accordingly, in analyzing this investment you should carefully consider the following risk factors, as well as the other information included in this Securities Purchase Agreement and related exhibits and disclosure schedules, as well as other information furnished by the Company. The order of the risk factors is not necessarily indicative of the relative importance of any described risk. These risk factors are not the only risks we face and this list should not be considered exhaustive. We consider the risks described below to be material, however there may be other risks that currently are not known to us. . The occurrence of any one of the following events would be likely to have a material adverse effect on the Company and our business, prospects, financial condition, and/or results of operation, and you could lose all or part of your investment in the Company.

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 have a limited operating history, which makes it difficult to evaluate our business. Although we have issued patents and patent applications pending with the United States Patent and Trademark Office ("USPTO") and equivalent offices in the European Union (the "EU"), South Korea, China, Brazil and Canada for a power converter topology and our methods of operating said topology, and have had them validated by UL certifications from Intertek, a Nationally Recognized Test Laboratory, the California Energy Commission, and three Solar PV Inverter installations fielded with a total of 13 inverters, (running without problems for more than three months each), 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 may not be able to meet our product development and commercialization milestones.

We are subject to product and commercialization milestones and dates for achieving development goals related to technology and design improvements of our products, under our agreement with the Texas Emerging Technology Fund, an entity overseen by the Office of the Governor of Texas. To achieve these milestones we must complete substantial additional research, development and testing of our products and technologies, such as the grid-battery and Level III DC charger converters that we currently have under development. Except for our Solar PV Inverter products, we anticipate that it will take at least six to twelve months to develop and ready our other products for scaled production. 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, or within the timeframe as planned. Our plans and ability to achieve profitability depend on acceptance 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 Level III DC Electric Vehicle Chargers. More generally, the commercialization of our products may also be adversely affected by many factors not within our control, including:

- 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;
- emergence of newer, possibly more effective technologies;
- future cost and availability of the raw materials and components needed to manufacture and use our products; and
- adoption of new regulatory or industry standards which 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 those products.

A material part of our success depends on our ability to manage our suppliers and manufacturers.

We rely upon contract manufacturers to produce our products. There can be no assurance that key manufacturers will provide 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.

We have not devoted significant resources towards the marketing and sale of our products, we expect to face intense competition in the markets in which we do business, and we continue significantly to rely on the marketing and sales efforts of third parties whom we do not control.

To date, we primarily focused on the sale of Solar PV Inverter products and, while we have sold increasing quantities of our products on a yearly basis, even by adding veteran industry 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 the Solar PV Inverter product will continue to be conducted by a combination of independent manufactures representatives, third-party strategic partners, distributors, or OEMs. Consequently, commercial success of our products will depend to a great extent on the efforts of others. We have entered and intend to continue entering into strategic marketing and distribution agreements or other collaborative relationships to market and sell our Solar PV Inverter and Grid-Battery Converter and value added products. However, 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 which 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.

We will face intense competition in the markets of our product applications for our Solar PV Inverter, Grid-Battery Converter, Level III DC Vehicle Charger and other value-added products. We will compete directly with currently available products, some of which may be less expensive. The companies that make these other products may have established sales relationships and more name-brand recognition in the market than we do. In addition, some of those companies may have significantly greater financial, marketing, manufacturing and other resources.

The prototype of our new 3-Port Inverter 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 building a prototype of a 3-Port Inverter, which is an integrated Solar PV Inverter and Battery Charger/Inverter, based on improvements on our current PV inverter products. We will commence the design and construction of prototypes of our new 3-Port Inverter. We do not yet know if the prototypes will produce positive results consistent with our expectations. The prototypes may also cost significantly more than expected, and the prototype design and construction process may uncover problems of which we are currently not aware. Theseand 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 are highly dependent on certain 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 Bill Alexander(Chief Technology Officer), Paul Bundschuh (Vice President of Business Development), and Michael Barron (Director or Research and Development and Firmware Engineering). If we lose the services of any of these persons, we would be forced to expend significant time and money in the pursuit of replacements, which would result in both 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 or on terms that would not be unduly expensive or burdensome to us. We have no long-term employment agreements with our executives, and we do not currently carry a key-man life insurance policy that would assist us in recouping our costs in the event of their death or disability.

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 inverter products 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.

Our independent registered public accounting firm has issued an unqualified opinion with an explanatory paragraph in the notes to the financial statements to the effect that failure to obtain financing or collect revenue receipts in a timely manner would raise substantial doubt about our ability to continue as a going concern.

This unqualified opinion with an explanatory paragraph could have a material adverse effect on our business, financial condition, results of operations and cash flows. We are dependent on the proceeds of this offering of senior, secured convertible notes and following its completion will require additional financing to fund our operations. We have no committed sources of capital and do not know whether additional financing will be available when needed on terms that are acceptable, if at all. This going concern statement from our independent registered public accounting firm may discourage some investors from purchasing our securities or providing alternative capital financing. The failure to satisfy our capital requirements will adversely affect our business, financial condition, results of operations and prospects. Unless we raise additional funds, either through the sale of our securities or one or more collaborative arrangements, we will not have sufficient funds to continue operations. No assurance can be given that any funds we obtain will prove adequate for our needs.

Risks Relating to the Industry

The recent economic downturn has adversely affected, and is likely to continue affecting, our operations and financial condition potentially impacting our ability to continue as a going concern.

The recent economic downturn has resulted in a reduction in spending on durable goods, industrial equipment and machinery, and less than favorable credit markets, all of which may adversely affect us. Although our top-selling product is currently used primarily in the solar power industry, we expect to derive future sales from a wide range of customers for a wide range of potential applications. If the solar power market declines or stagnates, or there is a down-turn in other industries from which we expect to derive sales, our operations and financial condition could be negatively impacted. While economic stimulus measures undertaken by federal and state governments appear favorably to have targeted clean energy products we currently are unable to project if we can translate these programs into increases in sales, further research and development support, grants or other investments.

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

Our business is highly competitive. 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. These competitors include Satcon, SMA, RefuSOL, and Chint Solar. All aspects of our businesses, including pricing, financing, servicing, as well as 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. Although we place a high value upon our ability to develop superior products and to be more entrepreneurial than our competitors, 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 reduce demand for our future products, harming our operating results.

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. federal Investment Tax Credit and the incentive programs in South Korea, the State of Texas, and the State of California and state renewable portfolio standards programs). In addition, 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 may result in the diminished economic competitiveness of our product to our customers and could materially and adversely affect the growth of alternative energy technologies, including power converter technology, as well as our future operating results.

If our products do not provide demonstrably superior features include outstanding reliability, efficiency and cost effectiveness we will not be able to penetrate our targeted markets.

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. Other companies, some of which have substantially greater resources than ours, are currently engaged in the development of products and technologies that are similar to, or may be competitive with, our products and technologies.

We may be affected by environmental and other governmental regulation.

We are subject to federal, state, provincial, and local regulation with respect to the manufacture of our power converters. Accordingly, compliance with existing or future laws and regulations could have a material adverse effect on our business prospects and results of operations.

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, we will have to revise our plans of operation.

Our intellectual property may not have been properly valued for financial statement purposes.

Our balance sheet at June 30, 2012 lists $293,005 in intangible property, an amount which reflects costs incurred to date on development of patents net of amortization. If our auditors later determine that the proper asset value of our intellectual property in accordance GAAP is less than that amount, our asset base could be materially reduced.

Our operating system of internal controls has been inadequate.

As of August 2012, we did not have a comprehensive operating system of internal controls designed to ensure reliable financial reporting, effective and efficient operations, compliance with applicable laws and regulations as well as safeguarding our assets against theft and unauthorized use, acquisition, or disposal. During 2012, however, we instituted a minimal control environment comprised of the: (i) identification and allocation of expenses in QuickBooks; (ii) institution of formal expense reports; (iii) improved tracking of deposits and withdrawals; (iv) forecasting and tracking of monthly expense budgets; and (v) implementation of written documentation for changes to our stock and warrant ledger entries. Although we are a private company, our current system of internal controls is not likely to be sufficient to meet the standards required of a public reporting company under the Securities Exchange Act of 1934. Although we intend to institute improvements in our controls and procedures, we cannot provide assurance that our controls and procedures will be implemented on a timely basis or that they will at any given time be found to meet applicable regulatory requirements.

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.

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 and our business, operating results and financial condition. Our expansion will 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.

We expect to incur operating losses in the foreseeable future.

We were incorporated in May 2007. From inception through December 31, 2011, we generated relatively small operating revenues from our business. Accordingly, we are relying on the Offering and a follow-on private placement in order to generate sufficient funds to commercialize our devices or instrumentalities embodying our proprietary intellectual property; and we are relying on this and a subsequent additional follow-on financing to fully implement our business plan. We have sold 30 of our power converter devices through the date of this Offering. Accordingly, there is only a limited operating history upon which to evaluate our prospects. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered in the establishment of a new business in a new industry and the risks and expenses associated with our current under-capitalized financial condition. Further, there can be no assurance that we will be able to implement our business plan, generate sustainable revenue or ever achieve profitable operations. We may be unable to successfully implement our business model and strategies and we may have operating losses until such time as we develop a substantial and stable revenue base.

An inability to meet our capital expenditure needs could adversely affect our ability to build and maintain our business.

Our business requires substantial capital in order to effectively market, sell, and further improve our products. We may be unable to fund our capital expenditure requirements if: (i) we are unable to generate sufficient cash from our operations or (ii) we are unable to secure additional financing on acceptable terms, or in dollar terms necessary to fund our expenditures. Furthermore, there is no assurance that we will be able to raise any necessary additional funds through bank financing or the issuances of equity or debt securities on terms acceptable to us, if at all. We may be unable to obtain adequate financing to implement our business plan which could negatively impact our liquidity and ability to continue operations.

Risks Relating to Our Securities

The Offering may not be fully subscribed and, even if the Offering is fully subscribed, we anticipate the need for additional capital in the future. If additional capital is not available, we may not be able to continue to operate our business pursuant to our business plan or at all.

We will offer the securities on "best-efforts" basis, meaning that we may raise substantially less than the total maximum offering amounts. If we do not raise a minimum of $750,000 in this Offering, and at least $3 million to $4.25 million in one or more future private placements within the next several months, we may lack sufficient amount of capital to execute our business plan. Even if this Offering is fully subscribed, we expect we will need substantial additional financing in the future, which we may seek to raise through, equity, bank and other debt financing. Any future equity financings will be dilutive to existing shareholders, and any future debt financings may involve covenants and other restrictions affecting our business activities. Additional future financing may not be available on acceptable terms, or at all.

The concentration of ownership of our common stock gives a few individuals significant control over important policy and operating decisions and could delay or prevent changes in control.

As of August 2012, our executive officers and directors beneficially owned over 66% of the issued and outstanding shares of our common stock on a fully-diluted basis. As a result, these persons have the ability to exert significant control over matters that could include the election of directors, changes in the size and composition of the board of directors, mergers and other business combinations involving the Company, and operating decisions affecting us. In addition, through control of the board of directors and voting power, they may be able to control certain decisions, including decisions regarding the qualification and appointment of officers, dividend policy, access to capital (including borrowing from third-party lenders and the issuance of additional equity securities), and the acquisition or disposition of our assets. In addition, the concentration of voting power in the hands of those individuals could have the effect of delaying or preventing a change in control of the Company, even if the change in control would benefit our shareholders. A perception in the investment community of an anti-takeover environment at the Company could cause investors to value our securities lower than in the absence of such a perception.

There is no public market for the Company's securities, so you will not be able to liquidate them if you need money.

Prior to this Offering, there has been no public market for the common stock or Securities. It is not likely that an active market for the Company's Securities will develop or be sustained soon after this Offering. We cannot provide any assurance that we will successfully complete a public offering or become a public reporting company, or that a market for our Securities and common stock will ever develop.

The Company has the ability to issue additional shares of its common stock or Securities without asking for shareholder approval, which could cause the investment of the Securities offered hereby to be diluted.

Our articles of incorporation currently authorize the Board of Directors to issue up to 5,000,000 shares of common stock, and up to 275,000 shares of Preferred Stock. In the event all of the Securities offered hereby are issued and sold and assuming the conversion and exercise of all of all notes, options and warrants, including the Securities, the Company presently anticipates that it will have approximately 8 million shares of common stock outstanding on a fully-diluted basis outstanding (provided however, the total number of shares outstanding will be dependent on the per share price in a future securities offering). Accordingly, in order to accommodate the future issuance of shares of common stock, we will be required to amend our articles of incorporation with approval of our shareholders, nonetheless, the Board of Directors has the authority to issue shares of Preferred Stock or common stock, or warrants or other rights to purchase shares of such stock up to maximum authorized in the articles of incorporation without obtaining shareholder approval.

Management will have broad discretion in using the proceeds received from this Offering. You may not approve of the ways in which our management uses those proceeds.

We expect to use the net proceeds of this Offering contemplated by this Securities Purchase Agreement primarily for facility capital expenditures, building a prototype, the hiring of staff, the filing of additional patent applications, and for general working capital, as set forth in Section 7(b) of the Securities Purchase Agreement. Management has broad discretion in allocating proceeds of this Offering. You will not have the authority to approve the uses to which our management allocates money. Management's failure to effectively use this money could have a material adverse effect on our business.

Assumptions underlying the projections in our business plan are highly speculative and may prove to be untrue.

Management may have provided certain projections to investors in connection with this Offering. These projections include, but are not limited to: forecasts, valuations, financial projections, cost and profit analysis, projected marketing expense and other prospective information ("Prospective Information"). If any of the assumptions upon which these projections are based prove to be untrue, including resumed growth of the economy in general, expected growth in the solar power industry as well as the industries in which our products and future products have application, these projections could be adversely affected and the results anticipated in the Prospective Information may not be achieved. Investors should be aware that these and other projections and predictions of future performance, whether included with the Securities Purchase Agreement or subsequently delivered to Investors, are based on certain assumptions which are highly speculative. Such Prospective Information is not (and should not be regarded as) a representation or warranty by us or any other person that the overall objectives of our Company will ever be achieved, that the projected results in the Prospective Information will become a reality, or that we will ever achieve significant revenues or profitability. Prospective Information and these projections and any other forecasts of future performance should not be relied upon by the Investor in making an investment decision.

We do not intend to pay any dividends or distributions on our common stock.

We do not anticipate paying any cash dividends on our common stock in the foreseeable future. Dividends, if and when paid, are subject to our financial condition, as well as other business considerations. In addition, applicable state law may limit the ability of a corporation to pay dividends.

If we become a public reporting company, the costs of public company compliance may have a material adverse effect on the results of our operations and may make it more difficult for us to focus on the implementation of our business plan.

If we complete an initial public offering of our securities or otherwise are able to cause one or more classes of our securities to trade in the public securities markets, we will become subject to additional layers of governmental regulation including the Exchange Act and rules and regulations promulgated by the SEC. We may become obligated to file annual , quarterly and current reports as well as proxy statements and other filings with the SEC. These compliance obligations, will require us to incur significant legal and accounting costs which could have a material adverse effect on our results of operations. Our management will need to devote substantial time to such compliance matters, which might divert our attention from the development of the business and implementation of our business plan.

There are restrictions on the transfer of the Securities being offered in this Offering, and the common stock underlying the Securities.

Neither the Securities offered in this Offering nor the common stock underlying such Securities have been registered with the Securities and Exchange Commission under the Securities Act of 1933 or registered or qualified with any state or territorial securities regulatory agency. The Securities Purchase Agreement provides that you agree that the Company will not be required to transfer your Securities on its stock transfer records or issue Shares to any person to whom you sell the Securities unless you provide the Company with documentation satisfactory to the Company that the transfer is not in violation of the registration requirements of the Securities Act of 1933, which may include an opinion of legal counsel for which you may be required to pay. There is no assurance that our shares of common stock will become publicly traded, that your shares will be successfully registered, or that other required conditions to permit securities transfers will be met.

If you need to raise money from the sale of your shares, neither the Company nor any of its officers, directors, stockholders or agents will be under any obligation to purchase the Securities you buy in this Offering and you may not be able to liquidate your shares because there is not public market for the shares at this time and there is no assurance a public market will develop. The Securities we are offering is unlikely to be accepted as collateral by lending institutions.

Your investment in the Securities should, therefore, be considered only if you have no immediate need for liquidity in your investment.

We are obligated under a Fund Award and Security Agreement, and related Investment Unit, dated October 1, 2010 with the Texas Emerging Technology Fund, which include certain covenants that restrict our business activities, and bind us to significant repayment obligations in the event of default.

Under our agreement with the Texas Emerging Technology Fund, we may become obligated to repay an amount equal to $1 million plus accrued interest, if we breach the terms of our agreement at any time prior to October 1, 2020, and this contingent obligation is secured by all of our assets. Although the Office of the Governor of the State of Texas has agreed to subordinate its security interest to the security interest granted to and held by the investors in the Securities in this Offering, a breach of our agreement with the Texas Emerging Technology Fund could trigger our payment obligations, and if we are unable to perform those obligations, our business could be materially and adversely affected.

Our agreement with Texas Emerging Technology Fund requires us to, among other things, maintain our principal place of business and manufacturing center within the State of Texas, and to use reasonable efforts to use qualified Texas-based suppliers. If we are unable to comply with these and other covenants, or they become cost-prohibitive or not cost-effective, we may have to seek waivers from the State of Texas in order to avoid default, and if such waivers are not granted then our business may be materially and adversely affected.

Due to our limited revenue and asset base, we cannot provide assurance that we will be able to repay the principal of the Notes when due, or that the Note holders' rights and senior security interest, if exercised by the Note holders, will be sufficient to make the note holders whole.

We are an early stage company with limited revenue, and our current asset base consists mainly of intellectual property. Our present ability to repay the principal amount of the senior secured Notes is very limited. Under the terms of the Notes, the principal and accrued interest under the Notes will automatically convert into common stock upon a firm commitment initial public offering of our common stock. However, if we do not complete an initial public offering, the Notes will become due and we will be obligated to pay the principal and accrued interest on the Notes in cash. While we plan to monetize our intellectual property and generate increasing revenue from sales of our products, we cannot provide assurance of when, or if ever, these efforts will result in profitable operations. Accordingly, there can be no assurance that we will be able to repay the senior secured Notes when they become due. If the holders of the senior secured Notes attempt to enforce their rights and security interest in the collateral, which currently consists mainly of intellectual property, it is uncertain whether the value of such collateral in a sale or liquidation would be sufficient to cover the total principal amount of the senior secured notes.

Upon their exercise of conversion rights under the Notes, investors will very likely suffer immediate and substantial dilution.

Upon an investor's exercise of conversion rights under the Notes, it is very likely that the investor's conversion price ("Conversion Price") for the shares of common stock issuance upon conversion of the Notes ("Conversion Shares")will be substantially higher than the average purchase price paid by certain early-stage investors in the Company for their shares of common stock. The average price per share paid by these early stage investors for their shares of common stock in the Company may in many instances be negligible; as a result, investors who convert their Notes into Conversion Shares will very likely incur immediate and substantial dilution.

We anticipate issuing additional senior secured convertible notes, which will have a first priority security interest on par with the notes being issued in this Offering, and such issuances may increase the amount of risk, and reduce the amount of collateral available to, the investors in this Offering.

We plan to issue additional senior secured convertible notes, which will have a first priority security interest on par, with respect to payment and priority, with the notes being issued in this Offering. The collateral, which generally consists of all of our assets (with certain exceptions), is limited in value, and will be shared with any additional first priority senior creditors. Accordingly, an increase in the amount of first priority senior indebtedness will reduce the amount of collateral that corresponds to each dollar invested by the senior creditors, thereby increasing the amount of risk on the part of all senior creditors. There can be no assurance that if the senior creditors exercise their rights to take or dispose of the collateral, that the total amount of collateral being provided as security in this Offering and future offerings will be sufficient to make whole the investors in this Offering together with additional senior creditors who will have a security interest on par with the investors in this Offering.

The Conversion Price of the Notes may be arbitrarily set by the terms of a future financing, which have not yet been determined.

There is no present market for the Notes and the underlying Conversion Shares. Under the terms of the Notes, the Conversion Price for the underlying Conversion Shares depends on the price per share of an initial public offering of the Company, or a private placement financing. The price per share as agreed by investors in these future financings is not necessarily indicative of the actual or fair value of the Notes or the underlying Conversion Shares, and may not bear any relation to our net worth, earnings or other financial metrics. We cannot assure you that the conversion price of the Notes will meet your expectations, or will result in any particular return on your investment. In addition, we cannot provide any assurance that a subsequent initial public offering or private placement financing will occur at all, and as a result, the Notes may not become convertible into equity securities of the Company. In such event, the holders of Notes may be limited to seeking recovery of their cash investment.

Risks Relating to Our Intellectual Property

If our existing, newly developed or proposed intellectual property is not adequately protected by valid, issued patents or if we are not otherwise able to protect our proprietary information, our financial condition, operations or ability to develop and commercialize our existing, newly developed or proposed intellectual property based instrumentalities may be harmed.

The success of our operations will depend in part on our ability to:

- Obtain patent protection for our devices and devices or instrumentalities embodying our proprietary intellectual property, and other methods or components on which we rely, both in the United States and in other countries with substantial markets;
- Defend patents once obtained; and
- Maintain trade secrets and operate without infringing upon the patents and proprietary rights of others.

Our business substantially relies on our own intellectual property related to various technologies that are material to our devices or instrumentalities embodying our proprietary intellectual property and processes. It is likely that we will depend on our ability to successfully prosecute and enforce the patents, file patent applications and prevent infringement of those patents and patent applications.

If we are not able to maintain adequate patent protection for our devices or instrumentalities embodying our proprietary intellectual property, we may be unable to prevent our competitors from using our technology.

The patent positions of the technologies being developed by us involve complex legal and factual uncertainties. As a result, we cannot be certain that we will be able to obtain adequate patent protection for our devices or instrumentalities embodying our proprietary intellectual property. There can be no assurance that:

- The scope of any patent protection will be sufficient to provide us with competitive advantages;
- Any patents obtained by us will be held valid if subsequently challenged;
- Others will not claim rights in or ownership of the patents and other proprietary rights we may hold; or
- Unauthorized parties may try to copy aspects of our devices or instrumentalities embodying our proprietary intellectual property and technologies or obtain and use information we consider proprietary.

Policing the unauthorized use of our proprietary rights is difficult. We cannot guarantee that harm or threat to our intellectual property will not occur. In addition, changes in, or different interpretations of, patent laws in the United States and other countries may also adversely affect the scope of our patent protection and our competitive situation.

We cannot offer any assurance that current and potential competitors or other third parties have not filed or received, or will not file or receive applications in the future for patents or obtain additional proprietary rights relating to devices or instrumentalities embodying our proprietary intellectual property or processes used or proposed to be used by us.

Additionally, there is certain subject matter that is patentable in the United States but not generally patentable outside of the United States. Differences in what constitutes patentable subject matter in various countries may limit the protection we can obtain outside of the United States.

1 Innovations in power converter technology that arise while our patent applications are pending may contain more favorable or superior technology than our power converter technology, which might render our patents irrelevant if and when they are issued. This may harm our future operations.

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3 From 2007 through 2011 we filed 26 patent applications for our power converter topology and methods of operation of that topology with the USPTO and equivalent offices in the EU and China. To date, we have two issued patents, and several pending patent applications. While various patent offices are reviewing our pending applications and before the related patents, if any, are issued, third parties may develop an alternative catalyst with reduced costs and improved durability as compared to our methods. Although we plan to simultaneously improve our technology and file additional patents, if any such innovations by our competitors arise, our power converter topology and our methods of operating said topology may be difficult to market, which would harm our operations.

We may be subject to costly claims, and, if we are unsuccessful in resolving conflicts regarding patent rights, we may be prevented from developing, commercializing or marketing our devices or instrumentalities embodying our proprietary intellectual property.

Given the innovative nature and broad scope of our intellectual property, it is entirely foreseeable that we will encounter substantial litigation regarding patent and other intellectual property rights in the industries in which we presently or intend to compete. We may be subject to legal actions claiming damages and seeking to stop third party licensees from manufacturing and marketing our devices or instrumentalities embodying our proprietary intellectual property. In addition, litigation may be necessary to enforce our proprietary rights or to determine the enforceability, scope and validity of the proprietary rights of others. If we become involved in litigation, it could be costly and divert our efforts and resources. In addition, if any of our competitors file patent applications in the United States claiming technology also invented by us we may need to participate in interference proceedings held by the U.S. Patent and Trademark Office to determine priority of invention and the right to a patent for the technology. Like litigation, interference proceedings can be lengthy and often result in substantial costs and diversion of resources.

As more potentially competing patent applications are filed, and as more patents are actually issued, in the fields in which we presently compete, or in other fields in which we may become involved and with respect to devices or instrumentalities embodying our proprietary intellectual property, component methods or compositions that we may employ, the risk increases that we may be subjected to litigation or other proceedings that claim damages or seek to stop our licensees from manufacturing, marketing, or commercialization efforts. Even if such patent applications or patents are ultimately proven to be invalid, unenforceable or non-infringed, such proceedings are generally expensive and time consuming and could consume a significant portion of our resources and substantially impair our licensees' marketing and product development efforts.

We may not have adequate protection for our unpatented proprietary information, which could adversely affect our prospects and competitive position.

We also rely on trade secrets, know-how and continuing technological innovations to develop and maintain our competitive position. However, others may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets or disclose our technology. To protect our trade secrets, we may enter into confidentiality agreements with employees, consultants and potential collaborators. However, these agreements may not provide meaningful protection of our trade secrets or adequate remedies in the event of unauthorized use or disclosure of such information. Likewise, our trade secrets or know-how may become known through other means or be independently discovered by our competitors. Any of these events could prevent us from developing or commercializing our product candidates.

If we fail to protect, or incur significant costs in defending, our intellectual property and other proprietary rights, our business, financial condition, and results of operations could be materially harmed.

Our success depends, in large part, on our ability to protect our intellectual property and other proprietary rights. We intend to rely primarily on patents, trademarks, copyrights, trade secrets and unfair competition laws, as well as license agreements and other contractual provisions, to protect our intellectual property and other proprietary rights. However, a significant portion of our technology is not patented, and we may be unable or may not seek to obtain patent protection for this technology. Moreover, existing U.S. legal standards relating to the validity, enforceability and scope of protection of intellectual property rights offer only limited protection, may not provide us with any competitive advantages, and may be challenged by third parties. The laws of countries other than the United States may be even less protective of intellectual property rights. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property or otherwise gaining access to our technology. Unauthorized third parties may try to copy or reverse engineer our devices or instrumentalities embodying our proprietary intellectual property or portions of our devices or instrumentalities embodying our proprietary intellectual property or otherwise obtain and use our intellectual property. Moreover, many of our employees have access to our trade secrets and other intellectual property. If one or more of these employees leave us to work for one of our competitors, then they may disseminate this proprietary information, which may as a result damage our competitive position. If we fail to protect our intellectual property and other proprietary rights, then our business, results of operations or financial condition could be materially harmed.

In addition, affirmatively defending our intellectual property rights and investigating whether we are pursuing a product or service development that may violate the rights of others may entail significant expense. We have not found it necessary to resort to legal proceedings to protect our intellectual property, but may find it necessary to do so in the future. Any of our intellectual property rights may be challenged by others or invalidated through administrative processes or litigation. If we resort to legal proceedings to enforce our intellectual property rights or to determine the validity and scope of the intellectual property or other proprietary rights of others, then the proceedings could result in significant expense to us and divert the attention and efforts of our management and technical employees, even if we prevail.

We may be sued by third parties for alleged infringement of their proprietary rights, which could be costly, time-consuming and limit our ability to use certain technologies in the future.

We may become subject to claims that our technologies infringe upon the intellectual property or other proprietary rights of third parties. Any claims, with or without merit, could be time-consuming and expensive, and could divert our management's attention away from the execution of our business plan. Moreover, any settlement or adverse judgment resulting from these claims could require us to pay substantial amounts or obtain a license to continue to use the disputed technology, or otherwise restrict or prohibit our use of the technology. We cannot assure you that we would be able to obtain a license from the third party asserting the claim on commercially reasonable terms, if at all, that we would be able to develop alternative technology on a timely basis, if at all, or that we would be able to obtain a license to use a suitable alternative technology to permit us to continue offering, and our customers to continue using, our affected product. An adverse determination also could prevent us from offering our devices or instrumentalities embodying our proprietary intellectual property to others. Infringement claims asserted against us may

have a material adverse effect on our business, results of operations or financial condition.

Exhibit 10.11

IDEAL POWER CONVERTERS, INC.

REGISTRATION RIGHTS AGREEMENT

This **REGISTRATION RIGHTS AGREEMENT** (this "**Agreement**"), dated as of August 31, 2012, is made and entered into by and between Ideal Power Converters, Inc., a Texas corporation with headquarters located at5004 Bee Creek Rd., Suite 600 Spicewood, Texas 78669 (the "**Company**"), and each of the purchasers set forth on the signature pages hereto (the "**Purchasers**").

WHEREAS, in connection with the Securities Purchase Agreement by and among the parties hereto of even date herewith (the "**Securities Purchase Agreement**"), the Company has agreed, upon the terms and subject to the conditions contained therein, to issue and sell to the Purchasers: (i) Senior Secured Convertible Promissory Notes for an aggregate purchase price of $750,000 (the **"Notes"**), and (ii) warrants to purchase shares of the Company's common stock, $0.001 par value(the **"Common Stock"**) of the Company (the **"Warrants"**);

WHEREAS, the Company intends to issue senior secured convertible promissory notes in a subsequent financing for up to an additional aggregate amount of $4.25 million ("**Subsequent Financing**"); and

WHEREAS, in order to induce the Purchasers to execute and deliver the Securities Purchase Agreement, the Company has agreed to provide certain registration rights under the Securities Act of 1933, as amended, and the rules and regulations thereunder, or any similar successor statute (collectively, the "**Securities Act**"), and applicable state securities laws.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and each Purchaser hereby agree as follows:

1. **Definitions.**

As used in this Agreement, the following capitalized terms shall have the following meanings. Capitalized terms used but not otherwise defined herein shall have the respective meanings set forth in the Securities Purchase Agreement.

(a) "**Business Day**" means any day other than Saturday, Sunday or a federal holiday.

(b) "**Closing Date**" shall have the meaning set forth in the Securities Purchase Agreement.

(c) "**Effectiveness Deadline**" means (i) with respect to any Registration Statement required to be filed pursuant to Section 2(a), 90 days after the Filing Deadline for such initial Registration Statement, and (ii) with respect to any additional Registration Statements that may be required to be filed by the Company pursuant to this Agreement, the earlier of the (A) 90th calendar day following the date on which the Company was required to file such additional Registration Statement and (B) 2nd Business Day after the date the Company is notified (orally or in writing, whichever is earlier) by the SEC that such Registration Statement will not be reviewed or will not be subject to further review.

(d) "**Filing Deadline**" means (i) with respect to any Registration Statement required to be filed pursuant to Section 2(a), within 60 days after receipt of a written request from the Required Holders pursuant to Section 2(a), and (ii) with respect to any additional Registration Statements that may be required to be filed by the Company pursuant to this Agreement, the date on which the Company was required to file such additional Registration Statement pursuant to the terms of this Agreement.

(e) "**Person**" means an individual, a limited liability company, a partnership, a joint venture, a corporation, a trust, an unincorporated organization or a government or any department or agency thereof.

(f) "**Purchasers**" means the Purchasers and any transferee or assignee who agrees to become bound by the provisions of this Agreement in accordance with Section 9 hereof.

(g) "**register**," "**registered**," and "**registration**" refer to a registration effected by preparing and filing a Registration Statement or Statements in compliance with the Securities Act and pursuant to Rule 415 under the Securities Act or any successor rule providing for offering securities on a continuous basis ("**Rule 415**"), and the declaration or ordering of effectiveness of such Registration Statement by the U.S. Securities and Exchange Commission (the "**SEC**"); provided, however, if the Required Holders in good faith determine that under applicable SEC interpretations, rules or policies a Rule 415 registration would not, in light of the circumstances of the Company or the proposed offering, permit the resale of all of the Registrable Securities immediately after effectiveness, or material limitations would be imposed on any such resale, then the registration shall be on Form S-1 or such other form that permits the maximum ability of holders of Registrable Securities to effectuate an unrestricted resale of such securities.

(h) "**Registrable Securities**" means (i) the Common Stock into which the Principal Amount, together with any accrued interest and any other amounts payable under the Notes may be converted and (ii) the shares of Common Stock issuable upon exercise or otherwise pursuant to the Warrants (without regard to any limitations on exercise set forth therein) (the "Warrant Shares"), and (iii) any shares of capital stock issued or issuable in exchange for or otherwise with respect to the foregoing.

(i) "**Registration Statement**" means a registration statement of the Company under the Securities Act which the Company may or is obligated to file hereunder.

(j) "**Required Holders**" means the holders of at least a majority of the Registrable Securities (excluding any Registrable Securities held by the Company or any of its subsidiaries) holding Notes, including senior secured promissory notes issued in the Subsequent Financing, with an aggregate minimum Principal Amount of $3 million.

(k) "**Rule 144**" means Rule 144 promulgated by the SEC under the Securities Act, as such rule may be amended from time to time, or any other similar or successor rule or regulation of the SEC that may at any time permit the Purchasers to sell securities of the Company to the public without registration.

(l) "**Rule 415**" means Rule 415 promulgated by the SEC under the Securities Act, as such rule may be amended from time to time, or any other similar or successor rule or regulation of the SEC providing for offering securities on a continuous or delayed basis.

(m) "**SEC**" means the United States Securities and Exchange Commission or any successor thereto.

2. **Registration.**

(a) Mandatory Registration. Subject to the terms and conditions, and in accordance with the provisions of Section 3 and Section 4 hereof, at any time after the one year anniversary of the Closing Date, if the Company shall receive a written request from the Required Holders that the Company file a registration statement under the Securities Act covering the registration of at least 25% of the Registrable Securities then outstanding, then the Company shall, within 30 days of the receipt thereof, give written notice of such request to the remaining Purchasers, and subject to the limitations of this Section 2, prepare and, as soon as practicable, but in no event later than the Filing Deadline, file with the SEC an initial Registration Statement on Form S-1 covering the resale of all of such Registrable Securities. Such initial Registration Statement, and each other Registration Statement required to be filed pursuant to the terms of this Agreement, shall contain (except if otherwise directed by the Required Holders) the "Selling Shareholders" and "Plan of Distribution" sections in substantially the form attached hereto as Exhibit 1. The Company shall use reasonable best efforts to have such initial Registration Statement, and each other Registration Statement required to be filed pursuant to the terms of this Agreement, declared effective by the SEC as soon as practicable, but in no event later than the applicable Effectiveness Deadline for such Registration Statement.

(b) Piggy-Back Registrations. Subject to the terms and conditions, and in accordance with the provisions of, Section 4 hereof, in the event that all Registrable Securities are not registered for resale, should the Company at any time prior to the expiration of the Registration Period (as hereinafter defined), determine to file with the SEC a Registration Statement relating to an offering for its own account or the account of others under the Securities Act of any of its equity securities (other than on Form S-4 or Form S-8 or their then equivalents relating to equity securities to be issued solely in connection with any acquisition of any entity or business or equity securities issuable in connection with stock option or other bona fide employee benefit plans), the Company shall send to each Purchaser who is entitled to registration rights under this Section 2(b) written notice of such determination and, if within 20 days after the effective date of such notice (as provided for in Section 11(b) hereof), such Purchaser shall so request in writing, the Company shall include in such Registration Statement all or any part of the Registrable Securities such Purchaser requests to be registered. Notwithstanding any other provision of this Agreement, the Company may withdraw any registration statement referred to in this Section 2(b) without incurring any liability to the Purchasers.

(c) Offering. Notwithstanding anything to the contrary contained in this Agreement, in the event the staff of the SEC (the "Staff") or the SEC seeks to characterize any offering pursuant to a Registration Statement filed pursuant to this Agreement as constituting an offering of securities by, or on behalf of, the Company, or in any other manner, such that the Staff or the SEC do not permit such Registration Statement to become effective and used for resales in a manner that does not constitute such an offering and that permits the continuous resale at the market by the Purchasers participating therein (or as otherwise may be acceptable to each Purchaser) without being named therein as an "underwriter," then the Company shall reduce the number of shares to be included in such Registration Statement by all Purchasers until such time as the Staff and the SEC shall so permit such Registration Statement to become effective as aforesaid. In making such reduction, the Company shall reduce the number of shares to be included by all Purchasers on a pro rata basis (based upon the number of Registrable Securities otherwise required to be included for each Purchaser) unless the inclusion of shares by a particular Purchaser or a particular set of Purchasers are resulting in the Staff or the SEC's "by or on behalf of the Company" offering position, in which event the shares held by such Purchaser or set of Purchasers shall be the only shares subject to reduction (and if by a set of Purchasers on a pro rata basis by such Purchasers or on such other basis as would result in the exclusion of the least number of shares by all such Purchasers); provided, that, with respect to such pro rata portion allocated to any Purchaser, such Purchaser may elect the allocation of such pro rata portion among the Registrable Securities of such Purchaser. In addition, in the event that the Staff or the SEC requires any Purchaser seeking to sell securities under a Registration Statement filed pursuant to this Agreement to be specifically identified as an "underwriter" in order to permit such Registration Statement to become effective, and such Purchaser does not consent to being so named as an underwriter in such Registration Statement, then, in each such case, the Company shall reduce the total number of Registrable Securities to be registered on behalf of such Purchaser, until such time as the Staff or the SEC does not require such identification or until such Purchaser accepts such identification and the manner thereof.

(d) Allocation of Registrable Securities. The initial number of Registrable Securities included in any Registration Statement and any increase in the number of Registrable Securities included therein shall be allocated pro rata among the Purchasers based on the number of Registrable Securities held by each Purchaser at the time such Registration Statement covering such initial number of Registrable Securities or increase thereof is declared effective by the SEC. In the event that a Purchaser sells or otherwise transfers any of such Purchaser's Registrable Securities, each transferee or assignee (as the case may be) that becomes an Purchaser shall be allocated a pro rata portion of the then-remaining number of Registrable Securities included in such Registration Statement for such transferor or assignee (as the case may be). Any shares of Common Stock included in a Registration Statement and which remain allocated to any Person which ceases to hold any Registrable Securities covered by such Registration Statement shall be allocated to the remaining Purchasers, pro rata based on the number of Registrable Securities then held by such Purchasers which are covered by such Registration Statement.

(e) No Inclusion of Other Securities. With the exception of any Registrable Securities that result from the Second Note Offering (as defined in the Securities Purchase Agreement), in no event shall the Company include any securities other than Registrable Securities on any Registration Statement without the prior written consent of the Required Holders. With the exception of the investors in the Second Note Offering who will be granted registration rights, until the Applicable Date the Company shall not enter into any agreement providing any registration rights to any of its security holders without the consent of the Required Holders.

(f) Termination. All registration rights under this Section 2 shall terminate and be of no further force and effect upon repayment of the Notes (with respect to each Note); provided, however, that if the Warrant Shares are not registered prior to the termination of the registration rights, then the Purchaser will have the right to require the Company to purchase the Warrant in accordance with Section 13 of the Warrant (the "Put Right"). The Put Right will expire 12 months from the termination of the registration rights in accordance with this Section 2(f).

(g) Late Fees. If for any reason the Company does not file a registration statement by the Filing Deadline ("Filing Default") or if for any reason it is unable to have that registration statement declared effective by the SEC as of the Effectiveness Deadline ("Effectiveness Default"), then the Company shall pay promptly an amount that is determined by (A) multiplying (i) the amount of the Offering, by (ii) 0.03, and then (iii) dividing by 30, followed by (B) multiplying the result by the number of elapsed days needed to cure the Filing Default or the Effectiveness Default. By way of example if the Company cured the Filing Default or the Effectiveness Default 10 days after the Filing Deadline or 10 days after the Effectiveness Deadline, then it would be required to pay the Purchasers as a group an aggregate of $2,250, according to their respective interests, no later than the earlier of (x) 10 business days after cure of the Filing Default or of the Effectiveness Default, or (ii) 10 business days after the month in which the Filing Default or the Effectiveness Default has occurred.

3. **Obligations of the Company**. In connection with the registration of the Registrable Securities, the Company shall have the following obligations:

(a) On or prior to the Filing Deadline the Company will use reasonable best efforts to become a publicly traded and publicly reporting company under both the Securities Act and the Securities Exchange Act of 1934 and will use reasonable best efforts to file a Registration Statement with the Securities and Exchange Commission ("SEC") on Form S-1 covering the registration of Common Stock of the Company, including the Registrable Securities, on or prior to the Filing Deadline and shall use its reasonable best efforts to cause such Registration Statement to be declared effective by the SEC as soon as practicable after such filing (but in no event later than the Effectiveness Date), and the Company shall take all such other actions associated with being a publicly traded company, including filing an application for listing the Common Stock on the NASDAQ Capital Market or such other exchange as agreed to by the Company and the underwriter. Subject to Allowable Grace Periods, upon effectiveness, the Company shall use its reasonable best efforts to keep such Registration Statement effective pursuant to Rule 415 at all times until such date as is the earlier of: (i) the date on which all of the Registrable Securities covered by the Registration Statement have been sold and (ii) the date on which the Registrable Securities (in the opinion of counsel to the Purchasers reasonably acceptable to the Company) may be immediately sold to the public by non-affiliates without registration or restriction (including, without limitation, as to volume by each holder thereof) under the Securities Act (the "**Registration Period**"). Notwithstanding anything to the contrary contained in this Agreement, the Company shall ensure that, when filed and at all times while effective, each Registration Statement (including, without limitation, all amendments and supplements thereto) and the prospectus (including, without limitation, all amendments and supplements thereto) used in connection with such Registration Statement (1) shall not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein, or necessary to make the statements therein (in the case of prospectuses, in the light of the circumstances in which they were made) not misleading and (2) will disclose (whether directly or through incorporation by reference to other SEC filings to the extent permitted) all material information regarding the Company and its securities. The Company shall submit to the SEC, within one Business Day after the later of the date that (i) the Company learns that no review of a particular Registration Statement will be made by the Staff or that the Staff has no further comments on a particular Registration Statement (as the case may be) and (ii) the consent of Legal Counsel is obtained pursuant to Section 3(c) (which consent shall be immediately sought), a request for acceleration of effectiveness of such Registration Statement to a time and date not later than 48 hours after the submission of such request.

(b) The Company shall use reasonable best efforts to prepare and file with the SEC such amendments (including post-effective amendments) and supplements to the Registration Statements and the prospectus used in connection with the Registration Statements, which prospectus is to be filed pursuant to Rule 424 promulgated under the Securities Act, as may be necessary to keep the Registration Statements effective at all times during the Registration Period, and, during such period, comply with the provisions of the Securities Act with respect to the disposition of all Registrable Securities of the Company covered by the Registration Statements; provided, however, by 8:30 a.m. (New York time) on the Business Day immediately following each Effective Date, the Company shall file with the SEC in accordance with Rule 424(b) under the Securities Act the final prospectus to be used in connection with sales pursuant to the applicable Registration Statement (whether or not such a prospectus is technically required by such rule).

(c) If requested by a Purchaser, the Company shall furnish to each Purchaser whose Registrable Securities are included in a Registration Statement promptly (but in no event more than two business days) after the Registration Statement is declared effective by the SEC, such number of copies of a final prospectus and all amendments and supplements thereto and such other documents as such Purchaser may reasonably request in order to facilitate the disposition of the Registrable Securities owned by such Purchaser. The Company will promptly notify each Purchaser of the effectiveness of each Registration Statement or any post-effective amendment. The Company will, as promptly as reasonably practical, respond to any and all comments received from the SEC (which comments relating to such Registration Statement that pertain to the Purchasers as "Selling Shareholders" shall promptly be made available to the Purchasers upon request; provided that, the Company shall not be obligated to make available any comments that would result in the disclosure to the Purchasers of material and non-public information concerning the Company or that contain information for which the Company has sought confidential treatment), with a view towards causing each Registration Statement or any amendment thereto to be declared effective by the SEC as soon as practicable, shall promptly file an acceleration request as soon as practicable following the resolution or clearance of all SEC comments or, if applicable, following notification by the SEC that any such Registration Statement or any amendment thereto will not be subject to review and, if required by law, shall promptly file with the SEC a final prospectus as soon as practicable following receipt by the Company from the SEC of an order declaring the Registration Statement effective.

(d) The Company shall use reasonable best efforts to: (i) register and qualify the Registrable Securities covered by the Registration Statements under such other securities or "blue sky" laws of such jurisdictions in the United States as the Purchasers who hold a majority-in-interest of the Registrable Securities being offered reasonably request (not to exceed 10 states), (ii) prepare and file in those jurisdictions such amendments (including post-effective amendments) and supplements to such registrations and qualifications as may be necessary to maintain the effectiveness thereof during the Registration Period, (iii) take such other actions as may be necessary to maintain such registrations and qualifications in effect at all times during the Registration Period, and (iv) take all other actions reasonably necessary or advisable to qualify the Registrable Securities for sale in such jurisdictions; provided, however, that the Company shall not be required in connection therewith or as a condition thereto to: (a) qualify to do business in any jurisdiction where it would not otherwise be required to qualify but for this Section 3(d), (b) subject itself to general taxation in any such jurisdiction, (c) file a general consent to service of process in any such jurisdiction, (d) provide any undertakings that cause the Company undue expense or burden, or (e) make any change in its charter or bylaws, which in each case the Board of Directors of the Company determines to be contrary to the best interests of the Company and its shareholders.

(e) The Company shall promptly notify each Purchaser (i) when a prospectus or any prospectus supplement or post-effective amendment has been filed, when a Registration Statement or any post-effective amendment has become effective, and when the Company receives written notice from the SEC that a Registration Statement or any post-effective amendment will be reviewed by the SEC, (ii) of any request by the SEC for amendments or supplements to a Registration Statement or related prospectus or related information, (iii) of the Company's reasonable determination that a post-effective amendment to a Registration Statement would be appropriate; and (iv) of the receipt of any request by the SEC or any other federal or state governmental authority for any additional information relating to the Registration Statement or any amendment or supplement thereto or any related prospectus. The Company shall respond as promptly as practicable to any comments received from the SEC with respect to each Registration Statement or any amendment thereto.

(f) The Company shall use its reasonable best efforts to prevent the issuance of any stop order or other suspension of effectiveness of any Registration Statement, and, if such an order is issued, to obtain the withdrawal of such order at the earliest possible moment and to notify each Purchaser who holds Registrable Securities being sold (or, in the event of an underwritten offering, the managing underwriters) of the issuance of such order and the resolution thereof.

(g) The sections of such Registration Statement covering information with respect to the Purchasers, the Purchaser's beneficial ownership of securities of the Company or the Purchasers intended method of disposition of Registrable Securities shall conform to the information provided to the Company by each of the Purchasers.

(h) In connection with an underwritten offering only, at the request of the Required Holders, the Company shall furnish, on the date that Registrable Securities are delivered to an underwriter for sale in connection with any Registration Statement: (i) an opinion, dated as of such date, from counsel representing the Company for purposes of such Registration Statement, in form, scope and substance as is customarily given in an underwritten public offering, addressed to the underwriters, if any, and the Purchasers and (ii) a letter, dated such date, from the Company's independent registered public accounting firm in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, addressed to the underwriters, if any, and the Purchasers.

(i) The Company shall take all reasonable efforts to cause all the Registrable Securities covered by the Registration Statement to be quoted on the NASDAQ Capital Market (or equivalent reasonably acceptable to the Required Holders) or listed on a national exchange.

(j) The Company shall provide a transfer agent and registrar, which may be a single entity, for the Registrable Securities not later than the effective date of the Registration Statement.

(k) The Company shall use its reasonable best efforts to cause the Registrable Securities covered by a Registration Statement to be registered with or approved by such other governmental agencies or authorities as may be necessary to consummate the disposition of such Registrable Securities.

(l) The Company shall make generally available to its security holders as soon as practical, but not later than ninety (90) days after the close of the period covered thereby, an earnings statement (in form complying with, and in the manner provided by, the provisions of Rule 158 under the Securities Act) covering a twelve-month period beginning not later than the first day of the Company's fiscal quarter next following the applicable Effective Date of each Registration Statement.

(m) The Company shall use its reasonable best efforts to comply with all applicable rules and regulations of the SEC in connection with any registration hereunder.

(n) Notwithstanding anything to the contrary herein (but subject to the last sentence of this Section 3(n)), at any time after the Effective Date of a particular Registration Statement, the Company may delay the disclosure of material, non-public information concerning the Company or any of its subsidiaries the disclosure of which at the time is not, in the good faith opinion of the board of directors of the Company, in the best interest of the Company and, upon the advice of counsel to the Company, otherwise required (a "**Grace Period**"), provided that the Company shall promptly notify the Purchasers in writing of the existence of material, non-public information giving rise to a Grace Period (provided that in each such notice the Company shall not disclose the content of such material, non-public information to any of the Purchasers) and the date on which such Grace Period will begin and end.

4. **Underwriting Requirements.** In connection with any Registration Statement involving an underwritten offering of shares of the Company's Common Stock, the Company shall not be required to include any of the Purchasers' Registrable Securities in such underwriting unless the Purchaser accepts the terms of the underwriting as agreed upon between the Company and its underwriters, and then only in such quantity as the underwriter in its sole discretion determines will not jeopardize the success of the offering by the Company. If the total number of Registrable Securities to be included in such offering (the "Requested Securities") exceeds the number of securities to be sold (other than by the Company) that the underwriter in its reasonable discretion determines is compatible with the success of the offering, then the Company shall be required to include in the offering only that number of such Requested Securities which the underwriter, in its sole discretion, determines will not jeopardize the success of the offering. If the underwriter determines that less than all of the Requested Securities requested to be registered can be included in such offering, then the securities to be registered that are included in such offering shall be allocated among the holders of the Registrable Securities (the "Holders") in proportion (as nearly as practicable to) the number of Requested Securities owned by each Holder. To facilitate the allocation of shares in accordance with the above provisions, the Company or the underwriters may round the number of shares allocated to any Holder to the nearest 10 shares. For purposes of the provision in this Section 4 concerning apportionment, for any Holder that is a partnership, limited liability company, or corporation, the partners, members, retired partners, retired members, shareholders, and affiliates of such Holder, or the estates and immediate family members of any such partners, retired partners, members, and retired members and any trusts for the benefit of any of the foregoing persons, shall be deemed to be a single "Holder," and any pro rata reduction with respect to such "Holder" shall be based upon the aggregate number of Requested Securities owned by all persons included in such "Holder," as defined in this sentence. The Purchasers understand that the underwriter may determine that none of the Registrable Securities can be included in the offering.

5. **Obligations of the Purchasers**. In connection with the registration of the Registrable Securities, the Purchasers shall have the following obligations:

(a) It shall be a condition precedent to the obligations of the Company to include any Purchaser's Registrable Securities in any Registration Statement that such Purchaser shall timely furnish to the Company such information regarding itself, the Registrable Securities held by it, the intended method of disposition of the Registrable Securities held by it and any other information as shall be reasonably required to effect the registration of such Registrable Securities and shall provide such information and execute such documents in connection with such registration as the Company may reasonably request. At least three business days prior to the first anticipated filing date of the Registration Statement, the Company shall notify each Purchaser of the information the Company requires from each such Purchaser.

(b) Each Purchaser, by such Purchaser's acceptance of the Registrable Securities, agrees to cooperate with the Company as reasonably requested by the Company in connection with the preparation and filing of the Registration Statements hereunder, unless such Purchaser has notified the Company in writing of such Purchaser's election to exclude all of such Purchaser's Registrable Securities from the Registration Statements.

(c) In the event that Purchasers holding a majority-in-interest of the Registrable Securities being registered determine to engage the services of an underwriter, each Purchaser agrees to enter into and perform such Purchaser's obligations under an underwriting agreement, in usual and customary form, including, without limitation, customary indemnification and contribution obligations, with the managing underwriter of such offering and take such other actions as are reasonably required in order to expedite or facilitate the disposition of the Registrable Securities, unless such Purchaser has notified the Company in writing of such Purchaser's election to exclude all of such Purchaser's Registrable Securities from such Registration Statement.

(d) Each Purchaser agrees that, upon receipt of any notice from the Company of the happening of any event of which the Company has knowledge as a result of which the prospectus included in any Registration Statement, as then in effect, includes an untrue statement of a material fact or omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or of the issuance of a stop order or other suspension of effectiveness of any Registration Statement, such Purchaser will immediately discontinue disposition of Registrable Securities pursuant to the Registration Statement covering such Registrable Securities until such Purchaser's receipt of the copies of the supplemented or amended prospectus and, if so directed by the Company, such Purchaser shall deliver to the Company (at the expense of the Company) or destroy (and deliver to the Company a certificate of destruction) all copies in such Purchaser's possession, of the prospectus covering such Registrable Securities current at the time of receipt of such notice.

(e) No Purchaser may participate in any underwritten registration hereunder unless such Purchaser: (i) agrees to sell such Purchaser's Registrable Securities on the basis provided in any underwriting arrangements in usual and customary form entered into by the Company, (ii) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents reasonably required under the terms of such underwriting arrangements, and (iii) agrees to pay its pro rata share of all underwriting discounts and commissions and any expenses in excess of those payable by the Company pursuant to Section 6 below.

(f) Each Purchaser covenants and agrees that it will comply with the prospectus delivery requirements of the Securities Act as applicable to it or an exemption therefrom in connection with the offer and sale of Registrable Securities pursuant to any Registration Statement.

6. **Expenses of Registration.** All reasonable expenses, other than underwriting discounts and commissions, incurred in connection with registrations, filings or qualifications pursuant to Sections 2 and 3, including, without limitation, all registration, listing and qualification fees, printers and accounting fees, the fees and disbursements of counsel for the Company, and the reasonable fees and disbursements of legal counsel to the underwriter (if any) shall be borne by the Company.

7. **Indemnification**.

(a) To the fullest extent permitted by law, the Company will, and hereby does, indemnify, hold harmless and defend each Purchaser and each of its directors, officers, shareholders, members, partners, employees, agents, advisors, representatives (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding the lack of such title or any other title) and each Person, if any, who controls such Purchaser within the meaning of the Securities Act or the Exchange Act and each of the directors, officers, shareholders, members, partners, employees, agents, advisors, representatives (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding the lack of such title or any other title) of such controlling Persons (each, an "**Indemnified Person**"), against any losses, obligations, claims, damages, liabilities, contingencies, judgments, fines, penalties, charges, costs (including, without limitation, court costs, reasonable attorneys' fees and costs of defense and investigation), amounts paid in settlement or expenses, joint or several, (collectively, "**Claims**") incurred in investigating, preparing or defending any action, claim, suit, inquiry, proceeding, investigation or appeal taken from the foregoing by or before any court or governmental, administrative or other regulatory agency, body or the SEC, whether pending or threatened, whether or not an indemnified party is or may be a party thereto ("**Indemnified Damages**"), to which any of them may become subject insofar as such Claims (or actions or proceedings, whether commenced or threatened, in respect thereof) arise out of or are based upon: (i) any untrue statement or alleged untrue statement of a material fact in a Registration Statement or any post-effective amendment thereto or in any filing made in connection with the qualification of the offering under the securities or other "blue sky" laws of any jurisdiction in which Registrable Securities are offered ("**Blue Sky Filing**"), or the omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus if used prior to the effective date of such Registration Statement, or contained in the final prospectus (as amended or supplemented, if the Company files any amendment thereof or supplement thereto with the SEC) or the omission or alleged omission to state therein any material fact necessary to make the statements made therein, in light of the circumstances under which the statements therein were made, not misleading or (iii) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any other law, including, without limitation, any state securities law, or any rule or regulation thereunder relating to the offer or sale of the Registrable Securities pursuant to a Registration Statement (the matters in the foregoing clauses (i) through (iii) being, collectively, "**Violations**"). Subject to Section 7(c), the Company shall reimburse the Indemnified Persons, promptly as such expenses are incurred and are due and payable, for any legal fees or other reasonable expenses incurred by them in connection with investigating or defending any such Claim. Notwithstanding anything to the contrary contained herein, the indemnification agreement contained in this Section 7(a): (i) shall not apply to a Claim by an Indemnified Person arising out of or based upon a Violation which occurs in reliance upon and in conformity with information furnished in writing to the Company by such Indemnified Person for such Indemnified Person expressly for use in connection with the preparation of such Registration Statement or any such amendment thereof or supplement thereto and (ii) shall not be available to a particular Purchaser to the extent

such Claim is based on a failure of such Purchaser to deliver or to cause to be delivered the prospectus made available by the Company (to the extent applicable), including, without limitation, a corrected prospectus, if such prospectus or corrected prospectus was timely made available by the Company and then only if, and to the extent that, following the receipt of the corrected prospectus no grounds for such Claim would have existed; and (iii) shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of the Company, which consent shall not be unreasonably withheld or delayed. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Indemnified Person.

(b) In connection with any Registration Statement in which an Purchaser is participating, such Purchaser agrees to severally and not jointly indemnify, hold harmless and defend, to the same extent and in the same manner as is set forth in Section 7(a), the Company, each of its directors, each of its officers who signs the Registration Statement and each Person, if any, who controls the Company within the meaning of the Securities Act or the Exchange Act (each, an "**Indemnified Party**"), against any Claim or Indemnified Damages to which any of them may become subject, under the Securities Act, the Exchange Act or otherwise, insofar as such Claim or Indemnified Damages arise out of or are based upon any Violation, in each case, to the extent, and only to the extent, that such Violation occurs in reliance upon and in conformity with written information furnished to the Company by such Purchaser expressly for use in connection with such Registration Statement; and, subject to Section 7(c) and the below provisos in this Section 7(b), such Purchaser will reimburse promptly as such expenses are incurred and are due and payable, for any legal fees or other reasonable expenses incurred by them in connection with investigating or defending any such Claim; provided, however, the indemnity agreement contained in this Section 7(b) and the agreement with respect to contribution contained in Section 7 shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of such Purchaser, which consent shall not be unreasonably withheld or delayed, provided further that such Purchaser shall be liable under this Section 7(b) for only that amount of a Claim or Indemnified Damages as does not exceed the net proceeds to such Purchaser as a result of the applicable sale of Registrable Securities pursuant to such Registration Statement. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such Indemnified Party.

(c) Promptly after receipt by an Indemnified Person or Indemnified Party (as the case may be) under this Section 7 of notice of the commencement of any action or proceeding (including, without limitation, any governmental action or proceeding) involving a Claim, such Indemnified Person or Indemnified Party (as the case may be) shall, if a Claim in respect thereof is to be made against any indemnifying party under this Section 7, deliver to the indemnifying party a written notice of the commencement thereof, and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume control of the defense thereof with counsel mutually satisfactory to the indemnifying party and the Indemnified Person or the Indemnified Party (as the case may be); provided, however, an Indemnified Person or Indemnified Party (as the case may be) shall have the right to retain its own counsel with the fees and expenses of such counsel to be paid by the indemnifying party if: (i) the indemnifying party has agreed in writing to pay such fees and expenses; (ii) the indemnifying party shall have failed promptly to assume the defense of such Claim and to employ counsel reasonably satisfactory to such Indemnified Person or Indemnified Party (as the case may be) in any such Claim; or (iii) the named parties to any such Claim (including, without limitation, any impleaded parties) include both such Indemnified Person or Indemnified Party and the indemnifying party, and such Indemnified Person or such Indemnified Party shall have been advised by counsel that a conflict of interest is likely to exist if the same counsel were to represent such Indemnified Person or such Indemnified Party and the indemnifying party (in which case, if such Indemnified Person or such Indemnified Party notifies the indemnifying party in writing that it elects to employ separate counsel at the expense of the indemnifying party, then the indemnifying party shall not have the right to assume the defense thereof and such counsel shall be at the expense of the Indemnifying Party, provided further that in the case of clause (iii) above the indemnifying party shall not be responsible for the reasonable fees and expenses of more than one separate legal counsel for such Indemnified Person or Indemnified Party). The Indemnified Party or Indemnified Person shall reasonably cooperate with the indemnifying party in connection with any negotiation or defense of any such action or Claim by the indemnifying party and shall furnish to the indemnifying party all information reasonably available to the Indemnified Party or Indemnified Person which relates to such action or Claim. The indemnifying party shall keep the Indemnified Party or Indemnified Person reasonably apprised at all times as to the status of the defense or any settlement negotiations with respect thereto. No indemnifying party shall be liable for any settlement of any action, claim or

proceeding effected without its prior written consent; provided, however, the indemnifying party shall not unreasonably withhold, delay or condition its consent. No indemnifying party shall, without the prior written consent of the Indemnified Party or Indemnified Person, consent to entry of any judgment or enter into any settlement or other compromise which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party or Indemnified Person of a release from all liability in respect to such Claim or litigation, and such settlement shall not include any admission as to fault on the part of the Indemnified Party. Following indemnification as provided for hereunder, the indemnifying party shall be subrogated to all rights of the Indemnified Party or Indemnified Person with respect to all third parties, firms or corporations relating to the matter for which indemnification has been made. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall not relieve such indemnifying party of any liability to the Indemnified Person or Indemnified Party under this Section 7, except to the extent that the indemnifying party is materially and adversely prejudiced in its ability to defend such action.

(d) No Person involved in the sale of Registrable Securities who is guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) in connection with such sale shall be entitled to indemnification from any Person involved in such sale of Registrable Securities who is not guilty of fraudulent misrepresentation.

(e) The indemnity and contribution agreements contained herein shall be in addition to (i) any cause of action or similar right of the Indemnified Party or Indemnified Person against the indemnifying party or others, and (ii) any liabilities the indemnifying party may be subject to pursuant to the law.

8. **Amendment of Registration Rights**. The terms and provisions of this Agreement may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only with written consent of the Company and the Required Holders. Any amendment or waiver effected in accordance with this Section 8 shall be binding upon each Purchaser and the Company; provided that no such amendment shall be effective to the extent that it (1) applies to less than all of the holders of Registrable Securities or (2) imposes any obligation or liability on any Purchaser without such Purchaser's prior written consent (which may be granted or withheld in such Purchaser's sole discretion). No waiver shall be effective unless it is in writing and signed by an authorized representative of the waiving party. No consideration shall be offered or paid to any Person to amend or consent to a waiver or modification of any provision of this Agreement unless the same consideration also is offered to all of the parties to this Agreement.

9. **Miscellaneous.**

(a) A person or entity is deemed to be a holder of Registrable Securities whenever such person or entity owns of record such Registrable Securities. If the Company receives conflicting instructions, notices or elections from two or more persons or entities with respect to the same Registrable Securities, the Company shall act upon the basis of instructions, notice or election received from the registered owner of such Registrable Securities.

(b) Any notices required or permitted to be given under the terms hereof shall be sent by certified or registered mail (return receipt requested) or delivered personally or by courier (including a recognized overnight delivery service)or by facsimile and shall be effective five days after being placed in the mail, if mailed by regular United States mail, or upon receipt, if delivered personally or by courier (including a recognized overnight delivery service) or by facsimile, in each case addressed to a party. The addresses for such communications shall be:

If to the Company:

Ideal Power Converters, Inc.
5004 Bee Creek Road, Suite 600
Spicewood, Texas 78669
Attention: Chief Executive Officer
Telephone:
Facsimile No.:

If to a Purchaser:

To the address set forth on the signature page of this Agreement.

With a copy (not constituting notice) to:

MDB Capital Group, LLC
401 Wilshire Blvd., Suite 1020
Santa Monica, CA 90401
Attention: Anthony DiGiandomenico
Telephone: (310) 526-5015
Facsimile No.:

Each party shall provide notice to the other party of any change in address.

(c) Failure of any party to exercise any right or remedy under this Agreement or otherwise, or delay by a party in exercising such right or remedy, shall not operate as a waiver thereof.

(d) This Agreement shall be governed by, and construed in accordance with, the internal laws of the State of New York without regard to the choice of law principles thereof. Each of the parties hereto irrevocably submits to the exclusive jurisdiction of the courts of the State of New York located in New York County and the United States District Court for the Southern District of New York for the purpose of any suit, action, proceeding or judgment relating to or arising out of this Agreement and the transactions contemplated hereby. Service of process in connection with any such suit, action or proceeding may be served on each party hereto anywhere in the world by the same methods as are specified for the giving of notices under this Agreement. Each of the parties hereto irrevocably consents to the jurisdiction of any such court in any such suit, action or proceeding and to the laying of venue in such court. Each party hereto irrevocably waives any objection to the laying of venue of any such suit, action or proceeding brought in such courts and irrevocably waives any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum. EACH OF THE PARTIES HERETO WAIVES ANY RIGHT TO REQUEST A TRIAL BY JURY IN ANY LITIGATION WITH RESPECT TO THIS AGREEMENT AND REPRESENTS THAT COUNSEL HAS BEEN CONSULTED SPECIFICALLY AS TO THIS WAIVER.

(e) In the event that any provision of this Agreement is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any provision hereof which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision hereof.

(f) This Agreement and the other Transaction Documents (including all schedules and exhibits thereto) constitute the entire agreement among the parties hereto with respect to the subject matter hereof and thereof. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein and therein. This Agreement and the other Transaction Documents (including all schedules and exhibits thereto) supersede all prior agreements and understandings among the parties hereto with respect to the subject matter hereof and thereof.

(g) This Agreement shall be binding upon and inure to the benefit of the parties and their successors and assigns. This Agreement is not for the benefit of, nor may any provision hereof be enforced by, any Person, other than the parties hereto or their respective permitted successors and assigns.

(h) The headings in this Agreement are for convenience of reference only and shall not form part of, or affect the interpretation of, this Agreement. Unless the context clearly indicates otherwise, each pronoun herein shall be deemed to include the masculine, feminine, neuter, singular and plural forms thereof. The terms "including," "includes," "include" and words of like import shall be construed broadly as if followed by the words "without limitation." The terms "herein," "hereunder," "hereof" and words of like import refer to this entire Agreement instead of just the provision in which they are found.

(i) This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party. This Agreement, once executed by a party, may be delivered to the other party hereto by facsimile transmission or electronic mail delivery of a copy of this Agreement bearing the signature of the party so delivering this Agreement.

(j) Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

(k) Except as otherwise provided herein, all consents and other determinations to be made by the Purchasers pursuant to this Agreement shall be made by the Required Holders.

(l) The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

(m) The obligations of each Purchaser under this Agreement and the other Transaction Documents are several and not joint with the obligations of any other Purchaser, and no Purchaser shall be responsible in any way for the performance of the obligations of any other Purchaser under this Agreement or any other Transaction Document. Nothing contained herein or in any other Transaction Document, and no action taken by any Purchaser pursuant hereto or thereto, shall be deemed to constitute the Purchasers as, and the Company acknowledges that the Purchasers do not so constitute, a partnership, an association, a joint venture or any other kind of group or entity, or create a presumption that the Purchasers are in any way acting in concert or as a group or entity with respect to such obligations or the transactions contemplated by the Transaction Documents or any matters, and the Company acknowledges that the Purchasers are not acting in concert or as a group, and the Company shall not assert any such claim, with respect to such obligations or the transactions contemplated by this Agreement or any of the other the Transaction Documents. Each Purchaser shall be entitled to independently protect and enforce its rights, including, without limitation, the rights arising out of this Agreement or out of any other Transaction Documents, and it shall not be necessary for any other Purchaser to be joined as an additional party in any proceeding for such purpose.

[Remainder of page intentionally left blank; signature pages follow.]

IN WITNESS WHEREOF, the undersigned Purchasers and the Company have caused this Registration Rights Agreement to be duly executed as of the date first above written.

IDEAL POWER CONVERTERS, INC.

By: _____
Name
Title

PURCHASERS:

The Purchasers executing the Signature Page in the form attached hereto as Annex A and delivering the same to the Company or its agents shall be deemed to have executed this Agreement and agreed to the terms hereof.

Annex A

Registration Rights Agreement
Purchaser Counterpart Signature Page

The undersigned, desiring to: enter into this Registration Rights Agreement dated as of August __, 2012 (the "**Agreement**"), between the undersigned, Ideal Power Converters, Inc., a Texas corporation (the "**Company**"), and the other parties thereto, in or substantially in the form furnished to the undersigned, hereby agrees to join the Agreement as a party thereto, with all the rights and privileges appertaining thereto, and to be bound in all respects by the terms and conditions thereof.

IN WITNESS WHEREOF, the undersigned has executed the Agreement as of August 31, 2012.

PURCHASER:

Name and Address, Fax No. and Social Security No./EIN of Purchaser:

_____

_____

_____

_____

Fax No.: _____
Soc. Sec. No./EIN: _____

If a partnership, corporation, trust or other business entity:

By:

_____
Name:
Title:

If an individual:

_____
Signature

EXHIBIT 1

SELLING STOCKHOLDERS

The shares of common stock being offered by the selling shareholders are those issuable to the selling shareholders upon conversion of the senior secured convertible promissory notes and the exercise of the warrants. For additional information regarding the issuance of the senior secured convertible promissory notes and the warrants, see "Private Placement of Senior Secured Convertible Promissory Notes and Warrants" above.We are registering the shares of common stock in order to permit the selling shareholders to offer the shares for resale from time to time. Except for the ownership of the senior secured convertible promissory notes and the warrants issued pursuant to the Securities Purchase Agreement, the selling shareholders have not had any material relationship with us within the past three years.

The table below lists the selling shareholders and other information regarding the beneficial ownership (as determined under Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder) of the shares of common stock beneficially held by each of the selling shareholders, based on their respective beneficial ownership of the shares of common stock as of _____, 2012, assuming conversion of all amounts owed under the senior secured convertible promissory notes and exercise of the warrants held by each such selling shareholder on that date but taking account of any limitations on exercise set forth therein. The third column lists the number of shares of common stock being sold in this offering. The fourth column lists the shares of common stock that will be beneficially owned by each selling shareholder following this offering. We have assumed for purposes of preparing this table that each selling shareholder will sell all of the shares of common stock being offered.

In accordance with the terms of a registration rights agreement with the selling shareholders, this prospectus generally covers the resale of the sum of (i) the number of shares of common stock that may be issued in connection with the conversion of all amounts owed under the senior secured convertible promissory notes, in each case determined as if all amounts owed under the senior secured convertible promissory notes were converted and (ii) 100% of the maximum number of shares of common stock issuable upon exercise of the warrants, in each case, determined as if the outstanding warrants were exercised in full.

Name of Selling Shareholder	Number of Shares of Common Stock Owned Prior to Offering	Maximum Number Of Shares of Common Stock to be Sold Pursuant to this Prospectus	Number of Shares of Common Stock Owned After Offering

PLAN OF DISTRIBUTION

We are registering the shares of common stock issuable upon conversion of all amounts due under the senior secured convertible promissory notes and the exercise of the warrants to permit the resale of these shares of common stock by the holders of these securities from time to time after the date of this prospectus. We will not receive any of the proceeds from the sale by the selling shareholders of the shares of common stock. We will bear all fees and expenses incident to our obligation to register the shares of common stock.

The selling shareholders may sell all or a portion of the shares of common stock held by them and offered hereby from time to time directly or through one or more underwriters, broker-dealers or agents. If the shares of common stock are sold through underwriters or broker-dealers, the selling shareholders will be responsible for underwriting discounts or commissions or agent's commissions. The shares of common stock may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of the sale, at varying prices determined at the time of sale or at negotiated prices. These sales may be effected in transactions, which may involve crosses or block transactions, pursuant to one or more of the following methods:

- on any national securities exchange or quotation service on which the securities may be listed or quoted at the time of sale;
- in the over-the-counter market;
- in transactions otherwise than on these exchanges or systems or in the over-the-counter market;
- through the writing or settlement of options, whether such options are listed on an options exchange or otherwise;
- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- short sales made after the date the Registration Statement is declared effective by the SEC;
- agreements between broker-dealers and the selling shareholders to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

The selling shareholders may also sell shares of common stock under Rule 144 promulgated under the Securities Act of 1933, as amended, if available, rather than under this prospectus. In addition, the selling shareholders may transfer the shares of common stock by other means not described in this prospectus. If the selling shareholders effect such transactions by selling shares of common stock to or through underwriters, broker-dealers or agents, such underwriters, broker-dealers or agents may receive commissions in the form of discounts, concessions or commissions from the selling shareholders or commissions from purchasers of the shares of common stock for whom they may act as agent or to whom they may sell as principal (which discounts, concessions or commissions as to particular underwriters, broker-dealers or agents may be in excess of those customary in the types of transactions involved). In connection with sales of the shares of common stock or otherwise, the selling shareholders may enter into hedging transactions with broker-dealers, which may in turn engage in short sales of the shares of common stock in the course of hedging in positions they assume. The selling shareholders may also sell shares of common stock short and deliver shares of common stock covered by this prospectus to close out short positions and to return borrowed shares in connection with such short sales. The selling shareholders may also loan or pledge shares of common stock to broker-dealers that in turn may sell such shares.

The selling shareholders may pledge or grant a security interest in some or all of the warrants or shares of common stock owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of common stock from time to time pursuant to this prospectus or any amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act amending, if necessary, the list of selling shareholders to include the pledgee, transferee or other successors in interest as selling shareholders under this prospectus. The selling shareholders also may transfer and donate the shares of common stock in other circumstances in which case the transferees, donees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

To the extent required by the Securities Act and the rules and regulations thereunder, the selling shareholders and any broker-dealer participating in the distribution of the shares of common stock may be deemed to be "underwriters" within the meaning of the Securities Act, and any commission paid, or any discounts or concessions allowed to, any such broker-dealer may be deemed to be underwriting commissions or discounts under the Securities Act. At the time a particular offering of the shares of common stock is made, a prospectus supplement, if required, will be distributed, which will set forth the aggregate amount of shares of common stock being offered and the terms of the offering, including the name or names of any broker-dealers or agents, any discounts, commissions and other terms constituting compensation from the selling shareholders and any discounts, commissions or concessions allowed or re-allowed or paid to broker-dealers.

Under the securities laws of some states, the shares of common stock may be sold in such states only through registered or licensed brokers or dealers. In addition, in some states the shares of common stock may not be sold unless such shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with.

There can be no assurance that any selling shareholder will sell any or all of the shares of common stock registered pursuant to the registration statement, of which this prospectus forms a part.

The selling shareholders and any other person participating in such distribution will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, including, without limitation, to the extent applicable, Regulation M of the Exchange Act, which may limit the timing of purchases and sales of any of the shares of common stock by the selling shareholders and any other participating person. To the extent applicable, Regulation M may also restrict the ability of any person engaged in the distribution of the shares of common stock to engage in market-making activities with respect to the shares of common stock. All of the foregoing may affect the marketability of the shares of common stock and the ability of any person or entity to engage in market-making activities with respect to the shares of common stock.

We will pay all expenses of the registration of the shares of common stock pursuant to the registration rights agreement, estimated to be $[_____] in total, including, without limitation, Securities and Exchange Commission filing fees and expenses of compliance with state securities or "blue sky" laws; provided, however, a selling shareholder will pay all underwriting discounts and selling commissions, if any. We will indemnify the selling shareholders against liabilities, including some liabilities under the Securities Act in accordance with the registration rights agreements or the selling shareholders will be entitled to contribution. We may be indemnified by the selling shareholders against civil liabilities, including liabilities under the Securities Act that may arise from any written information furnished to us by the selling shareholder specifically for use in this prospectus, in accordance with the related registration rights agreements or we may be entitled to contribution.

Once sold under the registration statement, of which this prospectus forms a part, the shares of common stock will be freely tradable in the hands of persons other than our affiliates.

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY OTHER JURISDICTION. BY ACQUIRING THIS NOTE, THE HOLDER REPRESENTS THAT THE HOLDER WILL NOT SELL OR OTHERWISE DISPOSE OF THIS NOTE WITHOUT REGISTRATION OR COMPLIANCE WITH AN EXEMPTION FROM REGISTRATION UNDER THE AFORESAID ACTS AND THE RULES AND REGULATIONS THEREUNDER.

THE SECURITIES REPRESENTED HEREBY MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE TERMS OF A SECURITIES PURCHASE AGREEMENT BETWEEN THE COMPANY AND THE SECURITY HOLDER DATED AUGUST 31, 2012, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

IDEAL POWER CONVERTERS, INC.

SENIOR SECURED CONVERTIBLE PROMISSORY NOTE

$_____ August 31, 2012

FOR VALUE RECEIVED, Ideal Power Converters, Inc. (the "Maker") hereby promises to pay to the order of _____ or its successors or assigns (the "Holder") the principal amount of _____ Dollars ($_____) (the "Principal Amount"). This Senior Secured Convertible Promissory Note shall be referred to herein as the "Note".

1. Purpose. This Note is made and delivered by the Maker to the Holder pursuant to the terms of that certain Securities Purchase Agreement, dated as of August 31, 2012 (the "Original Issue Date"), by and among the Maker, the Escrow Agent, the Holder, and the other Purchasers of the Maker's Notes (the "Purchase Agreement"). This Note is one of a series of substantially identical Notes issued by the Maker under the Purchase Agreement. All capitalized terms used and not defined herein shall have the meanings ascribed to them in the Purchase Agreement.

2. Interest. Interest on the Principal Amount from time-to-time remaining unpaid shall accrue from the date of this Note at the higher of: (i) the rate of one percent (1%) per annum, simple interest; or (ii) at the lowest rate that may accrue without causing the imputation of interest under the Internal Revenue Code. Interest shall be computed on the basis of a 360 day year and a 30 day month.

3. Maturity Date. All amounts payable hereunder shall be due and payable on the earlier to occur of (i) August 31, 2013 (the "Calendar Due Date"), (ii) the occurrence of an Event of Default (as defined below) or (iii) the closing of an IPO Financing (as defined below).

4. Method of Repayment.

4.1 Mandatory Conversion Upon Initial Public Offering. If, prior to the Calendar Due Date, the Maker closes a firm commitment underwritten initial public offering of its common stock that raises at least $10 million (the "IPO Financing"), the amounts payable hereunder shall be repaid with shares of the Maker's Common Stock in accordance with the terms of paragraph 5.1 of this Note.

4.2 Other Optional Conversions. At any time prior to a conversion pursuant to paragraph 4.1 above or the Calendar Due Date, including in the event that the Maker consummates a Change of Control, at the option of the Holder all amounts payable under this Note may be converted into shares of the Maker's Common Stock. In the event of such conversion, this Note shall be converted into that number of shares of Common Stock determined by dividing (x) Principal Amount and accrued interest by (y) the lower of (i) $3.21 or (ii) 0.70 of the per share consideration paid (A) in the event of a Change of Control or (B) in the most recent Private Equity Financing to occur prior to the Holder's election (as appropriately adjusted to reflect stock dividends, stock splits, combinations, recapitalizations and the like with respect to the Maker's capital stock after the date hereof).

4.3 Repayment Election. If this Note is not repaid prior to the Calendar Due Date in accordance with paragraphs 4.1 or 4.2 above, or if, by the Calendar Due Date this Note is not cancelled and replaced in accordance with the terms of Section 5.8 below, the Holder may elect to be repaid on the Calendar Due Date in one of the following ways: (i) the Holder may elect to receive, and the Maker shall repay, all amounts payable hereunder in a lump sum, in lawful money of the United States, which payment shall be equal to the Principal Amount and all accrued interest or (ii) the Holder may elect to receive the lump sum payment in shares of the Maker's Common Stock in accordance with subparagraph 5.2 below.

4.4 Prepayment Right. The Maker has the right to prepay this Note in lawful money of the United States with the consent of the Holder. If this Note is prepaid in lawful money of the United States prior to an IPO, the payment amount shall equal 110% of the Principal Amount.

5. Conversion of Note. The following provisions shall govern the conversion of any and all amounts due under this Note.

5.1 Conversion in Conjunction with an IPO Financing. In the event of an IPO Financing which closes prior to the Calendar Due Date, the Note shall have a conversion price equal to 0.70 times the IPO Price (the "IPO Conversion Price"). The IPO Price means the price per share paid by public investors in the IPO, without regard to any underwriting discount or expense (as appropriately adjusted to reflect stock dividends, stock splits, combinations, recapitalizations and the like with respect to the Maker's capital stock after the date hereof).

5.2 Conversion in Conjunction with an Election. In the event that the Holder elects to receive payment of this Note in shares of the Maker's Common Stock in accordance with subparagraph 4.3(ii) above, the Note shall have a conversion price equal to 0.70 times the price per share paid by investors in the most recent Private Equity Financing to occur prior to the Calendar Due Date, after giving effect to adjustments that reflect stock dividends, stock splits, combinations, recapitalizations and the like with respect to the Maker's capital stock after the date hereof) (the "Private Financing Conversion Price").

5.3 Conversion Rate. The number of shares of Common Stock issuable upon conversion pursuant to subparagraphs 5.1 or 5.2 shall be determined by dividing (x) the Principal Amount and accrued interest (the "Conversion Amount") by (y) the IPO Conversion Price or the Private Financing Conversion Price, as applicable.

5.4 No Fractional Shares. The Maker shall not issue any fraction of a share of Common Stock upon any conversion. If the issuance would result in the issuance of a fraction of a share of Common Stock, the Maker shall round up such fraction of a share of Common Stock up to the nearest whole share. The Maker shall pay any and all transfer, stamp and similar taxes that may be payable with respect to the issuance and delivery of Common Stock upon conversion.

5.5 Mechanics of Conversion.

5.5.1 Mandatory Conversion. The closing of an IPO Financing prior to the Calendar Due Date will be the "Conversion Date". Within 20 days of the Conversion Date, the Maker shall transmit to the Holder a certificate for the number of shares of Common Stock representing full repayment of the Conversion Amount on the Conversion Date, together with an explanation of the calculation. Upon receipt of such notice, the Holder shall surrender this Note to a common carrier for delivery to the Maker as soon as practicable on or following such date (or an indemnification undertaking with respect to this Note in the case of its loss, theft or destruction). The person or persons entitled to receive the shares of Common Stock issuable upon a conversion of this Note shall be treated for all purposes as the record holder or holders of such shares of Common Stock on the Conversion Date.

5.5.2 Voluntary Conversion. If this Note is voluntarily converted pursuant to paragraphs 4.2 or 4.3, the Holder shall give written notice to the Maker notifying the Maker of its election to convert. Before the Holder shall be entitled to voluntarily convert this Note, the Holder shall surrender this Note at the Maker's principal executive office, or, if this Note has been lost, stolen, destroyed or mutilated, then, in the case of loss, theft or destruction, the Holder shall deliver an indemnity agreement reasonably satisfactory in form and substance to the Maker (without the requirement of a bond) or, in the case of mutilation, the Holder shall surrender and cancel this Note. The Maker shall, as soon as practicable thereafter, issue and deliver to such Holder at such principal executive office a certificate or certificates for the number of shares of Common Stock to which the Holder shall be entitled upon such conversion (bearing such legends as are required by applicable state and federal securities laws in the opinion of counsel to the Maker), together with a replacement Note (if any principal amount or interest is not converted). Such conversion shall be deemed to have been made immediately prior to the close of business on the date of the surrender of this Note or the delivery of an indemnification agreement (or such later date requested by the Holder or such earlier date agreed to by the Maker and the Holder). The person or persons entitled to receive securities issuable upon such conversion shall be treated for all purposes as the record holder or holders of such securities on such date.

5.6 Reservation of Common Stock. Until the Notes are paid in full, the Maker shall at all times keep reserved for issuance under this Note a number of shares of Common Stock as shall be necessary to satisfy the Maker's obligation to issue shares of Common Stock hereunder (without regard to any limitation otherwise contained herein with respect to the number of shares of Common Stock that may be acquirable upon exercise of this Note). If, notwithstanding the foregoing, and not in limitation thereof, at any time while any of the Notes remain outstanding the Maker does not have a sufficient number of authorized and unreserved shares of Common Stock to satisfy its obligation to reserve for issuance upon exercise of the Notes at least a number of shares of Common Stock equal to the number of shares of Common Stock as shall from time to time be necessary to effect the exercise of the Notes then outstanding (the "Required Reserve Amount") (an "Authorized Share Failure"), then the Maker shall immediately take all action necessary to increase the Maker's authorized shares of Common Stock to an amount sufficient to allow the Maker to maintain the Required Reserve Amount for all the Notes then outstanding. Without limiting the generality of the foregoing sentence, as soon as practicable after the date of the occurrence of an Authorized Share Failure, but in no event later than 60 days after the occurrence of such Authorized Share Failure, the Company shall hold a meeting of its shareholders for the approval of an increase in the number of authorized shares of Common Stock. In connection with such meeting, the Maker shall provide each shareholder with a proxy statement and shall use its best efforts to solicit its shareholders' approval of such increase in authorized shares of Common Stock and to cause its board of directors to recommend to the shareholders that they approve such proposal.

5.7 Adjustments. The Conversion Price and number and kind of shares or other securities to be issued upon conversion determined pursuant to Section 5 hereof, shall be subject to adjustment from time to time upon the happening of certain events while this conversion right remains outstanding, as follows:

5.7.1 Merger, Sale of Assets, etc. If the Maker at any time shall consolidate with or merge into or sell or convey all or substantially all its assets to any other corporation, this Note, as to the unpaid Principal Amount thereof and accrued interest thereon, shall thereafter be deemed to evidence the right to purchase such number and kind of shares or other securities and property as would have been issuable or distributable on account of such consolidation, merger, sale or conveyance, upon or with respect to the securities subject to the conversion or purchase right immediately prior to such consolidation, merger, sale or conveyance. The foregoing provision shall similarly apply to successive transactions of a similar nature by any such successor or purchaser. Without limiting the generality of the foregoing, the anti-dilution provisions of this Section shall apply to such securities of such successor or purchaser after any such consolidation, merger, sale or conveyance.

5.7.2 Reclassification, etc. If the Maker at any time shall, by reclassification or otherwise, change the Common Stock into the same or a different number of securities of any class or classes that may be issued or outstanding, this Note, as to the unpaid principal portion thereof and accrued interest thereon, shall thereafter be deemed to evidence the right to purchase an adjusted number of such securities and kind of securities as would have been issuable as the result of such change with respect to the Common Stock immediately prior to such reclassification or other change.

5.7.3 Notice of Adjustment. Whenever the applicable Conversion Price is adjusted pursuant to this Section 5.7, the Maker shall promptly mail to the Holder a notice setting forth the applicable Conversion Price after such adjustment and setting forth a statement of the facts requiring such adjustment.

5.8 Exchange of Note in the Event of Additional Loans. It is anticipated that the Maker will raise up to an additional $4.25 million by selling secured convertible promissory notes (the "Second Note Offering"). By accepting this Note and executing the Purchase Agreement and the other Transaction Documents, the Holder agrees that if the Second Note Offering is consummated, the Holder will, if requested, surrender this Note to the Maker and this Note shall be cancelled and replaced with the form of note issued to the investors in the Second Note Offering.

6. Registration; Book-Entry. The Company shall maintain a register (the "Register") for the recordation of the names and addresses of the holders of each Note and the Principal Amount of the Notes held by such holders (the "Registered Notes"). The entries in the Register shall be conclusive and binding for all purposes absent manifest error. The Maker and the holders of the Notes shall treat each person whose name is recorded in the Register as the owner of a Note for all purposes, including, without limitation, the right to receive payments of the Principal Amount and interest, if any, hereunder, notwithstanding notice to the contrary. A Registered Note may be assigned or sold in whole or in part only in accordance with the terms of paragraph 12.3 of this Note and by registration of such assignment or sale on the Register.

7. Defaults; Remedies.

7.1 Events of Default. The occurrence of any one or more of the following events shall constitute an event of default hereunder (each, an "Event of Default"):

7.1.1 The Maker fails to make any payment when due under this Note;

7.1.2 The Maker fails to observe and perform any of its covenants or agreements on its part to be observed or performed under the Purchase Agreement or any other Transaction Document, and such failure shall continue for more than 30 days after notice of such failure has been delivered to the Maker;

7.1.3 Any representation or warranty made by the Maker in the Purchase Agreement or any other Transaction Document is untrue in any material respect as of the date of such representation or warranty except, in the case of a breach of a covenant which is curable, only if such breach continues for a period of at least 10 consecutive Business Days;

7.1.4 The Maker admits in writing its inability to pay its debts generally as they become due, files a petition in bankruptcy or a petition to take advantage of any insolvency act, makes an assignment for the benefit of its creditors, consents to the appointment of a receiver of itself or of the whole or any substantial part of its property, on a petition in bankruptcy filed against it be adjudicated a bankrupt, or files a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any State thereof;

7.1.5 A court of competent jurisdiction enters an order, judgment, or decree appointing, without the consent of the Maker, a receiver of the Maker or of the whole or any substantial part of its property, or approving a petition filed against the Maker seeking reorganization or arrangement of the Maker under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any State thereof, and such order, judgment, or decree shall not be vacated or set aside or stayed within 60 days from the date of entry thereof;

7.1.6 Any court of competent jurisdiction assumes custody or control of the Maker or of the whole or any substantial part of its property under the provisions of any other law for the relief or aid of debtors, and such custody or control is not be terminated or stayed within 60 days from the date of assumption of such custody or control;

7.1.7. The Notes shall cease to be, or be asserted by the Maker not to be, a legal, valid and binding obligation of the Maker enforceable in accordance with their terms;

7.1.8 A judgment or judgments for the payment of money aggregating in excess of $75,000 are rendered against the Maker which judgments are not, within 60 days after the entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within 60 days after the expiration of such stay; provided, however, that any judgment which is covered by insurance or an indemnity from a credit worthy party shall not be included in calculating the $75,000 amount set forth above so long as the Maker provides the Holder a written statement from such insurer or indemnity provider (which written statement shall be reasonably satisfactory to the Holder) to the effect that such judgment is covered by insurance or an indemnity and the Maker will receive the proceeds of such insurance or indemnity within 30 days of the issuance of such judgment;

7.1.9 Any Event of Default occurs with respect to any of the Notes;

7.1.10 A default by the Maker under any one or more obligations in an aggregate monetary amount in excess of $50,000 for more than 30 days after the due date, unless the Maker is contesting the validity of such obligation in good faith and has segregated cash funds equal to not less than one-half of the disputed amount;

7.1.11 A default by the Maker under the Texas Emerging Technology Fund Award and Security Agreement dated October 1, 2010 or the Investment Unit dated October 1, 2010, each between the Maker and the Office of the Governor Economic Development and Tourism of the State of Texas, which default continues for more than 30 days after notice of such default has been delivered to the Maker;

7.1.12 The Maker fails to deliver the shares of Common Stock to the Holder pursuant to and in the form required by this Note or, if required, a replacement Note more than five Business Days after the required delivery date of such Common Stock or Note;

7.1.13 The Maker fails to have reserved for issuance upon conversion of the Note the amount of Common stock as set forth in this Note; or

7.1.14 The security interest created in the Collateral, as defined in the Security Agreement, is not a perfected first lien.

7.2 Notice by the Maker. The Maker shall notify the Holder in writing as soon as reasonably practicable but in no event more 5 days after the occurrence of any Event of Default of which the Maker acquires knowledge.

7.3 Remedies. Upon the occurrence of any Event of Default, all other sums due and payable to the Holder under this Note shall, at the option of the Holder, become due and payable immediately without presentment, demand, notice of nonpayment, protest, notice of protest, or other notice of dishonor, all of which are hereby expressly waived by the Maker. Any payment under this Note (i) not paid within 10 days following the Calendar Due Date or (ii) due immediately following acceleration by the Holder shall bear interest at the rate of 15% from the date of the Note until paid, subject to paragraph 7.5. To the extent permitted by law, the Maker waives the right to and stay of execution and the benefit of all exemption laws now or hereafter in effect. In addition to the foregoing, upon the occurrence of any Event of Default, the Holder may forthwith exercise singly, concurrently, successively, or otherwise any and all rights and remedies available to the Holder by law, equity, or otherwise.

7.4 Remedies Cumulative, etc. No right or remedy conferred upon or reserved to the Holder under this Note, or now or hereafter existing at law or in equity or by statute or other legislative enactment, is intended to be exclusive of any other right or remedy, and each and every such right or remedy shall be cumulative and concurrent, and shall be in addition to every other such right or remedy, and may be pursued singly, concurrently, successively, or otherwise, at the sole discretion of the Holder, and shall not be exhausted by any one exercise thereof but may be exercised as often as occasion therefor shall occur. No act of the Holder shall be deemed or construed as an election to proceed under any one such right or remedy to the exclusion of any other such right or remedy; furthermore, each such right or remedy of the Holder shall be separate, distinct, and cumulative and none shall be given effect to the exclusion of any other.

7.5 Usury Compliance. All agreements between the Maker and the Holder are expressly limited, so that in no event or contingency whatsoever, whether by reason of the consideration given with respect to this Note, the acceleration of maturity of the unpaid Principal Amount and interest thereon, or otherwise, shall the amount paid or agreed to be paid to the Holder for the use, forbearance, or detention of the indebtedness which is the subject of this Note exceed the highest lawful rate permissible under the applicable usury laws. If, under any circumstances whatsoever, fulfillment of any provision of this Note shall involve transcending the highest interest rate permitted by law which a court of competent jurisdiction deems applicable, then the obligations to be fulfilled shall be reduced to such maximum rate, and if, under any circumstances whatsoever, the Holder shall ever receive as interest an amount that exceeds the highest lawful rate, the amount that would be excessive interest shall be applied to the reduction of the unpaid Principal Amount under this Note and not to the payment of interest, or, if such excessive interest exceeds the unpaid balance of the Principal Amount under this Note, such excess shall be refunded to the Maker. This provision shall control every other provision of all agreements between the Maker and the Holder.

8. Replacement of Note. Upon receipt by the Maker of evidence satisfactory to it of the loss, theft, destruction, or mutilation of this Note and (in case of loss, theft, or destruction) of indemnity satisfactory to it, and upon surrender and cancellation of this Note, if mutilated, the Maker will make and deliver a new Note of like tenor in lieu of this Note.

9. Intentionally omitted.

10. Maker's Covenants.

10.1 Rank. All payments due under this Note (a) shall rank *pari passu* with all other Notes and (b) shall be senior to all other indebtedness of the Maker.

10.2 Security. This Note and the other Notes are secured to the extent and in the manner set forth in the Security Agreement of even date herewith. However, it is anticipated that the Maker may raise up to a total of $4.25 million in additional funds through subsequently issued senior secured convertible promissory notes (the "Subsequent Notes"). By accepting this Note the Holder agrees that holders of the Subsequent Notes will have security interests identical to and pari passu with those granted to the Holder.

10.3 Existence of Liens. So long as this Note is outstanding, the Maker shall not, and the Maker shall not permit any of its subsidiaries (if any) to, directly or indirectly, allow or suffer to exist any mortgage, lien, pledge, charge, security interest or other encumbrance upon or in any property or assets (including accounts and contract rights) owned by the Maker or any of its subsidiaries (collectively, "Liens") other than Permitted Liens.

10.4 Restricted Payments. The Maker shall not, and the Maker shall not permit any of its subsidiaries (is any) to, directly or indirectly, redeem, defease, repurchase, repay or make any payments in respect of, by the payment of cash or cash equivalents (in whole or in part, whether by way of open market purchases, tender offers, private transactions or otherwise), all or any portion of any indebtedness, whether by way of payment in respect of principal of (or premium, if any) or interest on, such indebtedness if at the time such payment is due or is otherwise made or, after giving effect to such payment, an event constituting, or that with the passage of time and without being cured would constitute, an Event of Default has occurred and is continuing.

10.5 Valid Issuance of Securities. The Maker covenants that the securities issuable upon the conversion of this Note will, upon conversion of this Note, be validly issued, fully paid and nonassessable and free from all taxes, liens and charges in respect of the issue thereof.

10.6 Timely Notice. The Maker shall give the Holder at least 10 days' advance written notice of (i) a proposed financing which would permit the Holder to convert the Principal Amount, accrued interest, and any other amount due under this Note in accordance with paragraph 4.3 or (ii) a proposed Change of Control, provided that the Holder agrees to be bound by any applicable confidentiality agreement or agreements as the Maker shall deem necessary or appropriate.

11. Certain Definitions.

11.1 "Business Days" shall mean any day that is not a Saturday, Sunday or a federal holiday.

11.2 "Change of Control" means any liquidation, dissolution or winding up of the Maker, either voluntary or involuntary, and shall be deemed to be occasioned by, or to include, (i) the acquisition of the Maker by another entity by means of any transaction or series of related transactions (including, without limitation, any stock acquisition, reorganization, merger or consolidation) unless the Maker's shareholders of record as constituted immediately prior to such acquisition or sale will, immediately after such acquisition or sale (by virtue of securities issued as consideration for the Maker's acquisition or sale or otherwise) hold at least a majority of the voting power of the surviving or acquiring entity, or its direct or indirect parent entity (except that any bona fide equity or debt financing transaction for capital raising purposes shall not be deemed a Change of Control for this purpose) or (ii) a sale, exclusive license or other disposition of all or substantially all of the assets of the Maker, including a sale, exclusive license or other disposition of all or substantially all of the assets of the Maker's subsidiaries, if such assets constitute substantially all of the assets of the Maker and such subsidiaries taken as a whole.

11.3 "Permitted Liens" shall have the meaning included in the Security Agreement of even date herewith.

12.1 Amendments, Waivers, and Consents.

12.1 Amendment and Waiver by the Holders. The Notes, including this Note, may be amended, modified, or supplemented, and waivers or consents to departures from the provisions of the Notes may be given, if the Maker and holders of an aggregate majority of the Principal Amount of the Notes then outstanding, consent to the amendment; provided, however, that no term of this Note may be amended or waived in such a way as to adversely affect the Holder disproportionately to the holder or holders of any other Notes without the written consent of the Holder and neither the principal balance or interest rate of the Note may be amended or modified without the consent of the Holder. Such consent may not be effected orally, but only by a signed statement in writing. Any such amendment or waiver shall apply to and be binding upon the Holder of this Note, upon each future holder of this Note, and upon the Maker, whether or not this Note shall have been marked to indicate such amendment or waiver. No such amendment or waiver shall extend to or affect any obligation not expressly amended or waived or impair any right consequent thereon.

12.2 Severability. In the event that for any reason one or more of the provisions of this Note or their application to any person or circumstance shall be held to be invalid, illegal, or unenforceable in any respect or to any extent, such provision shall nevertheless remain valid, legal, and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality, or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal, or unenforceable provision had never been contained herein.

12.3 Assignment; Binding Effect. The Maker may not assign this Note without the prior written consent of the Holder. Any attempted assignment in violation of this Section 12.3 shall be null and void. Subject to the foregoing, this Note inures to the benefit of the Holder, its successors and assigns, and binds the Maker, and their respective successors and permitted assigns, and the words "Holder" and "Maker" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

12.4 Notice Generally. All notices required to be given to any of the parties hereunder shall be given as set forth in the Purchase Agreement.

12.5 Governing Law; Jurisdiction; Jury Trial. This Note shall be construed and enforced in accordance with, and all questions concerning the construction, validity, interpretation and performance of this Note shall be governed by, the internal laws of the State of New York, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of New York or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of New York. The Maker hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in The City of New York, Borough of Manhattan, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. The Maker hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address it set forth on the signature page hereto and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. In the event that any provision of this Note is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of this Note. Nothing contained herein shall be deemed or operate to preclude the Holder from bringing suit or taking other legal action against the Maker in any other jurisdiction to collect on the Maker's obligations to the Holder, to realize on any collateral or any other security for such obligations, or to enforce a judgment or other court ruling in favor of the Holder. THE MAKER HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION WITH OR ARISING OUT OF THIS NOTE OR ANY TRANSACTION CONTEMPLATED HEREBY. **This Note shall be deemed an unconditional obligation of Maker for the payment of money and, without limitation to any other remedies of Holder, may be enforced against Maker by summary proceeding pursuant to New York Civil Procedure Law and Rules Section 3213 or any similar rule or statute in the jurisdiction where enforcement is sought. For purposes of such rule or statute, any other document or agreement to which Holder and Maker are parties or which Maker delivered to Holder, which may be convenient or necessary to determine Holder's rights hereunder or Maker's obligations to Holder are deemed a part of this Note, whether or not such other document or agreement was delivered together herewith or was executed apart from this Note.**

12.6 Section Headings, Construction. The headings of paragraphs in this Note are provided for convenience only and will not affect its construction or interpretation. All words used in this Note will be construed to be of such gender or number as the circumstances require. Unless otherwise expressly provided, the words "hereof" and "hereunder" and similar references refer to this Note in its entirety and not to any specific section or subsection hereof.

12.7 Payment of Collection, Enforcement and Other Costs. If (a) this Note is placed in the hands of an attorney for collection or enforcement or is collected or enforced through any legal proceeding or the Holder otherwise takes action to collect amounts due under this Note or to enforce the provisions of this Note, or (b) there occurs any bankruptcy, reorganization, receivership of the Maker or other proceedings affecting the Maker's creditors' rights and involving a claim under this Note, then the Maker shall pay the costs incurred by the Holder for such collection, enforcement or action or in connection with such bankruptcy, reorganization, receivership or other proceeding, including, but not limited to, attorneys' fees and disbursements.

12.8 Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to the Holder, upon any breach or default of the Maker under this Note shall impair any such right, power, or remedy of the Holder nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default therefore or thereafter occurring. Any waiver, permit, consent, or approval of any kind or character on the part of the Holder of any breach or default under this Note or any waiver on the part of the Holder of any provisions or conditions of this Note must be made in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Note or by law or otherwise afforded to the Holders, shall be cumulative and not alternative.

[EXECUTION PAGE FOLLOWS]

IN WITNESS WHEREOF, Ideal Power Converters, Inc. has caused this Senior Secured Convertible Promissory Note to be executed and delivered on the date set forth above on the cover page of this Note.

IDEAL POWER CONVERTERS, INC.

By:_____
Christopher Cobb, Chief Executive Officer

By:_____
Charles De Tarr, Chief Financial Officer

Exhibit 10.13

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (the "Agreement"), dated as of August 31, 2012, is entered into by and among IDEAL POWER CONVERTERS, INC., a Texas corporation ("Debtor"), the Subscribers identified on **Schedule 1** hereto (the "Subscribers"), who are parties to the Securities Purchase Agreement dated as of August 31, 2012 (the "Purchase Agreement"), by and among Debtor and such Subscribers, and Anthony DiGiandomenico ("Collateral Agent").

RECITALS

WHEREAS, Subscribers are making senior secured loans in one or more tranches or series, initially in the amount $750,000 (the "Initial Senior Debt") and thereafter up to an aggregate principal amount of $5,000,000 inclusive of the Initial Senior Debt (collectively "Senior Loans") to the Debtor, intended, collectively, as a loan secured by a first-priority senior security interest in all assets of the Debtor.

WHEREAS, the Senior Loans will be evidenced by one or more senior secured convertible promissory notes (each a "Note") issued by the Debtor on or about the date of this Agreement pursuant to the Purchase Agreement. The Notes were or will be executed by the Debtor as borrower, in favor of and to document indebtedness to, the Subscribers (each, a "Holder" and collectively the "Holders").

WHEREAS, concurrently with this Agreement, the Debtor, the Subscribers and the Collateral Agent are entering into a Subordination Agreement with The Office of the Governor Economic Development and Tourism, of the State of Texas ("Subordinated Lender") pursuant to which the Subordinated Lender is agreeing to subordinate its rights, priority and claims under its Subordinated Debt Instrument, to the Senior Loans made or being made under the Notes.

WHEREAS, in consideration of the Senior Loans made and to be made by the Subscribers to the Debtor and for other good and valuable consideration, and as security for the performance by the Debtor of its obligations under the Notes, and as security for the repayment of the Senior Loans and all other sums due from the Debtor to the Subscribers arising under the Transaction Documents (as defined in the Purchase Agreement, the Notes, and any other agreement between or among them (collectively, the "Obligations")), the Debtor, for good and valuable consideration, receipt of which is acknowledged, has agreed to grant to the Subscribers and to the Collateral Agent on behalf of the Subscribers a security interest in the Collateral (as such term is hereinafter defined), on the terms and conditions hereinafter set forth.

WHEREAS, the following terms which are defined in the Uniform Commercial Code in effect in the State of New York on the date hereof are included on **Schedule 2** and are used herein as so defined: Account, Chattel Paper, Documents, Equipment, General Intangible, Goods, Instrument, Inventory and Proceeds.

AGREEMENT

1. Definitions; Interpretation. All capitalized terms used in this Agreement and not otherwise defined herein shall have the meanings assigned to them in the Note and Purchase Agreement. As used in this Agreement, the following terms shall have the following meanings:

"Agreement" means this Security Agreement, including any amendments hereto.

"Collateral Agent" shall have the meaning as set forth in the Preamble.

"Collateral" shall have the meaning as set forth in Section 2.2.

"Debtor" shall have the meaning as set forth in the Preamble.

"Event of Default" shall have the meaning as set forth in Section 8.

"Holder" or "Holders" shall have the meaning as set forth in the Recitals.

"Senior Loans" shall have the meaning as set forth in the Recitals.

"Majority in Interest" shall have the meaning as set forth in Section 12.3.

"Note" shall have the meaning as set forth in the Recitals.

"Obligations" shall have the meaning as set forth in the Recitals.

"Permitted Liens" shall have the meaning as set forth in Section 5.1.

"Subscribers" shall have the meaning as set forth in the Preamble.

2. Grant of General Security Interest in Collateral.

2.1 As security for the Obligations of the Debtor, the Debtor hereby grants each of the Subscribers, a security interest in the Collateral.

2.2 "Collateral" shall mean all of the following property of the Debtor:

(A) All now owned and hereafter acquired right, title and interest of the Debtor in, to and in respect of all Accounts, Goods, real or personal property, all present and future books and records relating to the foregoing and all products and Proceeds of the foregoing, and as set forth below:

(i) all now owned and hereafter acquired right, title and interest of the Debtor in, to and in respect of all: Accounts, interests in goods represented by Accounts, returned, reclaimed or repossessed goods with respect thereto and rights as an unpaid vendor; contract rights; Chattel Paper; investment property; General Intangibles (including but not limited to, tax and duty claims and refunds, registered and unregistered patents, trademarks, service marks, certificates, copyrights, trade names, applications for the foregoing, trade secrets, goodwill, processes, drawings, blueprints, customer lists, licenses, whether as licensor or licensee, choses in action and other claims, and existing and future leasehold interests and claims in and to equipment, real estate and fixtures); Documents; Instruments; letters of credit, bankers' acceptances or guaranties; cash moneys, deposits including but not limited to the deposit accounts identified on **Schedule 3**; securities, bank accounts, deposit accounts, credits and other property now or hereafter owned or held in any capacity by Debtors, as well as agreements or property securing or relating to any of the items referred to above;

(ii) Goods. All now owned and hereafter acquired right, title and interest of Debtors in, to and in respect of goods, including, but not limited to:

(a) All Inventory, wherever located, whether now owned or hereafter acquired, of whatever kind, nature or description, including all raw materials, work-in-process, finished goods, and materials to be used or consumed in the Debtor's business; finished goods, timber cut or to be cut, oil, gas, hydrocarbons, and minerals extracted or to be extracted, and all names or marks affixed to or to be affixed thereto for purposes of selling same by the seller, manufacturer, lessor or licensor thereof and all Inventory which may be returned to the Debtor by its customers or repossessed by the Debtor and all of the Debtor's right, title and interest in and to the foregoing (including all of the Debtor's rights as a seller of goods);

(b) All Equipment and fixtures, wherever located, whether now owned or hereafter acquired, including, without limitation, all machinery, furniture and fixtures, and any and all additions, substitutions, replacements (including spare parts), and accessions thereof and thereto (including, but not limited to the Debtor's rights to acquire any of the foregoing, whether by exercise of a purchase option or otherwise);

(iii) Property. All now owned and hereafter acquired right, title and interests of the Debtor in, to and in respect of any other personal property in or upon which the Debtor has or may hereafter have a security interest, lien or right of setoff;

(iv) Books and Records. All present and future books and records relating to any of the above including, without limitation, all computer programs, printed output and computer readable data in the possession or control of the Debtor, any computer service bureau or other third party; and

(v) Products and Proceeds. All products and Proceeds of the foregoing in whatever form and wherever located, including, without limitation, all insurance proceeds and all claims against third parties for loss or destruction of or damage to any of the foregoing.

(B) All now owned and hereafter acquired right, title and interest of the Debtor in, to and in respect of the following:

(i) all additional shares of stock, partnership interests, member interests or other equity interests from time to time acquired by the Debtor, in any subsidiary of the Debtor, the certificates representing such additional shares, and other rights, contractual or otherwise, in respect thereof and all dividends, distributions, cash, instruments, investment property and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such additional shares, interests or equity; and

(ii) all security entitlements of the Debtor in, and all Proceeds of any and all of the foregoing in each case, whether now owned or hereafter acquired by the Debtor and howsoever its interest therein may arise or appear (whether by ownership, security interest, lien, claim or otherwise).

Notwithstanding anything to the contrary set forth in Section 2.2 above, the types or items of Collateral described in such Section shall not include any rights or interests in any contract, lease, permit, license, charter or license agreement covering real or personal property, as such, if under the terms of such contract, lease, permit, license, charter or license agreement, or applicable law with respect thereto, the valid grant of a security interest or lien therein to the Subscribers is prohibited or would result in a breach and such prohibition or breach has not been or is not waived or the consent of the other party to such contract, lease, permit, license, charter or license agreement has not been or is not otherwise obtained or under applicable law such prohibition or breach cannot be waived.

Notwithstanding anything to the contrary set forth in Section 2.2 above, the types or items of Collateral described in such Section shall not include any Equipment which is, or at the time of the Debtor's acquisition thereof shall be, subject to a purchase money mortgage or other purchase money lien or security interest (including capitalized or finance leases) permitted hereunder if: (a) the valid grant of a security interest or lien therein to the Subscribers in such Equipment is prohibited by the terms of the agreement between the Debtor and the holder of such purchase money mortgage or other purchase money lien or security interest or under applicable law and such prohibition has not been or is not waived, or the consent of the holder of the purchase money mortgage or other purchase money lien or security interest has not been or is not otherwise obtained, or under applicable law such prohibition cannot be waived and (b) the purchase money mortgage or other purchase money lien or security interest on such item of Equipment is or shall become valid and perfected. To the extent each of the foregoing conditions is satisfied, the Subscribers shall, through the Collateral Agent, at the request of the Debtor and at the Debtor's expense, execute and deliver a UCC-3 partial release with respect to any such Equipment subject to such a purchase money security interest or lien, provided, that, such partial release shall be in form and substance satisfactory to the Collateral Agent.

"Equipment" shall include all of the Debtor's now owned and hereafter acquired equipment, machinery, laboratory and research equipment and tools, computers and computer hardware and software (whether owned or licensed), vehicles, tools, furniture, fixtures, all attachments, accessions and property now or hereafter affixed thereto or used in connection therewith, and substitutions and replacements thereof, wherever located.

2.3 The Subscribers and the Collateral Agent are hereby specifically authorized, after the Maturity Date (defined in the Note) accelerated or otherwise, and after the occurrence of an Event of Default (as defined herein) and the expiration of any applicable cure period, to transfer any Collateral into the name of the Collateral Agent and to take any and all action deemed advisable to the Subscribers to remove any transfer restrictions affecting the Collateral.

3. Perfection of Security Interest.

3.1 The Debtor shall prepare, execute and deliver to the Collateral Agent UCC-1 Financing Statements or other instruments necessary to perfect a security interest in any item of the Collateral (collectively, the "Lien Documents") in form and substance acceptable to the Collateral Agent. The Collateral Agent is instructed to prepare and file at the Debtor's cost and expense, the Lien Documents in such United States and foreign jurisdictions deemed advisable to the Collateral Agent, including but not limited to Washington, D.C., and the State of Texas.

3.2 All other certificates and instruments constituting Collateral from time to time required to be pledged to the Subscribers pursuant to the terms hereof (the "Additional Collateral") shall be delivered to the Collateral Agent promptly upon receipt thereof by or on behalf of the Debtor. All such certificates and instruments shall be held by or on behalf of the Subscribers pursuant hereto and shall be delivered in suitable form for transfer by delivery, or shall be accompanied by duly executed instruments of transfer or assignment or undated stock powers executed in blank, all in form and substance satisfactory to the Collateral Agent. If any Collateral consists of uncertificated securities, unless the immediately following sentence is applicable thereto, the Debtor shall cause the Collateral Agent to become the registered holder thereof, or cause each issuer of such securities to agree that it will comply with instructions originated by the Collateral Agent with respect to such securities. If any Collateral consists of security entitlements, the Debtor shall transfer such security entitlements to the Collateral Agent or cause the applicable securities intermediary to agree that it will comply with entitlement orders by the Collateral Agent.

3.3 If the Debtor shall receive, by virtue of the Debtor being or having been an owner of any Collateral, any (i) stock certificate (including, without limitation, any certificate representing a stock dividend or distribution in connection with any increase or reduction of capital, reclassification, merger, consolidation, sale of assets, combination of shares, stock split, spin-off or split-off), promissory note or other instrument, (ii) option or right, whether as an addition to, substitution for, or in exchange for, any Collateral, or otherwise, (iii) dividends payable in cash or in securities or other property or (iv) dividends or other distributions in connection with a partial or total liquidation or dissolution or in connection with a reduction of capital, capital surplus or paid-in surplus, the Debtor shall receive such stock certificate, promissory note, instrument, option, right, payment or distribution in trust for the benefit of the Subscribers, shall segregate it from the Debtor's other property and shall deliver it forthwith to the Subscribers, in the exact form received, with any necessary endorsement and/or appropriate stock powers duly executed in blank, to be held by the Subscribers as Collateral and as further collateral security for the Obligations.

4. Voting Power Relating to Collateral/Dividends and Distributions.

4.1 So long as an Event of Default does not exist, the Debtor shall be entitled to exercise all voting power pertaining to any of the Collateral, provided such exercise is not contrary to the interests of the Subscribers and does not impair the Collateral.

4.2. At any time an Event of Default exists or has occurred and is continuing, all rights of the Debtor, upon notice given by the Collateral Agent, to exercise the voting power shall cease and all such rights shall thereupon become vested in the Collateral Agent for the benefit of the Subscribers, which shall thereupon have the sole right to exercise such voting power and receive such payments.

4.3 All dividends, distributions, interest and other payments which are received by Debtor contrary to the provisions of Section 4.2 shall be received in trust for the benefit of the Subscribers as security and Collateral for payment of the Obligations, shall be segregated from other funds of Debtor, and shall be forthwith paid over to the Collateral Agent as Collateral in the exact form received with any necessary endorsement and/or appropriate stock powers duly executed in blank, to be held by the Collateral Agent as Collateral and as further collateral security for the Obligations.

5. Further Action By Debtors; Covenants and Warranties.

5.1 The Subscribers at all times shall have a perfected security interest in the Collateral. The Debtor represents that other than the security interests described on **Schedule 5.1,** it has and will continue to have full title to the Collateral free from any liens, leases, encumbrances, judgments or other claims, except for "Permitted Liens" (defined below). The Subscribers' security interest in the Collateral constitutes and will continue to constitute a first, prior and indefeasible security interest in favor of the Subscribers, subject only to the security interests described on **Schedule 5.1**. The Debtor will do all acts and things, and will execute and file all instruments (including, but not limited to, security agreements, financing statements, continuation statements, etc.) reasonably requested by the Collateral Agent to establish, maintain and continue the perfected security interest of the Subscribers in the perfected Collateral, and will promptly on demand, pay all costs and expenses of filing and recording, including the costs of any searches reasonably deemed necessary by the Collateral Agent from time to time to establish and determine the validity and the continuing priority of the security interest of the Subscribers, and also pay all other claims and charges that, in the opinion of the Subscribers are reasonably likely to materially prejudice, imperil or otherwise affect the Collateral or the Subscribers' security interests therein. For purposes of this Agreement, "Permitted Liens" shall include:

(a) liens for the payment of taxes which are not yet due and payable;

(b) liens arising by statute in connection with worker's compensation, unemployment insurance, old age benefits, social security obligations, taxes, assessments, statutory obligations or other similar charges (other than Liens arising under ERISA), good faith cash deposits in connection with tenders, contracts or leases to which the the Debtor is a party or other cash deposits required to be made in the ordinary course of business, provided in each case that the obligation is not for borrowed money and that the obligation secured is not overdue or, if overdue, is being contested in good faith by appropriate proceedings which prevent enforcement of the matter under contest and adequate reserves have been established therefor;

(c) mechanics', workmen's, materialmen's, landlords', carriers' or other similar liens arising in the ordinary course of business with respect to obligations which are not due or which are being contested in good faith by appropriate proceedings which prevent enforcement of the matter under contest;

(d) any interest or title of a lessor under any operating lease or capital lease; and

(e) liens on real property of the Debtor or created solely for the purpose of securing indebtedness incurred to finance the purchase price of such real property;

(f) cash deposits to secure performance bonds and other obligations of a like nature (in each case, other than for Indebtedness) incurred in the ordinary course of business for obligations not yet due or which are being contested in good faith by appropriate proceedings which prevent enforcement of the matter under contest and adequate reserves have been established therefor;

(g) easements, rights-of-way, zoning and similar restrictions, building codes, reservations, covenants, conditions, waivers, survey exceptions and other similar encumbrances or title defects and, with respect to any interests in real property held or leased by the Debtor or any of its subsidiaries, mortgages, deeds of trust and other encumbrances incurred, created, assumed or permitted to exist and arising by, through or under a landlord or owner of such property encumbering solely such landlord's or owner's interest in such real property, with or without the consent of the lessee;

(h) liens in existence on the date hereof;

(i) any interest of a licensor under a license entered into in the ordinary course of the Debtor's business; and

(j) any lien existing on any part of any business acquired by the Debtor, prior to the acquisition thereof by the Debtor.

5.2 Except in connection with sales of Collateral in the ordinary course of business, for fair value and in cash, and except for Collateral which is substituted by assets of identical or greater value (subject to the consent of the Collateral Agent) or which is not material to the Debtor's business, the Debtor will not sell, transfer, assign or pledge those items of Collateral (or allow any such items to be sold, transferred, assigned or pledged), without the prior written consent of the Collateral Agent other than a transfer of the Collateral to a wholly-owned United States formed and located subsidiary of the Debtor with prior notice to the Collateral Agent, and provided the Collateral remains subject to the security interest herein described. Although Proceeds of Collateral are covered by this Agreement, this shall not be construed to mean that the Collateral Agent or the Subscribers consent to any sale of the Collateral, except as provided herein. Sales of Collateral in the ordinary course of business as described above shall be free of the security interest of the Subscribers and the Collateral Agent shall promptly execute such documents (including without limitation releases and termination statements) as may be required by the Debtor to evidence or effectuate the same.

5.3 The Debtor will, at all reasonable times during regular business hours and upon reasonable notice, allow Collateral Agent or its representatives free and complete access to the Collateral and all of the Debtor's records that in any way relate to the Collateral, for such inspection and examination as the Collateral Agent reasonably deems necessary.

5.4 The Debtor, at its sole cost and expense, will protect and defend the Collateral against the claims and demands of all persons other than the Subscribers.

5.5 The Debtor will promptly notify the Collateral Agent of any levy, distraint or other seizure by legal process or otherwise of any part of the Collateral, and of any threatened or filed claims or proceedings that are reasonably likely to affect or impair any of the rights of the Subscribers under this Security Agreement in any material respect.

5.6 The Debtor will, at its own expense, make, execute, endorse, acknowledge, file and/or deliver to the Collateral Agent from time to time such vouchers, invoices, schedules, confirmatory assignments, conveyances, financing statements, transfer endorsements, powers of attorney, certificates, reports and other reasonable assurances or instruments and take further steps relating to the Collateral and other property or rights covered by the security interest hereby granted, as the Collateral Agent may reasonably require to perfect the security interest of the Subscribers hereunder.

5.7 The Debtor represents and warrants that it is the true and lawful exclusive owner of the Collateral, free and clear of any liens, encumbrances and claims other than those listed on Schedule 5.1.

6. Power of Attorney.

At any time an Event of Default has occurred, and only after the applicable cure period as set forth in this Agreement and the other Transaction Documents, and is continuing, the Debtor hereby irrevocably constitutes and appoints the Collateral Agent as the true and lawful attorney of the Debtor, with full power of substitution, in the place and stead of Debtor and in the name of the Debtor or otherwise, at any time or times, in the discretion of the Collateral Agent, to take any action and to execute any instrument or document which is reasonably and prudently necessary to protect the Subscribers' rights in the Collateral as set forth in this Agreement. This power of attorney is coupled with an interest and is irrevocable until the Obligations are satisfied.

7. Performance by the Subscribers.

If the Debtor fails to perform any material covenant, agreement, duty or obligation of the Debtor under this Agreement, the Collateral Agent may, after any applicable cure period and notice required hereunder, at any time or times in its discretion, take action to effect performance of such obligation. All reasonable expenses of the Subscribers incurred in connection with the foregoing authorization shall be payable by the Debtor as provided in Paragraph 10.1 hereof. No discretionary right, remedy or power granted to the Subscribers under any part of this Agreement shall be deemed to impose any obligation whatsoever on the Subscribers with respect thereto, such rights, remedies and powers being solely for the protection of the Subscribers.

8. Event of Default.

An event of default ("Event of Default") shall be deemed to have occurred hereunder upon the occurrence of any event of default as defined and described in this Agreement, in the Note, the Purchase Agreement, Transaction Documents (as defined in the Purchase Agreement), and any other agreement to which the Debtor and the Subscribers are parties. Upon and after any Event of Default, after the applicable cure period, if any, any or all of the Obligations shall become immediately due and payable at the option of the Collateral Agent, and the Collateral Agent may dispose of Collateral as provided herein. A default by the Debtor of any of its material obligations pursuant to this Agreement and any of the Transaction Documents shall be an Event of Default hereunder and an "Event of Default" as defined in the Note, and Subscription Agreement.

9. Disposition of Collateral.

Upon and after any Event of Default which is then continuing,

9.1 The Collateral Agent may exercise its rights with respect to each and every component of the Collateral, without regard to the existence of any other security or source of payment, in order to satisfy the Obligations. In addition to other rights and remedies provided for herein or otherwise available to it, the Subscribers shall have all of the rights and remedies of a secured party on default under the Uniform Commercial Code then in effect in the State of New York.

9.2 If any notice to the Debtor of the sale or other disposition of Collateral is required by then applicable law, five (5) business days prior written notice (which the Debtor agrees is reasonable notice within the meaning of Section 9.612(a) of the Uniform Commercial Code) shall be given to the Debtor of the time and place of any sale of Collateral which the Debtor hereby agrees may be by private sale. The rights granted in this Section are in addition to any and all rights available to the Subscribers under the Uniform Commercial Code.

9.3 The Collateral Holder is authorized, at any such sale, if the Collateral Holder deems it advisable to do so, in order to comply with any applicable securities laws, to restrict the prospective bidders or purchasers to persons who will represent and agree, among other things, that they are purchasing the Collateral for their own account for investment, and not with a view to the distribution or resale thereof, or otherwise to restrict such sale in such other manner as the Subscribers deem advisable to ensure such compliance. Sales made subject to such restrictions shall be deemed to have been made in a commercially reasonable manner.

9.4 All proceeds received by the Subscribers in respect of any sale, collection or other enforcement or disposition of Collateral, shall be applied (after deduction of any amounts payable to the Subscribers pursuant to Paragraph 10.1 hereof) against the Obligations. Upon payment in full of all Obligations, the Debtor shall be entitled to the return of all Collateral, including cash, which has not been used or applied toward the payment of the Obligations or used or applied to any and all costs or expenses of the Subscribers incurred in connection with the liquidation of the Collateral (unless another person is legally entitled thereto). Any assignment of Collateral by the Collateral Holder to the Debtor shall be without representation or warranty of any nature whatsoever and wholly without recourse. To the extent allowed by law, the Collateral Holder may purchase the Collateral and pay for such purchase by offsetting the purchase price with sums owed to the Subscribers by the Debtor arising under the Obligations or any other source.

9.5 Without limiting, and in addition to, any other rights, options and remedies the Subscribers have under the Transaction Documents, the UCC, at law or in equity, or otherwise, upon the occurrence and continuation of an Event of Default, the Collateral Holder shall have the right to apply for and have a receiver appointed by a court of competent jurisdiction. The Debtor expressly agrees that such a receiver will be able to manage, protect and preserve the Collateral and continue the operation of the business of the Debtor to the extent necessary to collect all revenues and profits thereof and to apply the same to the payment of all expenses and other charges of such receivership, including the compensation of the receiver, until a sale or other disposition of such Collateral shall be finally made and consummated.

9.6 Provided an Event of Default or an event, which with the passage of time or the giving of notice could become an Event of Default is not pending, then from and after the date the Subscriber has exercised its conversion rights with respect to not less than one-half of the Principal Amount of the Subscriber's Note and the Debtor has complied with its obligations with respect to all such conversions, then the Subscriber's security interest granted pursuant to this Agreement shall be automatically released.

10. Miscellaneous.

10.1 Expenses. The Debtor shall pay to the Collateral Agent for the benefit of the Subscribers, on demand, the amount of any and all reasonable expenses, including, without limitation, attorneys' fees, legal expenses and brokers' fees, which the Collateral Agent may incur in connection with (a) exercise or enforcement of any the rights, remedies or powers of the Subscribers hereunder or with respect to any or all of the Obligations upon breach; or (b) failure by the Debtor to perform and observe any agreements of the Debtor contained herein which are performed by Collateral Agent.

10.2 Waivers, Amendment and Remedies. No course of dealing by the Collateral Agent or the Subscribers and no failure by the Collateral Agent or the Subscribers to exercise, or delay by the Collateral Agent or the Subscribers in exercising, any right, remedy or power hereunder shall operate as a waiver thereof, and no single or partial exercise thereof shall preclude any other or further exercise thereof or the exercise of any other right, remedy or power of the Collateral Agent or the Subscribers. No amendment, modification or waiver of any provision of this Agreement and no consent to any departure by the Debtor therefrom shall, in any event, be effective unless contained in a writing signed by the Collateral Agent, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. The rights, remedies and powers of the Collateral Agent, not only hereunder, but also under any instruments and agreements evidencing or securing the Obligations and under applicable law are cumulative, and may be exercised by the Collateral Agent for the benefit of the Subscribers from time to time in such order as the Collateral Agent may elect.

10.3 Notices. All notices or other communications given or made hereunder shall be in writing and shall be personally delivered or deemed delivered the first business day after being faxed (provided that a copy is delivered by first class mail) to the party to receive the same at its address set forth below or to such other address as either party shall hereafter give to the other by notice duly made under this Section:

To Debtors:	Ideal Power Converters, Inc. 5004 Bee Creek Rd., Suite 600 Spicewood, Texas 78669 Attn: Chief Executive Officer Christopher.Cobb@idealpowerconverters.com
With a copy by facsimile only to:	Richardson & Patel LLP 1100 Glendon Avenue, Suite 850 Los Angeles, CA 90024 Fax: (310) 208-1154 Tel: (310) 208-1182
To Holders:	To the addresses specified in the Subscription Agreement for each Holder
To Collateral Agent:	[Name and address of Collateral Agent] [To be provided.]
With a copy (not constituting notice) to:	Law Offices of Aaron A. Grunfeld & Associates 1100 Glendon Avenue, Suite 850 Los Angeles, California 90024 Attention: Aaron A. Grunfeld Tel: (310) 788-7577 agrunfeld@grunfeldlaw.com

Any party may change its address by written notice in accordance with this paragraph.

10.4 Term; Binding Effect. This Agreement shall (a) remain in full force and effect until payment and satisfaction in full of all of the Obligations; (b) be binding upon the Debtor, and its successors and permitted assigns; and (c) inure to the benefit of the Subscribers and its successors and assigns.

10.5 Captions. The captions of Paragraphs, Articles and Sections in this Agreement have been included for convenience of reference only, and shall not define or limit the provisions of this agreement and have no legal or other significance whatsoever.

10.6 Governing Law; Venue; Severability. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to conflicts of laws principles that would result in the application of the substantive laws of another jurisdiction, except to the extent that the perfection of the security interest granted hereby in respect of any item of Collateral may be governed by the law of another jurisdiction. Any legal action or proceeding against the Debtor with respect to this Agreement must be brought only in the courts in the State of New York or United States federal courts located within the State of New York, and, by execution and delivery of this Agreement, the Debtor hereby irrevocably accepts for itself and in respect of its property, generally and unconditionally, the jurisdiction of the aforesaid courts. The Debtor hereby irrevocably waives any objection which it may now or hereafter have to the laying of venue of any of the aforesaid actions or proceedings arising out of or in connection with this Agreement brought in the aforesaid courts and hereby further irrevocably waives and agrees not to plead or claim in any such court that any such action or proceeding brought in any such court has been brought in an inconvenient forum. If any provision of this Agreement, or the application thereof to any person or circumstance, is held invalid, such invalidity shall not affect any other provisions which can be given effect without the invalid provision or application, and to this end the provisions hereof shall be severable and the remaining, valid provisions shall remain of full force and effect.

10.7 Entire Agreement. This Agreement contains the entire agreement of the parties and supersedes all other agreements and understandings, oral or written, with respect to the matters contained herein.

10.8 Counterparts/Execution. This Agreement may be executed in any number of counterparts and by the different signatories hereto on separate counterparts, each of which, when so executed, shall be deemed an original, but all such counterparts shall constitute but one and the same instrument. This Agreement may be executed by facsimile signature and delivered by electronic transmission.

11. Termination; Release. When the Obligations have been indefeasibly paid and performed in full or all outstanding Notes have been converted to Common Stock pursuant to the terms of the Note and the Purchase Agreements, this Agreement shall terminate, and the Subscribers or the Collateral Agent, as appropriate, at the request and sole expense of the Debtor, will execute and deliver to the Debtor the proper instruments (including UCC termination statements) acknowledging the termination of the Security Agreement, and duly assign, transfer and deliver to the Debtor, without recourse, representation or warranty of any kind whatsoever, such of the Collateral, as may be in the possession of the Collateral Agent or Subscribers.

12. Subscribers' Powers.

12.1 Subscribers' Powers. The powers conferred on the Subscribers hereunder are solely to protect Subscribers' interest in the Collateral and shall not impose any duty on the Subscribers to exercise any such powers.

12.2 Reasonable Care. The Collateral Agent is required to exercise reasonable care in the custody and preservation of any Collateral in its possession.

12.3 Majority in Interest. The rights of the Subscribers hereunder, except as otherwise set forth herein shall be exercised upon the approval of Subscribers holding 51% of the outstanding Obligations ("Majority in Interest") at the time such approval is sought or given. Any tangible or physical Collateral shall be delivered to and be held by the Collateral Agent pursuant to this Agreement and on behalf of all Subscribers as to their respective rights.

12.4 Authority of Collateral Agent. By executing this Agreement the Subscribers appoint the Collateral Agent as their agent to exercise all of the rights, benefits and remedies granted to them as secured parties under this Agreement. The Collateral Agent agrees to exercise all of the rights, benefits and remedies conveyed by this Agreement solely for the benefit of the Subscribers and, unless a delay would cause irreparable damage to the Collateral or any part of it, only after consultation with the Majority in Interest. In accordance with its role as the agent for the Subscribers, the Lien Documents will identify the Collateral Agent as the secured party.

12.5 Duties of the Collateral Agent. The Collateral Agent agrees to hold and dispose of the Collateral in accordance with and subject only to the terms of this Agreement.

12.6 Appointment of Attorney-in-Fact. The Debtor hereby irrevocably appoints the Collateral Agent as the Debtor's attorney-in-fact to arrange for the transfer of the Collateral and to do and perform all actions that are necessary or appropriate in order to effect the terms of this Agreement.

12.7 Matters Pertaining to Collateral Agent.

12.7.1 The Collateral Agent shall not be personally liable for any act it may do or omit to do under this Agreement while acting in good faith and in the exercise of its best judgment, and any act done or omitted by the Collateral Agent pursuant to the advice of the Collateral Agent's attorney shall be conclusive evidence of such good faith. Except as expressly provided herein, the Collateral Agent is expressly authorized and directed to disregard any and all notices or warnings given by any of the parties, or by any other person or corporation, excepting only orders or process of court, and is hereby expressly authorized to comply with and obey any and all orders, judgments or decrees of any court. If the Collateral Agent obeys or complies with any such order, judgment or decree of any court, it shall not be liable to the Subscribers or the Debtor or to any other person, firm or corporation by reason of such compliance, notwithstanding that any such order, judgment or decree be subsequently reversed, modified, annulled, set aside or vacated, or found to have been entered without jurisdiction.

12.7.2 The Subscribers and the Debtor expressly agree the Collateral Agent has the absolute right at the Collateral Agent's election, if the Collateral Agent considers it appropriate, to file an action in interpleader in a court of proper jurisdiction requiring the parties to answer and litigate their claims and rights among themselves, and the Collateral Agent is authorized to deposit with the clerk of the court all documents and funds held by him pursuant to this Agreement. In the event such action is filed, the Debtor agrees to pay all costs, expenses and reasonable attorneys' fees that the Collateral Agent incurs in such interpleader action. Upon filing of such action the Collateral Agent shall thereupon be fully released and discharged from all obligations to further perform any duties or obligations otherwise imposed by the terms of this Agreement.

12.7.3 The Collateral Agent shall not be bound in any way by any other agreement between the Subscribers and the Debtor as to which the Collateral Agent is not a party, whether or not the Collateral Agent has knowledge thereof, nor by any notice of a claim or demand with respect to this Agreement or the Collateral. The Collateral Agent shall have no duties or responsibilities except as expressly set forth in this Agreement. The Collateral Agent may rely conclusively on any certificate, statement, request, waiver, receipt, agreement or other instrument that the Collateral Agent believes to be genuine and to have been signed and presented by an appropriate person or persons.

12.7.4 The retention and distribution of the Collateral in accordance with the terms and provisions of this Agreement shall fully and completely release the Collateral Agent from any obligation or liability assumed by the Collateral Agent hereunder as to the Collateral.

12.7.5 The Collateral Agent, while in possession of the Collateral prior to or following the occurrence of an Event of Default, as hereinabove provided, and while acting in accordance with the terms of this Agreement or applicable law, is not responsible for any fluctuations in value or delays in disposing of the Collateral.

12.7.6 The Collateral Agent shall not be liable in any respect for verifying the identity, authority or rights of the parties executing or delivering or purporting to execute and/or deliver this Agreement.

12.7.7 Notwithstanding anything herein to the contrary, the Collateral Agent shall have no duty with respect to the Collateral other than the duty to use reasonable care in the custody and preservation of the Collateral if it is in the Collateral Agent's possession. The Collateral Agent shall be under no obligation to take any steps necessary to preserve rights in the Collateral against any other parties, to sell the Collateral if it threatens to decline in value, or to exercise any rights represented thereby, except as directed by the Majority in Interest pursuant to the terms of this Agreement.

12.7.8 The Debtor and the Subscribers agree to and each does hereby indemnify, defend (with counsel acceptable to the Collateral Agent) and hold the Collateral Agent harmless against any and all losses, damages, claims and expenses, including reasonable attorneys' fees, that may be incurred by the Collateral Agent by reason of it compliance with the terms of this Agreement. If, as a result of any disagreement between the parties and/or adverse demands and claims being made by any or all of them upon the Collateral Agent, the Collateral Agent shall become involved in litigation, including any interpleader brought by the Collateral Agent as provided in this Agreement, the Debtor agrees that it shall be liable to the Collateral Agent on demand for all costs, expenses and attorneys' fees that the Collateral Agent shall incur and/or be compelled to pay by reason of such litigation.

12.8 Replacement of Collateral Agent. In the event the Collateral Agent is or becomes unwilling or unable to act in such capacity for any reason, the Majority in Interest shall appoint a successor. The Majority in Interest (but not Debtor) shall have the right, after delivery of written notice signed by the Majority in Interest to the Collateral Agent, to terminate the Collateral Agent and to name the Collateral Agent's successor.

[THIS SPACE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the undersigned have executed and delivered this Security Agreement, as of the date first written above.

"DEBTOR"

IDEAL POWER CONVERTERS, INC.
a Texas corporation

By: /s/ Christopher Cobb
Christopher Cobb
Chief Executive Officer

Agreed and Accepted by:

"COLLATERAL AGENT"

Anthony DiGiandomenico

By:/s/ Anthony DiGiandomenico

Name:/s/ Anthony DiGiandomenico

Title:_____

This Security Agreement may be signed by facsimile signature and delivered by confirmed facsimile transmission.

OMNIBUS SUBSCRIBER SIGNATURE PAGE TO
SECURITY AGREEMENT

The undersigned, in its capacity as a Subscriber, hereby executes and delivers the Security Agreement to which this signature page is attached and agrees to be bound by the Security Agreement on the date set forth on the first page of the Security Agreement. This counterpart signature page, together with all counterparts of the Security Agreement and signature pages of the other parties named therein, shall constitute one and the same instrument in accordance with the terms of the Security Agreement.

_____	_____
[Print Name of Subscriber]	[Name of Co-Subscriber, if applicable]
_____	_____
[Signature]	[Signature]
Name:	Name:_____
Title:_____	Title: _____
Mailing Address:	Telephone No.:_____
_____	Facsimile No:_____
_____	Email Address:_____
_____	
(City, State and Zip)	

IDEAL POWER CONVERTERS, INC.
SECURITY AGREEMENT EXHIBITS AND SCHEDULES

Schedule 1 – Subscribers

Schedule 2 - Provisions of the New York Uniform Commercial Code

Schedule 3 – Deposit Accounts

Schedule 5.1 – Security Interests

SCHEDULE 1

SUBSCRIBERS

SCHEDULE 2

UNIFORM COMMERCIAL CODE OF NEW YORK

Definitions from § 9.102 of the New York Uniform Commercial Code

(2) "Account", except as used in "account for", means a right to payment of a monetary obligation, whether or not earned by performance, (i) for property that has been or is to be sold, leased, licensed, assigned, or otherwise disposed of, (ii)for services rendered or to be rendered, (iii) for a policy of insurance issued or to be issued, (iv) for a secondary obligation incurred or to be incurred, (v) for energy provided or to be provided, (vi) for the use or hire of a vessel under a charter or other contract, (vii) arising out of the use of a credit or charge card or information contained on or for use with the card, or (viii) as winnings in a lottery or other game of chance operated or sponsored by a state, governmental unit of a State, or person licensed or authorized to operate the game by a State or governmental unit of a State. The term includes health-care-insurance receivables. The term does not include (i) rights to payment evidenced by chattel paper or an instrument, (ii) commercial tort claims, (iii) deposit accounts, (iv) investment property, (v) letter-of-credit rights or letters of credit, or (vi) rights to payment for money or funds advanced or sold, other than rights arising out of the use of a credit or charge card or information contained on or for use with the card.

(11) "Chattel paper" means a record or records that evidence both a monetary obligation and a security interest in specific goods, a security interest in specific goods and software used in the goods, a security interest in specific goods and license of software used in the goods, a lease of specific goods, or a lease of specific goods and license of software used in the goods. In this paragraph, "monetary obligation" means a monetary obligation secured by the goods or owed under a lease of the goods and includes a monetary obligation with respect to software used in the goods. The term does not include (i) charters or other contracts involving the use or hire of a vessel or (ii) records that evidence a right to payment arising out of the use of a credit or charge card or information contained on or for use with the card. If a transaction is evidenced by records that include an instrument or series of instruments, the group of records taken together constitutes chattel paper.

(30) "Document" means a document of title or a receipt of the type described in Section 7--201(2).

7-201(2): Where goods including distilled spirits and agricultural commodities are stored under a statute requiring a bond against withdrawal or a license for the issuance of receipts in the nature of warehouse receipts, a receipt issued for the goods has like effect as a warehouse receipt even though issued by a person who is the owner of the goods and is not a warehouseman.

(33) "Equipment" means goods other than inventory, farm products, or consumer goods.

(42) "General intangible" means any personal property, including things in action, other than accounts, chattel paper, commercial tort claims, deposit accounts, documents, goods, instruments, investment property, letter-of-credit rights, letters of credit, money, and oil, gas, or other minerals before extraction. The term includes payment intangibles and software.

(44) "Goods" means all things that are movable when a security interest attaches. The term includes (i) fixtures, (ii) standing timber that is to be cut and removed under a conveyance or contract for sale, (iii) the unborn young of animals, (iv) crops grown, growing, or to be grown, even if the crops are produced on trees, vines, or bushes, and (v) manufactured homes. The term also includes a computer program embedded in goods and any supporting information provided in connection with a transaction relating to the program if (i) the program is associated with the goods in such a manner that it customarily is considered part of the goods, or (ii) by becoming the owner of the goods, a person acquires a right to use the program in connection with the goods. The term does not include a computer program embedded in goods that consists solely of the medium in which the program is embedded. The term also does not include accounts, chattel paper, commercial tort claims, deposit accounts, documents, general intangibles, instruments, investment property, letter-of-credit rights, letters of credit, money, or oil, gas, or other minerals before extraction.

(47) "Instrument" means a negotiable instrument or any other writing that evidences a right to the payment of a monetary obligation, is not itself a security agreement or lease, and is of a type that in ordinary course of business is transferred by delivery with any necessary indorsement or assignment. The term does not include (i) investment property, (ii) letters of credit, or (iii) writings that evidence a right to payment arising out of the use of a credit or charge card or information contained on or for use with the card.

(48) "Inventory" means goods, other than farm products, which:

(A) are leased by a person as lessor;

(B) are held by a person for sale or lease or to be furnished under a contract of service;

(C) are furnished by a person under a contract of service; or

(D) consist of raw materials, work in process, or materials used or consumed in a business.

(64) "Proceeds", except as used in Section 9--609(b), means the following property:

(A) Whatever is acquired upon the sale, lease, license, exchange, or other disposition of collateral;

(B) whatever is collected on, or distributed on account of, collateral;

(C) rights arising out of collateral;

(D) to the extent of the value of collateral, claims arising out of the loss, nonconformity, or interference with the use of, defects or infringement of rights in, or damage to, the collateral; or

(E) to the extent of the value of collateral and to the extent payable to the debtor or the secured party, insurance payable by reason of the loss or nonconformity of, defects or infringement of rights in, or damage to, the collateral.

SCHEDULE 3

DEPOSIT ACCOUNTS

SCHEDULE 5.1

SECURITY INTERESTS

Not applicable.

Interest of the Officer of the Governor, Economics Development and Tourism, has been subordinated.

PATENTS AND PATENT APPLICATIONS SUBJECT TO THE IDEAL POWER CONVERTERS, INC. SECURITY AGREEMENT DATED AUGUST 31, 2012 BETWEEN IDEAL POWER CONVERTERS, INC., THE COLLATERAL AGENT AND THE SUBSCRIBERS

Patent No. 7778045

Patent No. 7599196

Patent Application No. 13308356

Patent Application No. 13400567

Patent Application No. 13401771

Patent Application No. 13308200

Patent Application No. 13542223

Patent Application No. 13542225

Patent Application No. 13205225

Patent Application No. 13541914

Patent Application No. 13541910

Patent Application No. 13541905

Patent Application No. 13541902

Patent Application No. 13205212

Patent Application No. 13214575

Patent Application No. 13205263

Patent Application No. 13205250

Patent Application No. 13205243

Patent Application No. 12479207

No. A- Issue Date: August 31, 2012

THIS WARRANT AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT TO THE SECURITIES UNDER SUCH ACT AND/OR APPLICABLE STATE SECURITIES LAWS,OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED OR UNLESS SOLD PURSUANT TO RULE 144 OF SUCH ACT.

THE SECURITIES REPRESENTED HEREBY MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE TERMS OF A SECURITIES PURCHASE AGREEMENT BETWEEN THE COMPANY AND THE SECURITY HOLDER DATED AUGUST 31, 2012, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

IDEAL POWER CONVERTERS, INC.

STOCK PURCHASE WARRANT

THIS CERTIFIES that _____ (the "***Holder***") is entitled, upon the terms and subject to the conditions hereinafter set forth in this Warrant (this "***Warrant***"), at any time on or after (except as otherwise limited below) the date of the applicable event specified below and on or prior to the Expiration Date, but not thereafter, to subscribe for and to purchase from Ideal Power Converters, Inc., a Texas corporation (the "***Company***"), shares of the Company's common stock, $0.001 par value (the "***Common Stock***").

This Warrant is issued pursuant to a Securities Purchase Agreement and in connection with the issuance to the Holder of a Convertible Promissory Note (the "***Note***") of even date herewith, and is one of the Warrants (collectively, the "***Warrants***") being issued in connection with the issuance of a series of Senior Secured Convertible Promissory Notes of like tenor (collectively, "***Notes***") being issued by the Company to raise interim financing of up to $750,000 (the "***Offering***"). Capitalized terms used herein, but not otherwise defined, shall have the meanings ascribed to such terms in the Securities Purchase Agreement.

The following is a statement of the rights of the Holder of this Warrant and the conditions to which this Warrant is subject, to which the Holder, by the acceptance of this Warrant, agrees:

1. **Certain Definitions**.

1.1 "***Calendar Due Date***" shall be a date that is 12 months from the closing date of the Offering.

1.2 "***Change of Control***"meansany liquidation, dissolution or winding up of the Company, either voluntary or involuntary, and shall be deemed to be occasioned by, or to include, (i) the acquisition of the Company by another entity by means of any transaction or series of related transactions (including, without limitation, any stock acquisition, reorganization, merger or consolidation) unless the Company's shareholders of record as constituted immediately prior to such acquisition or sale will, immediately after such acquisition or sale (by virtue of securities issued as consideration for the Company's acquisition or sale or otherwise) hold at least a majority of the voting power of the surviving or acquiring entity, or its direct or indirect parent entity (except that the sale by the Company of shares of its capital stock to investors in bona fide equity financing transactions shall not be deemed a Change of Control for this purpose) or (ii) a sale, exclusive license or other disposition of all or substantially all of the assets of the Company, including a sale, exclusive license or other disposition of all or substantially all of the assets of the Company's subsidiaries, if such assets constitute substantially all of the assets of the Company and such subsidiaries taken as a whole.

1.3 "***Exercise Price***" is defined in Section 2 below.

1.4 "***Expiration Date***" means, unless earlier terminated pursuant to Section 9 hereof, that date that is seven years after the issue date set forth above, provided, however, if the Company closes the IPO after the fifth anniversary date of the issue date but prior to the Expiration Date, then the Expiration Date shall be extended for an additional five years following the close of the IPO.

1.5 "***IPO***" means a firm commitment underwritten initial public offering of the Company's Common Stock pursuant to a registration statement declared effective by the Securities and Exchange Commission which closes before the Calendar Due Date and results in gross proceeds to the Company of at least $10 million.

1.6 "***IPO Price***" means the price per share of the Company's Common Stock offered to public investors in an IPO, without regard to any underwriting discount or expense (as appropriately adjusted to reflect stock dividends, stock splits, combinations, recapitalizations and the like with respect to the Company's capital stock after the date hereof).

1.7 "***Private Equity Financing***" means a privately marketed equity financing resulting in gross proceeds in excess of $250,000 which closes before the Calendar Due Date; provided, however, that none of the following issuances of securities shall constitute a "Private Equity Financing": (i) theOffering and any subsequent offerings of senior secured convertible promissory notes or any other debt offering; (ii) securities issued without consideration in connection with any stock split or stock dividend on, the Company's Common Stock; (iii) securities issued to the Company's employees, officers, directors, consultants, advisors or service providers pursuant to any plan, agreement or similar arrangement unanimously approved by the Company's board of directors; (iv) securities issued to banks or equipment lessors; (v) securities issued in connection with sponsored research, collaboration, technology license, development, original equipment manufacturing (OEM), marketing or other similar agreements or strategic partnerships; (vi) securities issued in connection with a bona fide business acquisition of or by the Company (whether by merger, consolidation, sale of assets, sale or exchange of stock or otherwise); (vii) the Investment Unit dated October 1, 2010, issued by the Company to the Office of the Governor Economic Development and Tourism, and any securities relating to the conversion or exercise thereof; or (viii) any right, option or warrant to acquire any security convertible into or exercisable for the securities listed in clauses (i) through (vii) above.

1.8 "***Private Equity Financing Price***" means the price per share of Common Stock paid by investors in the Private Equity Financing, which shall be determined by dividing (a) the total consideration received or to be received by each investor assuming exercise in full of all warrants or similar securities, divided by (b) the total number of shares of Common Stock acquirable either directly or by conversion or exercise of instruments, by the Holder, on a fully diluted basis.

1.9 "***Shares***" means the shares of Common Stock issuable under this Warrant, computed in accordance with Section 2 below.

2. <u>Number of Shares and Exercise Price</u>

The number of shares of Common Stock (the "***Shares***") covered by this Warrant and the per share Exercise Price shall be determined as follows (subject to appropriate adjustments pursuant to Section 10):

(i) in the event of an IPO that occurs prior to the Calendar Due Date, the principal amount of the Holder's Note divided by .70 of the IPO Price shall determine the number of shares covered by the Warrant while the per-share exercise price shall be equal to 0.70 times the IPO Price; or

(ii) in the event of a Private Equity Financing that occurs prior to the Calendar Due Date, the principal amount of the Holder's Note divided by 0.70 of the Private Equity Financing Price shall determine the number of shares covered by the Warrant, with a per-share exercise price equal to 0.70 times the Private Equity Financing Price; provided, however, that (A) if the Company undertakes first, a Private Equity Financing and secondly, an IPO prior to the Calendar Due Dateand (B) the Private Equity Financing Price is higher than the IPO Price, then the number of shares of Common Stock covered by the Warrant and the per share exercise price shall be adjusted to equal the number of shares of Common Stock and the exercise price calculated in accordance with subsection (i) above; or

(iii) If the Company does not undertake either a Private Equity Financing or an IPO prior to the Calendar Due Date, then the number of Shares covered by this Warrant shall equal the original principal amount of the Holder's Note divided by $3.32, and the exercise price shall be $3.32 per share.

3. **Exercise of Warrant**

3.1 Unless earlier terminated pursuant to Section 9 hereof, the purchase rights represented by this Warrant are exercisable by the Holder, in whole or in part, by the surrender of this Warrant and the Notice of Exercise annexed hereto duly executed at the Company's principal executive office (or such other office or agency of the Company as it may designate by notice in writing to the Holder at the address of the Holder appearing on the books of the Company), and upon payment of the aggregate Exercise Price of the Shares thereby purchased (by cash or by check or bank draft payable to the order of the Company); whereupon the Holder shall be entitled to receive a certificate for the number of Shares so purchased. The Company agrees that if at the time of the surrender of this Warrant and purchase of the Shares, the Holder shall be entitled to exercise this Warrant, the Shares so purchased shall be issued to the Holder as the record owner of such Shares as of the close of business on the date on which this Warrant shall have been exercised as aforesaidor on such later date requested by the Holder or on such earlier date agreed to by the Holder and the Company.

3.2 Unless earlier terminated pursuant to Section 9 hereof, in lieu of exercising this Warrant by payment of cash or check or bank draft payable to the order of the Company pursuant to subsection 3.1 above, the Holder may elect to receive Shares equal to the value of this Warrant (or the portion thereof being exercised), at any time after the date hereof and before the close of business on the Expiration Date, by surrender of this Warrant at the principal executive office of the Company, together with the Notice of Cashless Exercise annexed hereto, in which event the Company will issue to the Holder Shares in accordance with the following formula:

$$X = \frac{Y(A-B)}{A}$$

Where,

X	=	The number of Shares to be issued to Holder;
Y	=	The number of Shares for which the Warrant is being exercised;
A	=	The fair market value of one Share; and
B	=	The Exercise Price.

(a) For purposes of this subsection 3.2, the fair market value of a Share is defined as follows:

(i) if the Holder exercises within three days of the closing of the IPO, then the fair market value shall be the IPO Price;

(ii) if the Holder exercises after receipt of a notice of a Change of Control but before a Change of Control, then the fair market value shall be the value to be received in such Change of Control by the holders of the Company's Common Stock;

(iii) if the exercise occurs more than three days after the closing of the IPO, and:

(1) if the Common Stock is traded on a securities exchange or the Nasdaq Stock Market, the fair market value shall be the last sale price on the trading day immediately prior to the Company's receipt of the Notice of Conversion or, if no sale of the Company's Common Stock took place on the trading day immediately prior to the receipt of the Notice of Conversion, then the fair market value shall be the last sale price on the most recent day prior to the receipt of the Notice of Conversion on which trades were made and reported; or

(2) if the Common Stock is traded over-the-counter, the value shall be deemed to be the last sale price on the trading day immediately prior to the Company's receipt of the Notice of Conversion or, if no sale of the Company's Common Stock took place on the trading day immediately prior to the receipt of the Notice of Conversion, then the fair market value shall be the last sale price on the most recent day prior to the receipt of the Notice of Conversion on which trades were made and reported;

(iv) if there is no active public market for the Common Stock, the fair market value thereof shall be determined in good faith by the Company's Board of Directors.

3.3 The exercise or conversion of this Warrant in connection with a Change of Control may, at the election of the Holder, be conditioned upon the closing of such Change of Control, in which event the Holder shall not be deemed to have exercised or converted thisWarrant until immediately prior to the closing of such Change of Control.

4. **Nonassessable**

The Company covenants that all Shares which may be issued upon the exercise of this Warrant will be validly issued, fully paid and nonassessable and free from all taxes, liens and charges in respect of the issue thereof. Certificates for Shares purchased hereunder shall be delivered to the Holder promptly after the date on which this Warrant shall have been exercised.

5. **Fractional Shares**

No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. With respect to any fraction of a share called for upon the exercise of this Warrant, such fractional share shall be rounded down to the nearest whole share, and the Company shall pay to the Holder the amount of such fractional share multiplied by an amount equal to such fraction multiplied by the then current fair market value (determined in accordance with Section 3.2(a)) of a Share shall be paid in cash to the Holder.

6. **Charges, Taxes and Expenses**

Issuance of certificates for Shares upon the exercise of this Warrant shall be made without charge to the Holder hereof for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the Holder.

7. **No Rights as Shareholders**

. This Warrant does not entitle the Holder to any voting rights or other rights as a shareholder of the Company prior to the exercise hereof.

8. **Saturdays, Sundays, Holidays, etc.**

If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday, a Sunday or a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day that is not a Saturday, Sunday or legal holiday.

9. **Early Termination**

Notwithstanding anything in this Warrant to the contrary, this Warrant shall terminate upon the closing of a Change of Control.

10. **Adjustments**

The Exercise Price and the number of Shares purchasable hereunder are subject to adjustment from time to time as set forth in this Section 10.

10.1 Reclassification, etc. If the Company, at any time while this Warrant, or any portion hereof, remains outstanding and unexpired by reclassification of securities or otherwise, shall change any of the securities as to which purchase rights under this Warrant exist into the same or a different number of securities or any other class or classes, this Warrant shall thereafter represent the right to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities that were subject to the purchase rights under this Warrant immediately prior to such reclassification or other change and the Exercise Price therefor shall be appropriately adjusted, all subject to further adjustment as provided in this Section10.

10.2 Subdivision or Combination of Shares. In the event that the Company shall at any time subdivide the outstanding securities as to which purchase rights under this Warrant exist, or shall issue a stock dividend on the securities as to which purchase rights under this Warrant exist, the number of securities as to which purchase rights under this Warrant exist immediately prior to such subdivision or to the issuance of such stock dividend shall be proportionately increased, and the Exercise Price shall be proportionately decreased, and in the event that the Company shall at any time combine the outstanding securities as to which purchase rights under this Warrant exist, the number of securities as to which purchase rights under this Warrant exist immediately prior to such combination shall be proportionately decreased, and the Exercise Price shall be proportionately increased, effective at the close of business on the date of such subdivision, stock dividend or combination, as the case may be.

10.3 Cash Distributions. No adjustment on account of cash dividends or interest on the securities as to which purchase rights under this Warrant exist will be made to the Exercise Price under this Warrant.

11. **Notice of Certain Events**

The Company will provide notice to the Holder with at least 20 days notice prior to the closing of a Change of Control or an IPO. Such notice shall be in accordance with the notice provision included at Section 12(e) of the Securities Purchase Agreement of even date herewith.

12. **Purchase Rights; Fundamental Transactions.** In addition to any adjustments pursuant to Section 10 above, if at any time the Company grants, issues or sells any options, convertible securities or rights to purchase stock, warrants, securities or other property pro rata to the record holders of Common Stock ("Purchase Rights"), then the Holder will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the Holder could have acquired if the Holder had held the number of shares of Common Stock acquirable upon complete exercise of this Warrant immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights.

13. **Put Right.** In conjunction with the Offering, the Holder has received certain registration rights relating to the Shares pursuant to the terms of a Registration Rights Agreement of even date herewith. If the right to have the Shares registered pursuant to the Registration Rights Agreement terminates in accordance with Section 2(f) of the Registration Rights Agreement (the "Registration Rights Termination"), the Holder will have the right to require the Company to purchase the Warrant from the Holder (the "Put Right") at a price equal to 20% of the principal amount of the Holder's Note (the "Put Price"). The Company shall pay the Holder the Put Price as promptly as practicable but in any event not later than 10 days after the Holder delivers notice to the Company of exercise of the Put Right. The Put Right will expire 12 months from the Registration Rights Termination.

14. Miscellaneous

14.1 Loss, Theft, Destruction or Mutilation of Warrant. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, delivery of an indemnity agreement reasonably satisfactory in form and substance to the Company or, in the case of mutilation, on surrender and cancellation of this Warrant, the Company shall execute and deliver, in lieu of this Warrant, a new Warrant executed in the same manner as this Warrant and of like tenor and amount.

14.2 Waivers and Amendments. This Warrant and the obligations of the Company and the rights of the Holder under this Warrant may be amended, waived, discharged or terminated (either generally or in a particular instance, either retroactively or prospectively and either for a specified period of time or indefinitely) with the written consent of the Company (which shall not be required in connection with a waiver of rights in favor of the Company) and the holders of at least a majority of the then-outstanding aggregate principal amount under the Notes; *provided*, *however*, that no such amendment or waiver shall reduce the number of Shares represented by this Warrant without the consent of the Holder hereof; and *provided further, however*, that nothing shall prevent the Holder from individually agreeing to waive the observation of any term of this Warrant. Any amendment, waiver, discharge or termination effected in accordance with this Section14.2 shall be binding upon the Company, the Holder, and except pursuant to a waiver by an individual holder of another Warrant pursuant to the final proviso in the immediately preceding sentence, each other holder of Warrants.

14.3 Notices. Any notice, request or other communication required or permitted hereunder shall be given in accordance with the Purchase Agreement.

14.4 Severability. If one or more provisions of this Warrant are held to be unenforceable under applicable law, such provision(s) shall be excluded from this Warrant and the balance of this Warrant shall be interpreted as if such provision(s) were so excluded and shall be enforceable in accordance with its terms.

14.5 Successors and Assigns. Neither this Warrant nor any rights hereunder are transferable without the prior written consent of the Company. Notwithstanding the foregoing, the Holder shall be permitted to transfer this Warrant to any affiliate (as that term is defined in the Securities Act of 1933) of the Holder. If a transfer is permitted pursuant to this Section, the transfer shall be recorded on the books of the Company upon the surrender of this Warrant, properly endorsed, to the Company at its principal offices, and the payment to the Company of all transfer taxes and other governmental charges imposed on such transfer. In the event of a partial transfer, the Company shall issue to the holders one or more appropriate new warrants. Subject to the foregoing, the provisions of this Warrant shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the Company and the Holder.

14.6 Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to the Holder, upon any breach or default of the Company under this Warrant shall impair any such right, power, or remedy of the Holder nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default therefore or thereafter occurring. Any waiver, permit, consent, or approval of any kind or character on the part of the Holder of any breach or default under this Warrant or any waiver on the part of the Holder of any provisions or conditions of this Warrant must be made in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Warrant or by law or otherwise afforded to the Investors, shall be cumulative and not alternative.

14.7 Titles and Subtitles. The titles of the paragraphs and subparagraphs of this Warrant are for convenience of reference only and are not to be considered in construing this Warrant.

14.8 Construction. The language used in this Warrant will be deemed to be the language chosen by the parties to express their mutual intent and no rules of strict construction will be applied against any party.

14.9 Governing Law. THIS WARRANT SHALL BE GOVERNED IN ALL RESPECTS BY THE LAWS OF THE STATE OF NEW YORK AS SUCH LAWS ARE APPLIED TO AGREEMENTS BETWEEN NEW YORK RESIDENTS ENTERED INTO AND TO BE PERFORMED ENTIRELY WITHIN NEW YORK.

[*Remainder of page intentionally left blank*]

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer thereunto duly authorized.

Ideal Power Converters, Inc.

By: _____
Christopher Cobb
Chief Executive Officer

Address: 5004 Bee Creek Rd. Suite 600
Spicewood TX 78669

Attn: Christopher Cobb

NOTICE OF EXERCISE

TO: Ideal Power Converters, Inc.
5004 Bee Creek Road, Suite 600
Spicewood, Texas 78669
Attn: Secretary

The undersigned hereby elects to purchase _____ shares (the "***Shares***") of the Common Stock of Ideal Power Converters, Inc. pursuant to the terms of the attached Warrant and tenders herewith payment of the purchase price in full.

Please issue a certificate or certificates representing the Shares in the name of the undersigned or in such other name as is specified below:

_____
(Print Name)

Address:_____
_____

The undersigned confirms that the undersigned is an "accredited investor," and that the Shares are being acquired for the account of the undersigned for investment only and not with a view to, or for resale in connection with, the distribution thereof, and that the undersigned has no present intention of distributing or selling the Shares.

_____ _____
(Date) (Signature)

_____
(Print Name)

NOTICE OF CASHLESS EXERCISE

TO: Ideal Power Converters, Inc.
5004 Bee Creek Road, Suite 600
Spicewood, Texas 78669
Attn: Secretary

The undersigned hereby elects to purchase _____ shares (the "***Shares***") of the Common Stock of Ideal Power Converters, Inc. pursuant to the cashless exercise provision of Section 3 of the attached Warrant.

Please issue a certificate or certificates representing the Shares in the name of the undersigned or in such other name as is specified below:

_____
(Print Name)
Address:_____
_____

The undersigned represents that the undersigned is an "accredited investor," and that the Shares are being acquired for the account of the undersigned for investment and not with a view to, or for resale in connection with, the distribution thereof, and that the undersigned has no present intention of distributing or reselling such shares.

_____ _____
(Date) (Signature)

_____
(Print Name)

C-1/Senior Secured Convertible Promissory Note/[Name of Investor]

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY OTHER JURISDICTION. BY ACQUIRING THIS NOTE, THE HOLDER REPRESENTS THAT THE HOLDER WILL NOT SELL OR OTHERWISE DISPOSE OF THIS NOTE WITHOUT REGISTRATION OR COMPLIANCE WITH AN EXEMPTION FROM REGISTRATION UNDER THE AFORESAID ACTS AND THE RULES AND REGULATIONS THEREUNDER.

THE SECURITIES REPRESENTED HEREBY MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE TERMS OF A SECURITIES PURCHASE AGREEMENT BETWEEN THE COMPANY AND THE SECURITY HOLDER DATED AUGUST 31, 2012, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

IDEAL POWER CONVERTERS, INC.

SENIOR SECURED CONVERTIBLE PROMISSORY NOTE

$_____ August 31, 2012

WHEREAS, on August 31, 2012, the individual named below as the Holder purchased from Ideal Power Converters, Inc. a Senior Secured Convertible Promissory Note in the principal amount of $_____ (the "Original Note"); and

WHEREAS, the Original Note included the following provision:

> 5.8 Exchange of Note in the Event of Additional Loans. It is anticipated that the Maker will raise up to an additional $4.25 million by selling secured convertible promissory notes (the "Second Note Offering"). By accepting this Note and executing the Purchase Agreement and the other Transaction Documents, the Holder agrees that if the Second Note Offering is consummated, the Holder will, if requested, surrender this Note to the Maker and this Note shall be cancelled and replaced with the form of note issued to the investors in the Second Note Offering.

and

WHEREAS, on November 21, 2012 Ideal Power Converters, Inc. completed a Second Note Offering pursuant to which it raised a total of $3,250,000 through the sale and issuance of secured convertible promissory notes;

THEREFORE, the Holder and Ideal Power Converters, Inc. agree that the Original Note is cancelled, that Ideal Power Converters, Inc. will have no further obligation under the Original Note and that the following shall replace the Original Note:

FOR VALUE RECEIVED, Ideal Power Converters, Inc. (the "Maker") hereby promises to pay to the order of _____ or his successors or assigns (the "Holder") the principal amount of _____ Dollars ($_____) (the "Principal Amount"). This Senior Secured Convertible Promissory Note shall be referred to herein as the "Note".

1. Purpose. This Note is made and delivered by the Maker to the Holder pursuant to Section 5.8 of the Original Note and is deemed to be issued on August 31, 2012 (the "Original Issue Date"). This Note is one of a series of substantially identical Notes issued by the Maker under the Securities Purchase Agreement dated August 31, 2012 entered into by and among the Maker, the Escrow Agent, the Holder and the other Purchasers of the Maker's Notes (the "Purchase Agreement"). All capitalized terms used and not defined herein shall have the meanings ascribed to them in the Purchase Agreement.

2. Interest. Interest on the Principal Amount from time-to-time remaining unpaid shall accrue from the date of this Note at the higher of: (i) the rate of one percent (1%) per annum, simple interest; or (ii) at the lowest rate that may accrue without causing the imputation of interest under the Internal Revenue Code. Interest shall be computed on the basis of a 360 day year and a 30 day month.

3. Maturity Date. All amounts payable hereunder shall be due and payable on the earlier to occur of (i) November 21, 2013 (the "Calendar Due Date"), (ii) the occurrence of an Event of Default (as defined below) or (iii) the closing of an IPO Financing (as defined below).

4. Method of Repayment.

4.1 Mandatory Conversion Upon Initial Public Offering. If, prior to the Calendar Due Date, the Maker closes a firm commitment underwritten initial public offering of its common stock that raises gross proceeds of at least $10 million (the "IPO Financing"), the amounts payable hereunder shall be repaid with shares of the Maker's Common Stock in accordance with the terms of paragraph 5.1 of this Note.

4.2 Other Optional Conversions. At any time prior to a conversion pursuant to paragraph 4.1 above or the Calendar Due Date, including in the event that the Maker consummates a Change of Control, at the option of the Holder all amounts payable under this Note may be converted into shares of the Maker's Common Stock in accordance with Section 5.1 below. In the event of a conversion for any reason other than the closing of an IPO Financing or a Change of Control, this Note shall be converted into that number of shares of Common Stock determined by dividing (x) the Principal Amount and accrued interest by (y) the lower of (i) $1.46 or (ii) 0.70 of the per share consideration paid in the most recent Private Equity Financing to occur prior to the Holder's election (as appropriately adjusted to reflect stock dividends, stock splits, combinations, recapitalizations and the like with respect to the Maker's capital stock after the date hereof).

4.3 Repayment Election. If this Note is not repaid prior to the Calendar Due Date in accordance with paragraphs 4.1 or 4.2 above, or if, by the Calendar Due Date this Note is not cancelled and replaced in accordance with the terms of Section 5.8 below, the Holder may elect to be repaid on the Calendar Due Date in one of the following ways: (i) the Holder may elect to receive, and the Maker shall repay, all amounts payable hereunder in a lump sum, in lawful money of the United States, which payment shall be equal to the Principal Amount and all accrued interest or (ii) the Holder may elect to receive the lump sum payment in shares of the Maker's Common Stock in accordance with subparagraph 5.2 below.

4.4 Prepayment Right. The Maker has the right to prepay this Note in lawful money of the United States with the written consent of the Holder. If this Note is prepaid in lawful money of the United States prior to an IPO, the payment amount shall equal 110% of the Principal Amount.

5. Conversion of Note. The following provisions shall govern the conversion of any and all amounts due under this Note.

5.1 Conversion in Conjunction with an IPO Financing or a Change of Control. In the event of an IPO Financing which closes prior to the Calendar Due Date, the Note shall have a conversion price equal to the lower of 0.70 times the IPO Price or $1.46 (the "IPO Conversion Price"). The "IPO Price" means the price per share paid by public investors in the IPO, without regard to any underwriting discount or expense (as appropriately adjusted to reflect stock dividends, stock splits, combinations, recapitalizations and the like with respect to the Maker's capital stock after the date hereof). In the event of a Change of Control which closes prior to the Calendar Due Date, the Note shall have a conversion price equal to the lower of 0.70 times the per share consideration paid in the Change of Control transaction or $1.46 per share (the "Change of Control Price").

5.2 Conversion in Conjunction with an Election. In the event that the Holder elects to receive payment of this Note in shares of the Maker's Common Stock in accordance with subparagraph 4.3(ii) above, the Note shall have a conversion price equal to the lower of 0.70 times the price per share paid by investors in the most recent Private Equity Financing to occur prior to the Calendar Due Date or $1.46, after giving effect to adjustments that reflect stock dividends, stock splits, combinations, recapitalizations and the like with respect to the Maker's capital stock after the date hereof) (the "Private Financing Conversion Price").

5.3 Conversion Rate. The number of shares of Common Stock issuable upon conversion pursuant to subparagraphs 5.1 or 5.2 shall be determined by dividing (x) the Principal Amount and accrued interest (the "Conversion Amount") by (y) the IPO Conversion Price, the Change of Control Price, the Private Financing Conversion Price or $1.46, as applicable.

5.4 No Fractional Shares. The Maker shall not issue any fraction of a share of Common Stock upon any conversion. If the issuance would result in the issuance of a fraction of a share of Common Stock, the Maker shall round up such fraction of a share of Common Stock up to the nearest whole share. The Maker shall pay any and all transfer, stamp and similar taxes that may be payable with respect to the issuance and delivery of Common Stock upon conversion.

5.5 Mechanics of Conversion.

5.5.1 Conversion upon an IPO Financing or Change of Control. The closing of an IPO Financing or a Change of Control prior to the Calendar Due Date will be the "Conversion Date". Within 20 days of the Conversion Date, the Maker shall transmit to the Holder a certificate for the number of shares of Common Stock representing full repayment of the Conversion Amount on the Conversion Date, together with an explanation of the calculation. Upon receipt of such notice, the Holder shall surrender this Note to a common carrier for delivery to the Maker as soon as practicable on or following such date (or an indemnification undertaking with respect to this Note in the case of its loss, theft or destruction). The person or persons entitled to receive the shares of Common Stock issuable upon a conversion of this Note shall be treated for all purposes as the record holder or holders of such shares of Common Stock on the Conversion Date.

5.5.2 Voluntary Conversion. If this Note is voluntarily converted pursuant to paragraphs 4.2 or 4.3, the Holder shall give written notice to the Maker notifying the Maker of its election to convert. Before the Holder shall be entitled to voluntarily convert this Note, the Holder shall surrender this Note at the Maker's principal executive office, or, if this Note has been lost, stolen, destroyed or mutilated, then, in the case of loss, theft or destruction, the Holder shall deliver an indemnity agreement reasonably satisfactory in form and substance to the Maker (without the requirement of a bond) or, in the case of mutilation, the Holder shall surrender and cancel this Note. The Maker shall, as soon as practicable thereafter, issue and deliver to such Holder at such principal executive office a certificate or certificates for the number of shares of Common Stock to which the Holder shall be entitled upon such conversion (bearing such legends as are required by applicable state and federal securities laws in the opinion of counsel to the Maker), together with a replacement Note (if any principal amount or interest is not converted). Such conversion shall be deemed to have been made immediately prior to the close of business on the date of the surrender of this Note or the delivery of an indemnification agreement (or such later date requested by the Holder or such earlier date agreed to by the Maker and the Holder). The person or persons entitled to receive securities issuable upon such conversion shall be treated for all purposes as the record holder or holders of such securities on such date.

5.6 Reservation of Common Stock. Until the Notes are paid in full, the Maker shall at all times keep reserved for issuance under this Note a number of shares of Common Stock as shall be necessary to satisfy the Maker's obligation to issue shares of Common Stock hereunder (without regard to any limitation otherwise contained herein with respect to the number of shares of Common Stock that may be acquirable upon exercise of this Note). If, notwithstanding the foregoing, and not in limitation thereof, at any time while any of the Notes remain outstanding the Maker does not have a sufficient number of authorized and unreserved shares of Common Stock to satisfy its obligation to reserve for issuance upon exercise of the Notes at least a number of shares of Common Stock equal to the number of shares of Common Stock as shall from time to time be necessary to effect the exercise of the Notes then outstanding (the "Required Reserve Amount") (an "Authorized Share Failure"), then the Maker shall immediately take all action necessary to increase the Maker's authorized shares of Common Stock to an amount sufficient to allow the Maker to maintain the Required Reserve Amount for all the Notes then outstanding. Without limiting the generality of the foregoing sentence, as soon as practicable after the date of the occurrence of an Authorized Share Failure, but in no event later than 60 days after the occurrence of such Authorized Share Failure, the Company shall hold a meeting of its shareholders for the approval of an increase in the number of authorized shares of Common Stock. In connection with such meeting, the Maker shall provide each shareholder with a proxy statement and shall use its best efforts to solicit its shareholders' approval of such increase in authorized shares of Common Stock and to cause its board of directors to recommend to the shareholders that they approve such proposal.

5.7 Adjustments. The Conversion Price and number and kind of shares or other securities to be issued upon conversion determined pursuant to Section 5 hereof, shall be subject to adjustment from time to time upon the happening of certain events while this conversion right remains outstanding, as follows:

5.7.1 Merger, Sale of Assets, etc. If the Maker at any time shall consolidate with or merge into or sell or convey all or substantially all its assets to any other corporation, this Note, as to the unpaid Principal Amount thereof and accrued interest thereon, shall thereafter be deemed to evidence the right to purchase such number and kind of shares or other securities and property as would have been issuable or distributable on account of such consolidation, merger, sale or conveyance, upon or with respect to the securities subject to the conversion or purchase right immediately prior to such consolidation, merger, sale or conveyance. The foregoing provision shall similarly apply to successive transactions of a similar nature by any such successor or purchaser. Without limiting the generality of the foregoing, the anti-dilution provisions of this Section shall apply to such securities of such successor or purchaser after any such consolidation, merger, sale or conveyance.

5.7.2 Reclassification, etc. If the Maker at any time shall, by reclassification or otherwise, change the Common Stock into the same or a different number of securities of any class or classes that may be issued or outstanding, this Note, as to the unpaid principal portion thereof and accrued interest thereon, shall thereafter be deemed to evidence the right to purchase an adjusted number of such securities and kind of securities as would have been issuable as the result of such change with respect to the Common Stock immediately prior to such reclassification or other change.

5.7.3 Notice of Adjustment. Whenever the applicable Conversion Price is adjusted pursuant to this Section 5.7, the Maker shall promptly mail to the Holder a notice setting forth the applicable Conversion Price after such adjustment and setting forth a statement of the facts requiring such adjustment.

5.8 Consent Required for Certain Corporate Actions. Without the consent of at least a majority in interest of the Holders of the Notes, the Maker will not enter into any transaction that results in a merger, sale of assets or other corporate reorganization or acquisition; results in the distribution of a dividend or the repurchase of outstanding shares of Common Stock (except in accordance with the provisions of the Company's equity incentive plan); causes a liquidation proceeding or bankruptcy proceeding; results in a change to the Company's corporate status; or results in the incurrence of debt outside of normal trade debt.

6. Registration; Book-Entry. The Company shall maintain a register (the "Register") for the recordation of the names and addresses of the holders of each Note and the Principal Amount of the Notes held by such holders (the "Registered Notes"). The entries in the Register shall be conclusive and binding for all purposes absent manifest error. The Maker and the holders of the Notes shall treat each person whose name is recorded in the Register as the owner of a Note for all purposes, including, without limitation, the right to receive payments of the Principal Amount and interest, if any, hereunder, notwithstanding notice to the contrary. A Registered Note may be assigned or sold in whole or in part only in accordance with the terms of paragraph 12.3 of this Note and by registration of such assignment or sale on the Register.

7. Defaults; Remedies.

7.1 Events of Default. The occurrence of any one or more of the following events shall constitute an event of default hereunder (each, an "Event of Default"):

7.1.1 The Maker fails to make any payment when due under this Note;

7.1.2 The Maker fails to observe and perform any of its covenants or agreements on its part to be observed or performed under the Purchase Agreement or any other Transaction Document, and such failure shall continue for more than 20 days after notice of such failure has been delivered to the Maker;

7.1.3 Any representation or warranty made by the Maker in the Purchase Agreement or any other Transaction Document is untrue in any material respect as of the date of such representation or warranty except, in the case of a breach of a covenant which is curable, only if such breach continues for a period of at least 10 consecutive Business Days;

7.1.4 The Maker admits in writing its inability to pay its debts generally as they become due, files a petition in bankruptcy or a petition to take advantage of any insolvency act, makes an assignment for the benefit of its creditors, consents to the appointment of a receiver of itself or of the whole or any substantial part of its property, on a petition in bankruptcy filed against it be adjudicated a bankrupt, or files a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any State thereof;

7.1.5 A court of competent jurisdiction enters an order, judgment, or decree appointing, without the consent of the Maker, a receiver of the Maker or of the whole or any substantial part of its property, or approving a petition filed against the Maker seeking reorganization or arrangement of the Maker under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any State thereof, and such order, judgment, or decree shall not be vacated or set aside or stayed within 60 days from the date of entry thereof;

7.1.6 Any court of competent jurisdiction assumes custody or control of the Maker or of the whole or any substantial part of its property under the provisions of any other law for the relief or aid of debtors, and such custody or control is not be terminated or stayed within 60 days from the date of assumption of such custody or control;

7.1.7. The Notes shall cease to be, or be asserted by the Maker not to be, a legal, valid and binding obligation of the Maker enforceable in accordance with their terms;

7.1.8 A judgment or judgments for the payment of money aggregating in excess of $75,000 are rendered against the Maker which judgments are not, within 60 days after the entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within 60 days after the expiration of such stay; provided, however, that any judgment which is covered by insurance or an indemnity from a credit worthy party shall not be included in calculating the $75,000 amount set forth above so long as the Maker provides the Holder a written statement from such insurer or indemnity provider (which written statement shall be reasonably satisfactory to the Holder) to the effect that such judgment is covered by insurance or an indemnity and the Maker will receive the proceeds of such insurance or indemnity within 30 days of the issuance of such judgment;

7.1.9 Any Event of Default occurs with respect to any of the Notes;

7.1.10 A default by the Maker under any one or more obligations in an aggregate monetary amount in excess of $50,000 for more than 30 days after the due date, unless the Maker is contesting the validity of such obligation in good faith and has segregated cash funds equal to not less than one-half of the disputed amount;

7.1.11 A default by the Maker under the Texas Emerging Technology Fund Award and Security Agreement dated October 1, 2010 or the Investment Unit dated October 1, 2010, each between the Maker and the Office of the Governor Economic Development and Tourism of the State of Texas, which default continues for more than 30 days after notice of such default has been delivered to the Maker;

7.1.12 The Maker fails to deliver the shares of Common Stock to the Holder pursuant to and in the form required by this Note or, if required, a replacement Note more than five Business Days after the required delivery date of such Common Stock or Note;

7.1.13 The Maker fails to have reserved for issuance upon conversion of the Note the amount of Common stock as set forth in this Note; or

7.1.14 The security interest created in the Collateral, as defined in the Security Agreement, is not a perfected first lien.

7.2 Notice by the Maker. The Maker shall notify the Holder in writing as soon as reasonably practicable but in no event more five days after the occurrence of any Event of Default of which the Maker acquires knowledge.

7.3 Remedies. Upon the occurrence of any Event of Default, all other sums due and payable to the Holder under this Note shall, at the option of the Holder, become due and payable immediately without presentment, demand, notice of nonpayment, protest, notice of protest, or other notice of dishonor, all of which are hereby expressly waived by the Maker. Any payment under this Note (i) not paid within 10 days following the Calendar Due Date or (ii) due immediately following acceleration by the Holder shall bear interest at the rate of 15% from the date of the Note until paid, subject to paragraph 7.5. To the extent permitted by law, the Maker waives the right to and stay of execution and the benefit of all exemption laws now or hereafter in effect. In addition to the foregoing, upon the occurrence of any Event of Default, the Holder may forthwith exercise singly, concurrently, successively, or otherwise any and all rights and remedies available to the Holder by law, equity, or otherwise.

7.4 Remedies Cumulative, etc. No right or remedy conferred upon or reserved to the Holder under this Note, or now or hereafter existing at law or in equity or by statute or other legislative enactment, is intended to be exclusive of any other right or remedy, and each and every such right or remedy shall be cumulative and concurrent, and shall be in addition to every other such right or remedy, and may be pursued singly, concurrently, successively, or otherwise, at the sole discretion of the Holder, and shall not be exhausted by any one exercise thereof but may be exercised as often as occasion therefor shall occur. No act of the Holder shall be deemed or construed as an election to proceed under any one such right or remedy to the exclusion of any other such right or remedy; furthermore, each such right or remedy of the Holder shall be separate, distinct, and cumulative and none shall be given effect to the exclusion of any other.

7.5 Usury Compliance. All agreements between the Maker and the Holder are expressly limited, so that in no event or contingency whatsoever, whether by reason of the consideration given with respect to this Note, the acceleration of maturity of the unpaid Principal Amount and interest thereon, or otherwise, shall the amount paid or agreed to be paid to the Holder for the use, forbearance, or detention of the indebtedness which is the subject of this Note exceed the highest lawful rate permissible under the applicable usury laws. If, under any circumstances whatsoever, fulfillment of any provision of this Note shall involve transcending the highest interest rate permitted by law which a court of competent jurisdiction deems applicable, then the obligations to be fulfilled shall be reduced to such maximum rate, and if, under any circumstances whatsoever, the Holder shall ever receive as interest an amount that exceeds the highest lawful rate, the amount that would be excessive interest shall be applied to the reduction of the unpaid Principal Amount under this Note and not to the payment of interest, or, if such excessive interest exceeds the unpaid balance of the Principal Amount under this Note, such excess shall be refunded to the Maker. This provision shall control every other provision of all agreements between the Maker and the Holder.

8. Replacement of Note. Upon receipt by the Maker of evidence satisfactory to it of the loss, theft, destruction, or mutilation of this Note and (in case of loss, theft, or destruction) of indemnity satisfactory to it, and upon surrender and cancellation of this Note, if mutilated, the Maker will make and deliver a new Note of like tenor in lieu of this Note.

9. Intentionally omitted.

10. Maker's Covenants.

10.1 Rank. All payments due under this Note (a) shall rank *pari passu* with all other Notes, and (b) shall be senior to all other indebtedness of the Maker.

10.2 Security. This Note and the other Notes are secured to the extent and in the manner set forth in the Security Agreement of even date herewith.

10.3 Existence of Liens. So long as this Note is outstanding, the Maker shall not, and the Maker shall not permit any of its subsidiaries (if any) to, directly or indirectly, allow or suffer to exist any mortgage, lien, pledge, charge, security interest or other encumbrance upon or in any property or assets (including accounts and contract rights) owned by the Maker or any of its subsidiaries (collectively, "Liens") other than Permitted Liens.

10.4 Restricted Payments. The Maker shall not, and the Maker shall not permit any of its subsidiaries (is any) to, directly or indirectly, redeem, defease, repurchase, repay or make any payments in respect of, by the payment of cash or cash equivalents (in whole or in part, whether by way of open market purchases, tender offers, private transactions or otherwise), all or any portion of any indebtedness, whether by way of payment in respect of principal of (or premium, if any) or interest on, such indebtedness if at the time such payment is due or is otherwise made or, after giving effect to such payment, an event constituting, or that with the passage of time and without being cured would constitute, an Event of Default has occurred and is continuing.

10.5 Valid Issuance of Securities. The Maker covenants that the securities issuable upon the conversion of this Note will, upon conversion of this Note, be validly issued, fully paid and nonassessable and free from all taxes, liens and charges in respect of the issue thereof.

10.6 Timely Notice. The Maker shall deliver to the Holder at least 10 days' advance written notice of (i) a proposed financing which would permit the Holder to convert the Principal Amount, accrued interest, and any other amount due under this Note in accordance with paragraph 4.3 or (ii) a proposed Change of Control, provided that the Holder agrees to be bound by any applicable confidentiality agreement or agreements as the Maker reasonably shall deem necessary or appropriate.

11. Certain Definitions.

11.1 "Business Days" shall mean any day that is not a Saturday, Sunday or a federal holiday.

11.2 "Change of Control" means any liquidation, dissolution or winding up of the Maker, either voluntary or involuntary, and shall be deemed to be occasioned by, or to include, (i) the acquisition of the Maker by another entity by means of any transaction or series of related transactions (including, without limitation, any stock acquisition, reorganization, merger or consolidation) unless the Maker's shareholders of record as constituted immediately prior to such acquisition or sale will, immediately after such acquisition or sale (by virtue of securities issued as consideration for the Maker's acquisition or sale or otherwise) hold at least a majority of the voting power of the surviving or acquiring entity, or its direct or indirect parent entity (except that any bona fide equity or debt financing transaction for capital raising purposes shall not be deemed a Change of Control for this purpose) or (ii) a sale, exclusive license or other disposition of all or substantially all of the assets of the Maker, including a sale, exclusive license or other disposition of all or substantially all of the assets of the Maker's subsidiaries, if such assets constitute substantially all of the assets of the Maker and such subsidiaries taken as a whole.

11.3 "Permitted Liens" shall have the meaning included in the Security Agreement of even date herewith.

12.1 Amendments, Waivers, and Consents.

12.1 Amendment and Waiver by the Holders. The Notes, including this Note, may be amended, modified, or supplemented, and waivers or consents to departures from the provisions of the Notes may be given, if the Maker and holders of an aggregate majority of the Principal Amount of the Notes then outstanding, consent to the amendment; provided, however, that no term of this Note may be amended or waived in such a way as to adversely affect the Holder disproportionately to the holder or holders of any other Notes without the written consent of the Holder and neither the principal balance or interest rate of the Note may be amended or modified without the consent of the Holder. Such consent may not be effected orally, but only by a signed statement in writing. Any such amendment or waiver shall apply to and be binding upon the Holder of this Note, upon each future holder of this Note, and upon the Maker, whether or not this Note shall have been marked to indicate such amendment or waiver. No such amendment or waiver shall extend to or affect any obligation not expressly amended or waived or impair any right consequent thereon.

12.2 Severability. In the event that for any reason one or more of the provisions of this Note or their application to any person or circumstance shall be held to be invalid, illegal, or unenforceable in any respect or to any extent, such provision shall nevertheless remain valid, legal, and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality, or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal, or unenforceable provision had never been contained herein.

12.3 Assignment; Binding Effect. The Maker may not assign this Note without the prior written consent of the Holder. Any attempted assignment in violation of this Section 12.3 shall be null and void. Subject to the foregoing, this Note inures to the benefit of the Holder, its successors and assigns, and binds the Maker, and their respective successors and permitted assigns, and the words "Holder" and "Maker" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

12.4 Notice Generally. All notices required to be given to any of the parties hereunder shall be given as set forth in the Purchase Agreement.

12.5 Governing Law; Jurisdiction; Jury Trial. This Note shall be construed and enforced in accordance with, and all questions concerning the construction, validity, interpretation and performance of this Note shall be governed by, the internal laws of the State of New York, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of New York or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of New York. The Maker hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in The City of New York, Borough of Manhattan, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. The Maker hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address it set forth on the signature page hereto and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. In the event that any provision of this Note is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of this Note. Nothing contained herein shall be deemed or operate to preclude the Holder from bringing suit or taking other legal action against the Maker in any other jurisdiction to collect on the Maker's obligations to the Holder, to realize on any collateral or any other security for such obligations, or to enforce a judgment or other court ruling in favor of the Holder. THE MAKER HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION WITH OR ARISING OUT OF THIS NOTE OR ANY TRANSACTION CONTEMPLATED HEREBY. **This Note shall be deemed an unconditional obligation of Maker for the payment of money and, without limitation to any other remedies of Holder, may be enforced against Maker by summary proceeding pursuant to New York Civil Procedure Law and Rules Section 3213 or any similar rule or statute in the jurisdiction where enforcement is sought. For purposes of such rule or statute, any other document or agreement to which Holder and Maker are parties or which Maker delivered to Holder, which may be convenient or necessary to determine Holder's rights hereunder or Maker's obligations to Holder are deemed a part of this Note, whether or not such other document or agreement was delivered together herewith or was executed apart from this Note.**

12.6 Section Headings, Construction. The headings of paragraphs in this Note are provided for convenience only and will not affect its construction or interpretation. All words used in this Note will be construed to be of such gender or number as the circumstances require. Unless otherwise expressly provided, the words "hereof" and "hereunder" and similar references refer to this Note in its entirety and not to any specific section or subsection hereof.

12.7 Payment of Collection, Enforcement and Other Costs. If (a) this Note is placed in the hands of an attorney for collection or enforcement or is collected or enforced through any legal proceeding or the Holder otherwise takes action to collect amounts due under this Note or to enforce the provisions of this Note, or (b) there occurs any bankruptcy, reorganization, receivership of the Maker or other proceedings affecting the Maker's creditors' rights and involving a claim under this Note, then the Maker shall pay the costs incurred by the Holder for such collection, enforcement or action or in connection with such bankruptcy, reorganization, receivership or other proceeding, including, but not limited to, attorneys' fees and disbursements.

12.8 Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to the Holder, upon any breach or default of the Maker under this Note shall impair any such right, power, or remedy of the Holder nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default therefore or thereafter occurring. Any waiver, permit, consent, or approval of any kind or character on the part of the Holder of any breach or default under this Note or any waiver on the part of the Holder of any provisions or conditions of this Note must be made in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Note or by law or otherwise afforded to the Holders, shall be cumulative and not alternative.

[EXECUTION PAGE FOLLOWS]

IN WITNESS WHEREOF, Ideal Power Converters, Inc. has caused this Senior Secured Convertible Promissory Note to be executed and delivered on the date set forth above on the cover page of this Note.

IDEAL POWER CONVERTERS, INC.

By: _____
Paul Bundschuh, Chief Executive Officer

By: _____
Charles De Tarr, Chief Financial Officer

Exhibit 10.16

No. C- Deemed Issue Date: August 31, 2012

THIS WARRANT AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT TO THE SECURITIES UNDER SUCH ACT AND/OR APPLICABLE STATE SECURITIES LAWS,OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED OR UNLESS SOLD PURSUANT TO RULE 144 OF SUCH ACT.

THE SECURITIES REPRESENTED HEREBY MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE TERMS OF A SECURITIES PURCHASE AGREEMENT BETWEEN THE COMPANY AND THE SECURITY HOLDER DATED AUGUST 31, 2012, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

IDEAL POWER CONVERTERS, INC.
REPLACEMENT STOCK PURCHASE WARRANT

THIS CERTIFIES that _____ (the "***Holder***") is entitled, upon the terms and subject to the conditions hereinafter set forth in this Warrant (this "***Warrant***"), at any time on or after (except as otherwise limited below) the date of the applicable event specified below and on or prior to the Expiration Date, but not thereafter, to subscribe for and to purchase from Ideal Power Converters, Inc., a Texas corporation (the "***Company***"), shares of the Company's common stock, $0.001 par value (the "***Common Stock***").

This Warrant is issued pursuant to a Securities Purchase Agreement and in connection with the issuance to the Holder of a Convertible Promissory Note (the "***Note***") of even date herewith, and is one of the Warrants (collectively, the "***Warrants***") being issued in connection with the issuance of a series of Senior Secured Convertible Promissory Notes of like tenor (collectively, "***Notes***") being issued by the Company to raise interim financing of up to $750,000 (the "***Offering***"). Capitalized terms used herein, but not otherwise defined, shall have the meanings ascribed to such terms in the Securities Purchase Agreement.

The following is a statement of the rights of the Holder of this Warrant and the conditions to which this Warrant is subject, to which the Holder, by the acceptance of this Warrant, agrees:

1. **Certain Definitions**

1.1 "***Calendar Due Date***" means November 21, 2013.

1.2 "***Change of Control***" means any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, and shall be deemed to be occasioned by, or to include, (i) the acquisition of the Company by another entity by means of any transaction or series of related transactions (including, without limitation, any stock acquisition, reorganization, merger or consolidation) unless the Company's shareholders of record as constituted immediately prior to such acquisition or sale will, immediately after such acquisition or sale (by virtue of securities issued as consideration for the Company's acquisition or sale or otherwise) hold at least a majority of the voting power of the surviving or acquiring entity, or its direct or indirect parent entity (except that the sale by the Company of shares of its capital stock to investors in bona fide equity financing transactions shall not be deemed a Change of Control for this purpose) or (ii) a sale, exclusive license or other disposition of all or substantially all of the assets of the Company, including a sale, exclusive license or other disposition of all or substantially all of the assets of the Company's subsidiaries, if such assets constitute substantially all of the assets of the Company and such subsidiaries taken as a whole.

1.3 "***Exercise Price***" is defined in Section 2 below.

1.4 "***Expiration Date***" means that date that is seven years after the deemed issue date set forth above, provided, however, if the Company closes the IPO after the fifth anniversary date of the deemed issue date but prior to the Expiration Date, then the Expiration Date shall be extended for an additional five years following the close of the IPO.

1.5 "***IPO***" means a firm commitment underwritten initial public offering of the Company's Common Stock pursuant to a registration statement declared effective by the Securities and Exchange Commission which closes before the Calendar Due Date and results in gross proceeds to the Company of at least $10 million.

1.6 "***IPO Price***" means the price per share of the Company's Common Stock offered to public investors in an IPO, without regard to any underwriting discount or expense (as appropriately adjusted to reflect stock dividends, stock splits, combinations, recapitalizations and the like with respect to the Company's capital stock after the date hereof).

1.7 "***Private Equity Financing***" means a privately marketed equity financing resulting in gross proceeds in excess of $250,000 which closes before the Calendar Due Date; provided, however, that none of the following issuances of securities shall constitute a "Private Equity Financing": (i) the Offering and any subsequent offerings of senior secured convertible promissory notes or any other debt offering; (ii) securities issued without consideration in connection with any stock split or stock dividend on, the Company's Common Stock; (iii) securities issued to the Company's employees, officers, directors, consultants, advisors or service providers pursuant to any plan, agreement or similar arrangement unanimously approved by the Company's board of directors; (iv) securities issued to banks or equipment lessors; (v) securities issued in connection with sponsored research, collaboration, technology license, development, original equipment manufacturing (OEM), marketing or other similar agreements or strategic partnerships; (vi) securities issued in connection with a bona fide business acquisition of or by the Company (whether by merger, consolidation, sale of assets, sale or exchange of stock or otherwise); (vii) the Investment Unit dated October 1, 2010, issued by the Company to the Office of the Governor Economic Development and Tourism, and any securities relating to the conversion or exercise thereof; or (viii) any right, option or warrant to acquire any security convertible into or exercisable for the securities listed in clauses (i) through (vii) above.

1.8 "***Private Equity Financing Price***" means the price per share of Common Stock paid by investors in the Private Equity Financing, which shall be determined by dividing (a) the total consideration received or to be received by each investor assuming exercise in full of all warrants or similar securities, divided by (b) the total number of shares of Common Stock acquirable either directly or by conversion or exercise of instruments, by the Holder, on a fully diluted basis.

1.9 "***Shares***" means the shares of Common Stock issuable under this Warrant, computed in accordance with Section 2 below.

2. **Number of Shares and Exercise Price**

The number of shares of Common Stock (the "***Shares***") covered by this Warrant and the per share Exercise Price shall be determined as follows (subject to appropriate adjustments pursuant to Section 10):

(i) in the event of an IPO that occurs prior to the Calendar Due Date, the principal amount of the Holder's Note divided by the lower of 0.70 of the IPO Price or $1.46 shall determine the number of shares covered by the Warrant while the per-share exercise price shall be equal to the lower of 0.70 times the IPO Price or $1.46; or

(ii) in the event of a Private Equity Financing that occurs prior to the Calendar Due Date, the principal amount of the Holder's Note divided by the lower of 0.70 of the Private Equity Financing Price or $1.46 shall determine the number of shares covered by the Warrant, with a per-share exercise price equal to the lower of 0.70 times the Private Equity Financing Price or $1.46; provided, however, that (A) if the Company undertakes first, a Private Equity Financing and secondly, an IPO prior to the Calendar Due Date and (B) the Private Equity Financing Price is higher than the IPO Price, then the number of shares of Common Stock covered by the Warrant and the per share exercise price shall be adjusted to equal the number of shares of Common Stock and the exercise price calculated in accordance with subsection (i) above; or

(iii) If the Company does not undertake either a Private Equity Financing or an IPO prior to the Calendar Due Date, then the number of Shares covered by this Warrant shall equal the original principal amount of the Holder's Note divided by $1.46, and the exercise price shall be $1.46 per share.

3. **Exercise of Warrant**

3.1 The purchase rights represented by this Warrant are exercisable by the Holder, in whole or in part, by the surrender of this Warrant and the Notice of Exercise annexed hereto duly executed at the Company's principal executive office (or such other office or agency of the Company as it may designate by notice in writing to the Holder at the address of the Holder appearing on the books of the Company), and upon payment of the aggregate Exercise Price of the Shares thereby purchased (by cash or by check or bank draft payable to the order of the Company); whereupon the Holder shall be entitled to receive a certificate for the number of Shares so purchased. The Company agrees that if at the time of the surrender of this Warrant and purchase of the Shares, the Holder shall be entitled to exercise this Warrant, the Shares so purchased shall be issued to the Holder as the record owner of such Shares as of the close of business on the date on which this Warrant shall have been exercised as aforesaid or on such later date requested by the Holder or on such earlier date agreed to by the Holder and the Company.

3.2 In lieu of exercising this Warrant by payment of cash or check or bank draft payable to the order of the Company pursuant to subsection 3.1 above, the Holder may elect to receive Shares equal to the value of this Warrant (or the portion thereof being exercised), at any time after the date hereof and before the close of business on the Expiration Date, by surrender of this Warrant at the principal executive office of the Company, together with the Notice of Cashless Exercise annexed hereto, in which event the Company will issue to the Holder Shares in accordance with the following formula:

$$X = \frac{Y(A-B)}{A}$$

Where,

X	=	The number of Shares to be issued to Holder;
Y	=	The number of Shares for which the Warrant is being exercised;
A	=	The fair market value of one Share; and
B	=	The Exercise Price.

(a) For purposes of this subsection 3.2, the fair market value of a Share is defined as follows:

(i) if the Holder exercises within three days of the closing of the IPO, then the fair market value shall be the IPO Price;

(ii) if the Holder exercises after receipt of a notice of a Change of Control but before a Change of Control, then the fair market value shall be the value to be received in such Change of Control by the holders of the Company's Common Stock;

(iii) if the exercise occurs more than three days after the closing of the IPO, and:

(1) if the Common Stock is traded on a securities exchange or the Nasdaq Stock Market, the fair market value shall be the last sale price on the trading day immediately prior to the Company's receipt of the Notice of Conversion or, if no sale of the Company's Common Stock took place on the trading day immediately prior to the receipt of the Notice of Conversion, then the fair market value shall be the last sale price on the most recent day prior to the receipt of the Notice of Conversion on which trades were made and reported; or

(2) if the Common Stock is traded over-the-counter, the value shall be deemed to be the last sale price on the trading day immediately prior to the Company's receipt of the Notice of Conversion or, if no sale of the Company's Common Stock took place on the trading day immediately prior to the receipt of the Notice of Conversion, then the fair market value shall be the last sale price on the most recent day prior to the receipt of the Notice of Conversion on which trades were made and reported;

(iv) if there is no active public market for the Common Stock, the fair market value thereof shall be determined in good faith by the Company's Board of Directors.

3.3 The exercise or conversion of this Warrant in connection with a Change of Control may, at the election of the Holder, be conditioned upon the closing of such Change of Control, in which event the Holder shall not be deemed to have exercised or converted this Warrant until immediately prior to the closing of such Change of Control.

4. **Nonassessable**

The Company covenants that all Shares which may be issued upon the exercise of this Warrant will be validly issued, fully paid and nonassessable and free from all taxes, liens and charges in respect of the issue thereof. Certificates for Shares purchased hereunder shall be delivered to the Holder promptly after the date on which this Warrant shall have been exercised.

5. **Fractional Shares**

No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. With respect to any fraction of a share called for upon the exercise of this Warrant, such fractional share shall be rounded down to the nearest whole share, and the Company shall pay to the Holder the amount of such fractional share multiplied by an amount equal to such fraction multiplied by the then current fair market value (determined in accordance with Section 3.2(a)) of a Share shall be paid in cash to the Holder.

6. **Charges, Taxes and Expenses**

Issuance of certificates for Shares upon the exercise of this Warrant shall be made without charge to the Holder hereof for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the Holder.

7. **No Rights as Shareholders**

This Warrant does not entitle the Holder to any voting rights or other rights as a shareholder of the Company prior to the exercise hereof.

8 **Saturdays, Sundays, Holidays, Etc.**

If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday, a Sunday or a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day that is not a Saturday, Sunday or legal holiday.

9. **Intentionally Omitted**

10. **Adjustments**

The Exercise Price and the number of Shares purchasable hereunder are subject to adjustment from time to time as set forth in this Section 10.

10.1 Reclassification, etc. If the Company, at any time while this Warrant, or any portion hereof, remains outstanding and unexpired by reclassification of securities or otherwise, shall change any of the securities as to which purchase rights under this Warrant exist into the same or a different number of securities or any other class or classes, this Warrant shall thereafter represent the right to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities that were subject to the purchase rights under this Warrant immediately prior to such reclassification or other change and the Exercise Price therefor shall be appropriately adjusted, all subject to further adjustment as provided in this Section 10.

10.2 Subdivision or Combination of Shares. In the event that the Company shall at any time subdivide the outstanding securities as to which purchase rights under this Warrant exist, or shall issue a stock dividend on the securities as to which purchase rights under this Warrant exist, the number of securities as to which purchase rights under this Warrant exist immediately prior to such subdivision or to the issuance of such stock dividend shall be proportionately increased, and the Exercise Price shall be proportionately decreased, and in the event that the Company shall at any time combine the outstanding securities as to which purchase rights under this Warrant exist, the number of securities as to which purchase rights under this Warrant exist immediately prior to such combination shall be proportionately decreased, and the Exercise Price shall be proportionately increased, effective at the close of business on the date of such subdivision, stock dividend or combination, as the case may be.

10.3 Cash Distributions. No adjustment on account of cash dividends or interest on the securities as to which purchase rights under this Warrant exist will be made to the Exercise Price under this Warrant.

11. **Notice of Certain Events**

The Company will provide notice to the Holder with at least 20 days notice prior to the closing of a Change of Control or an IPO. Such notice shall be in accordance with the notice provision included at Section 12(e) of the Securities Purchase Agreement of even date herewith.

12. **Purchase Rights; Fundamental Transactions**

In addition to any adjustments pursuant to Section 10 above, if at any time the Company grants, issues or sells any options, convertible securities or rights to purchase stock, warrants, securities or other property pro rata to the record holders of Common Stock ("Purchase Rights"), then the Holder will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the Holder could have acquired if the Holder had held the number of shares of Common Stock acquirable upon complete exercise of this Warrant immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights.

13. **Put Right**

In conjunction with the Offering, the Holder has received certain registration rights relating to the Shares pursuant to the terms of a Registration Rights Agreement of even date herewith. If the right to have the Shares registered pursuant to the Registration Rights Agreement terminates in accordance with Section 2(f) of the Registration Rights Agreement (the "Registration Rights Termination"), the Holder will have the right to require the Company to purchase the Warrant from the Holder (the "Put Right") at a price equal to 20% of the principal amount of the Holder's Note (the "Put Price"). The Company shall pay the Holder the Put Price as promptly as practicable but in any event not later than 10 days after the Holder delivers notice to the Company of exercise of the Put Right. The Put Right will expire 12 months from the Registration Rights Termination.

14. **Miscellaneous**

14.1 Loss, Theft, Destruction or Mutilation of Warrant. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, delivery of an indemnity agreement reasonably satisfactory in form and substance to the Company or, in the case of mutilation, on surrender and cancellation of this Warrant, the Company shall execute and deliver, in lieu of this Warrant, a new Warrant executed in the same manner as this Warrant and of like tenor and amount.

14.2 Waivers and Amendments. This Warrant and the obligations of the Company and the rights of the Holder under this Warrant may be amended, waived, discharged or terminated (either generally or in a particular instance, either retroactively or prospectively and either for a specified period of time or indefinitely) with the written consent of the Company (which shall not be required in connection with a waiver of rights in favor of the Company) and the holders of at least a majority of the then-outstanding aggregate principal amount under the Notes; *provided*, *however*, that no such amendment or waiver shall reduce the number of Shares represented by this Warrant without the consent of the Holder hereof; and *provided further, however*, that nothing shall prevent the Holder from individually agreeing to waive the observation of any term of this Warrant. Any amendment, waiver, discharge or termination effected in accordance with this Section14.2 shall be binding upon the Company, the Holder, and except pursuant to a waiver by an individual holder of another Warrant pursuant to the final proviso in the immediately preceding sentence, each other holder of Warrants.

14.3 Notices. Any notice, request or other communication required or permitted hereunder shall be given in accordance with the Purchase Agreement.

14.4 Severability. If one or more provisions of this Warrant are held to be unenforceable under applicable law, such provision(s) shall be excluded from this Warrant and the balance of this Warrant shall be interpreted as if such provision(s) were so excluded and shall be enforceable in accordance with its terms.

14.5 Successors and Assigns. Neither this Warrant nor any rights hereunder are transferable without the prior written consent of the Company. Notwithstanding the foregoing, the Holder shall be permitted to transfer this Warrant to any affiliate (as that term is defined in the Securities Act of 1933) of the Holder. If a transfer is permitted pursuant to this Section, the transfer shall be recorded on the books of the Company upon the surrender of this Warrant, properly endorsed, to the Company at its principal offices, and the payment to the Company of all transfer taxes and other governmental charges imposed on such transfer. In the event of a partial transfer, the Company shall issue to the holders one or more appropriate new warrants. Subject to the foregoing, the provisions of this Warrant shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the Company and the Holder.

14.6 Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to the Holder, upon any breach or default of the Company under this Warrant shall impair any such right, power, or remedy of the Holder nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default therefore or thereafter occurring. Any waiver, permit, consent, or approval of any kind or character on the part of the Holder of any breach or default under this Warrant or any waiver on the part of the Holder of any provisions or conditions of this Warrant must be made in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Warrant or by law or otherwise afforded to the Investors, shall be cumulative and not alternative.

14.7 Titles and Subtitles. The titles of the paragraphs and subparagraphs of this Warrant are for convenience of reference only and are not to be considered in construing this Warrant.

14.8 Construction. The language used in this Warrant will be deemed to be the language chosen by the parties to express their mutual intent and no rules of strict construction will be applied against any party.

14.9 Governing Law. THIS WARRANT SHALL BE GOVERNED IN ALL RESPECTS BY THE LAWS OF THE STATE OF NEW YORK AS SUCH LAWS ARE APPLIED TO AGREEMENTS BETWEEN NEW YORK RESIDENTS ENTERED INTO AND TO BE PERFORMED ENTIRELY WITHIN NEW YORK.

[*Remainder of Page Intentionally Left Blank*]

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer thereunto duly authorized.

Ideal Power Converters, Inc.

By: _____
Paul Bundschuh
Chief Executive Officer

Address: 5004 Bee Creek Road, Suite 600
Spicewood Texas 78669
Attn: Paul Bundschuh

NOTICE OF EXERCISE

TO: Ideal Power Converters, Inc.
5004 Bee Creek Road, Suite 600
Spicewood, Texas 78669
Attn: Secretary

The undersigned hereby elects to purchase _____ shares (the "***Shares***") of the Common Stock of Ideal Power Converters, Inc. pursuant to the terms of the attached Warrant and tenders herewith payment of the purchase price in full.

Please issue a certificate or certificates representing the Shares in the name of the undersigned or in such other name as is specified below:

_____
(Print Name)

Address:_____
_____

The undersigned confirms that the undersigned is an "accredited investor," and that the Shares are being acquired for the account of the undersigned for investment only and not with a view to, or for resale in connection with, the distribution thereof, and that the undersigned has no present intention of distributing or selling the Shares.

_____ _____
(Date) (Signature)

_____
(Print Name)

NOTICE OF CASHLESS EXERCISE

TO: Ideal Power Converters, Inc.
5004 Bee Creek Road, Suite 600
Spicewood, Texas 78669
Attn: Secretary

The undersigned hereby elects to purchase _____ shares (the "***Shares***") of the Common Stock of Ideal Power Converters, Inc. pursuant to the cashless exercise provision of Section 3 of the attached Warrant.

Please issue a certificate or certificates representing the Shares in the name of the undersigned or in such other name as is specified below:

_____
(Print Name)

Address:_____
_____

The undersigned represents that the undersigned is an "accredited investor," and that the Shares are being acquired for the account of the undersigned for investment and not with a view to, or for resale in connection with, the distribution thereof, and that the undersigned has no present intention of distributing or reselling such shares.

_____ _____
(Date) (Signature)

_____
(Print Name)

Exhibit 10.17

Securities Purchase Agreement

Investor Package

October __, 2012

Ideal Power Converters, Inc.
5004 Bee Creek Road, Suite 600
Spicewood, Texas 78669

INSTRUCTIONS FOR INVESTING

If you wish to purchase the offered securities of Ideal Power Converters, Inc., please:

(1) Review this Securities Purchase Agreement, Registration Rights Agreement, Senior Secured Convertible Promissory Note, Warrant, Security Agreement, and Escrow Agreement.

(2) Indicate where appropriate, in Section 6(a) of the Securities Purchase Agreement, your status as an Accredited Investor by initialing the appropriate accreditation categories.

(3) Type or print all information required in the blank sections in Section 6(b) of the Securities Purchase Agreement, including your requested subscription amount and your federal taxpayer identification number.

(4) Execute the signature pages to the Securities Purchase Agreement, Registration Rights Agreement, Security Agreement, and Escrow Agreement.

(5) If you are an individual, complete and execute, or cause to be executed, the enclosed Spousal Consent by either (i) having your spouse execute such consent or (ii) if you are not married, by confirming your status as single on such consent.

(6) Along with the full amount of your investment paid by means of a check made payable to [NAME OF ACCOUNT] or a wire transfer to the following:

U.S. Bank, N.A.
ABA# 091000022
FBO: U.S. Bank Trust N.A.
Acct: 180121167365
Ref: Ideal Power Converter/MDB
Attn: Georgina Thomas (213-615-6001)

You must send the completed and executed signature pages to this Securities Purchase Agreement, the Registration Rights Agreement, the Security Agreement, the Escrow Agreement, the completed Purchaser Information (Section 6 of this Securities Purchase Agreement) and the Spousal Consent to the following escrow holder, preferably by fax or e-mail:

Georgina Thomas
Assistant Vice President
U.S. Bank Corporate Trust Services
633 West 5th Street, 24th Floor
Los Angeles, CA 90071
Ph. (213) 615-6001
Fax (213) 615-6199
Georgina.thomas@usabank.com

The Company may choose not to accept all or some of any investor's subscription for any reason (regardless of whether any check or wire transfer relating to this subscription is deposited in a bank or trust account). The Company will send to you a fully executed copy of the transaction documents if your subscription is accepted. If you have any questions in completing the transaction documents, please contact Christopher Cobb at Christopher.Cobb@idealpowerconverters.com.

IDEAL POWER CONVERTERS, INC.
SECURITIES PURCHASE AGREEMENT

This Securities Purchase Agreement (the "Agreement") is entered into by and between IDEAL POWER CONVERTERS, INC., a Texas corporation (the "Company"), and the undersigned purchasers (each, a "Purchaser", and collectively, the "Purchasers") as of the latest date set forth on the signature page hereto.

NOW, THEREFORE, in consideration of the mutual covenants and other agreements contained in this Agreement the Company and the Purchasers hereby agree as follows:

1. Purchase of Securities and Matters Related Thereto. (Capitalized terms used below and not otherwise defined are defined in Section 2 of the Agreement.)

(a) Subject to the terms and conditions of this Agreement, the undersigned Purchaser hereby subscribes for (i) a senior secured convertible promissory note in the form attached as Exhibit C ("Note"), and (ii) a warrant for the purchase of shares of the Company's common stock, $0.001 par value (the "Common Stock") in the form attached as Exhibit D ("Warrant") (sometimes the Note and the Warrant are collectively referred to as the "Securities"). The total amount to be paid for the Securities shall be the amount (if any) accepted by the Company in connection with this investment, which may be less than or equal to the amount indicated by the undersigned Purchaser on the signature page hereto (the "Subscription Amount"). The offering, purchase and sale of the Securities is referred to herein as the "Offering."

(b) If, prior to the Calendar Due Date, the Company closes a firm commitment underwritten initial public offering ("IPO") of its Common Stock that raises at least $10 million (the "IPO Financing"), the principal amount of the Note and all accrued but unpaid interest as well as any other amounts payable under the Note will be repaid with shares of the Company's Common Stock in accordance with the terms of the Note. The conversion price will be equal to the lower of 0.70 times the IPO Price or $1.46 per share. Prior to the Calendar Due Date or a conversion in the event of an IPO financing, each Purchaser will also have the right, but not the obligation, in accordance with the terms set forth in the Note, to convert the Note into shares of the Company's Common Stock, including for the purpose of participating in any other financing undertaken by the Company prior to the Calendar Due Date (so long as such financing is for capital-raising purposes) or in the event of a Change of Control, as defined in the Note. In the event of a conversion as a result of a Change of Control, the conversion price will be equal to the lower of 0.70 times the per share consideration paid for the Change of Control transaction or $1.46 per share. In the event of a conversion related to a financing, the Note shall be converted into that number of shares of Common Stock determined by dividing (x) the Principal Amount and all accrued interest by (y) the lower of (i) $1.46 or (ii) 0.70 times the per share consideration paid in the most recent Private Equity Financing to occur prior to the Holder's election (as appropriately adjusted to reflect stock dividends, stock splits, combinations, recapitalizations and the like). With the permission of the Purchaser, the Company may pre-pay the Note prior to an IPO, a Change of Control or the Calendar Due Date with U.S. dollars. In that case, the payment will equal 110% of the principal amount of the Note.

(c) The Purchasers will be granted a first priority senior security interest in and to the assets of the Company, including its intellectual property, pursuant to the terms of a Security Agreement, a form of which is attached hereto as Exhibit E ("Security Agreement"). On August 31, 2012 the Company raised a total of $750,000 through the sale of senior secured promissory notes (the "August 2012 Notes"). The Purchasers will have security interests identical to those of the holders of the August 2012 Notes.

(d) The Texas Emerging Technology Fund, which held a senior security interest in the Company's assets, has subordinated its interest to the interests of the Purchasers in accordance with the Subordination Agreement in the form attached hereto as Exhibit F ("Subordination Agreement").

(e) The Warrant has a term of seven years. The number of shares of Common Stock issuable upon exercise of the Warrant and the exercise price shall be determined as follows: (i) in the event of an IPO, one-half the principal amount of the Note divided by the lower of 0.70 of the IPO Price or $1.46 will determine the number of shares covered by the Warrant while the per-share exercise price will be equal to the lower of 0.70 times the IPO Price or $1.46; or (ii) in the event that, prior to the Calendar Due Date, the Company does not complete an IPO but, instead, completes a Private Equity Financing, one-half the principal amount of the Note divided by the lower of 0.70 of the Private Equity Financing Price or $1.46 will determine the number of shares covered by the Warrant, with a per-share exercise price equal to the lower of 0.70 times the Private Equity Financing Price or $1.46 provided, however, that (A) if the Company undertakes first, a Private Equity Financing and secondly, an IPO prior to the Calendar Due Date and (B) the Private Equity Financing Price is higher than the IPO Price, then the number of shares of Common Stock covered by the Warrant and the per share exercise price will be adjusted to equal the number of shares of Common Stock and the exercise price calculated in accordance with subsection (i) above. If the Company does not complete either a Private Equity Financing or an IPO prior to the Calendar Due Date, then the number of Shares covered by the Warrant will equal one-half the principal amount of the Note divided by $1.46, and the exercise price will be $1.46 per share. The Warrant also includes a cashless exercise provision.

(f) The Purchasers will have certain registration rights relating to the Common Stock underlying the Securities, which rights are set forth in the Registration Rights Agreement, a form of which is attached hereto as Exhibit G ("Registration Rights Agreement").

(g) The Purchasers and their permitted transferees and assignees shall be subject to a 180 day lockup following the IPO as set forth in Section 8 of this Agreement. Officers, directors, employees and owners of 5% or more of the Company's Common Stock will be locked up for the greater of 12 months (i) following the IPO and (ii) 12 months after shares of the Company's Common Stock are listed for trading on NASDAQ or a national securities exchange.

(h) This is the second offering of senior secured convertible promissory notes by the Company. By executing this Purchase Agreement and the other Transaction Documents and by accepting the Note, the Holder acknowledges the sale of the August 2012 Notes.

(i) MDB Capital Group, LLC has been retained by the Company as the sole placement agent for the Offering (the "Placement Agent").

The foregoing description of the Note, the Warrant, the Security Agreement and the Subordination Agreement are qualified in their entirety by the terms of those agreements.

2. Certain Definitions. For purposes of this Agreement and the agreements referenced herein, the following terms shall have the respective definitions set forth below:

(a) "Calendar Due Date" shall be a date that is 12 months from the Closing Date of this Offering.

(b) "Change of Control" means any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, and shall be deemed to be occasioned by, or to include, (i) the acquisition of the Company by another entity by means of any transaction or series of related transactions (including, without limitation, any stock acquisition, reorganization, merger or consolidation) unless the Company's shareholders of record as constituted immediately prior to such acquisition or sale will, immediately after such acquisition or sale (by virtue of securities issued as consideration for the Company's acquisition or sale or otherwise) hold at least a majority of the voting power of the surviving or acquiring entity, or its direct or indirect parent entity (except that any bona fide equity or debt financing transaction for capital raising purposes shall not be deemed a Change of Control for this purpose) or (ii) a sale, exclusive license or other disposition of all or substantially all of the assets of the Company, including a sale, exclusive license or other disposition of all or substantially all of the assets of the Company's subsidiaries, if such assets constitute substantially all of the assets of the Company and such subsidiaries taken as a whole.

(c) "IPO Price" means the price per share of the Company's Common Stock offered to public investors in an IPO, without regard to any underwriting discount or expense (as appropriately adjusted to reflect stock dividends, stock splits, combinations, recapitalizations and the like with respect to the Company's capital stock after the date hereof).

(d) "Private Equity Financing" means a privately marketed equity financing resulting in gross proceeds in excess of $250,000 which closes before the Calendar Due Date; provided, however, that none of the following issuances of securities shall constitute a "Private Equity Financing": (i) this Offering and any subsequent offerings of senior secured convertible promissory notes or any other debt offering; (ii) securities issued without consideration in connection with any stock or unit split of, or stock or unit dividend on, the Company's Common Stock; (iii) securities issued to the Company's employees, officers, directors, consultants, advisors or service providers pursuant to any plan, agreement or similar arrangement unanimously approved by the Company's board of directors; (iv) securities issued to banks or equipment lessors; (v) securities issued in connection with sponsored research, collaboration, technology license, development, original equipment manufacturing (OEM), marketing or other similar agreements or strategic partnerships; (vi) securities issued in connection with a bona fide business acquisition of or by the Company (whether by merger, consolidation, sale of assets, sale or exchange of stock or otherwise); (vii) the Investment Unit dated October 1, 2010, issued by the Company to the Office of the Governor Economic Development and Tourism, and any securities relating to the conversion or exercise thereof; or (viii) any right, option or warrant to acquire any security convertible into or exercisable for the securities listed in clauses (i) through (vii) above.

(e) "Private Equity Financing Price" means the price per share paid by investors in a Private Equity Financing.

3. Closing.

(a) On or prior to the applicable Closing Date (as defined below), the Purchaser shall deliver or cause to be delivered to the Escrow Holder the following in accordance with the subscription procedures described in Section 2(b) below:

(i) a completed and duly executed signature page of this Agreement;

(ii) the completed Purchaser Information included on pages 14 and 15 of this Agreement;

(iii) a spousal consent substantially in the form of Exhibit B, attached hereto (the "Spousal Consent"); and

(iv) duly executed signature pages of the Registration Rights Agreement, the Security Agreement and the Escrow Agreement.

(b) The Purchaser shall deliver or cause to be delivered, preferably by fax or e-mail, the closing deliveries described above to the Escrow Holder at the following address:

Georgina Thomas
Assistant Vice President
U.S. Bank Corporate Trust Services
633 West 5th Street, 24th Floor
Los Angeles, CA 90071
Ph. (213) 615-6001
Fax (213) 615-6199
Georgina.thomas@usabank.com

Immediately following receipt of the deliverables from all of the Purchasers and acceptance by the Company in accordance with subsection (c) below, wire instructions will be forwarded to the Purchaser and the Purchaser shall be obligated to deliver funds no later than three business days thereafter.

(c) This Agreement sets forth various representations, warranties, covenants and agreements of the Company and of the Purchaser, as the case may be, all of which shall be deemed made, and shall be effective without further action by the Company and the Purchaser, immediately upon the Company's acceptance of the Purchaser's subscription and shall thereupon be binding upon the Company and the Purchaser. Acceptance shall be evidenced only by execution of this Agreement by the Company on its signature page attached hereto and the Company shall have no obligation hereunder to the Purchaser until a fully executed copy of this Agreement shall have been delivered to the Purchaser. Upon the Company's acceptance of the Purchaser's subscription and receipt of the Subscription Amount, on the applicable Closing Date the Placement Agent shall deliver to the Purchaser a duly executed copy of each of the Agreement, the Note, the Warrant, the Registration Rights Agreement, the Security Agreement and the Escrow Agreement.

(d) The purchase and sale of the Securities shall be consummated on or before [_____], 2012 (the "Initial Closing Date"); provided, however, that the Company reserves the right to extend the Offering for up to an additional 30 days beyond the Initial Closing Date (the "Final Closing Date" and together with the Initial Closing Date, the "Closing Date" or the "Closing Dates", depending on the context used).

4. Company Representations and Warranties. The Company hereby represents and warrants that, as of the Closing Date applicable to the Purchaser:

(a) Organization and Business. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Texas and has all requisite corporate power and authority to carry on its business as now conducted and as proposed to be conducted. The Company has no direct or indirect subsidiaries. The Company is duly qualified as a foreign corporation to do business and is in good standing in every jurisdiction in which its ownership or use of property or the nature of the business conducted by it makes such qualification necessary except where the failure to be so qualified or in good standing would not have a Material Adverse Effect. As used in this Agreement, the term "Material Adverse Effect" means any material adverse effect on the business, operations, assets (including intangible assets), liabilities (actual or contingent), financial condition, or prospects of the Company, if any, taken as a whole, or on the transactions contemplated hereby or by the Transaction Documents (as defined below). Information about the Company's business is included on Exhibit A to this Agreement (the "Company Information").

(b) Capitalization.

(i) The Company has two classes of authorized capital stock consisting of 5,000,000 shares of Common Stock and 275,000 shares of Preferred Stock, of which 3,514,762 shares of Common Stock are issued and outstanding and no shares of Preferred Stock are issued and outstanding. Schedule 4(b)(i) includes a detailed schedule of the Company's capitalization as of the date of this Agreement.

(ii) Except as set forth on Schedule 4(b)(ii) to this Agreement: (A) there are no outstanding options, warrants, scrip, rights to subscribe for, puts, calls, rights of first refusal, agreements, understandings, claims or other commitments or rights of any character whatsoever relating to, or securities or rights convertible into or exchangeable for, any capital stock of the Company, or arrangements by which the Company is or may become bound to issue additional capital stock, (B) there are no agreements or arrangements under which the Company is obligated to register the sale of any of its or their securities under the Securities Act of 1933, as amended (the "Securities Act") and (C) there are no anti-dilution or price adjustment provisions contained in any security issued by the Company (or in any agreement providing rights to security holders) that will be triggered by the issuance of the Securities.

(iii) No shares of capital stock of the Company are subject to preemptive rights or any other similar rights of anyone or any mortgage, lien, title claim, assignment, encumbrance, security interest, adverse claim, contract of sale, restriction on use or transfer (other than restrictions on transfer under applicable state and federal securities laws or "blue sky" or other similar laws (collectively, the "Securities Laws")) or other defect of title of any kind (each, a "Lien") imposed through the actions or failure to act of the Company.

(c) Authorization; Enforceability. All corporate action on the part of the Company, its officers, directors and shareholders necessary for the authorization, execution and delivery of the Transaction Documents (as defined in subsection (f) below), the performance of all obligations of the Company under the Transaction Documents, and the authorization, issuance, sale and delivery of the Securities has been taken, and each Transaction Document constitutes a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except to the extent limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application affecting enforcement of creditors' rights and general principles of equity that restrict the availability of equitable or legal remedies.

(d) Valid Issuance. The Securities being acquired by the Purchasers hereunder, when issued, sold and delivered in accordance with the terms of this Agreement for the consideration expressed herein, will be duly and validly issued, fully paid, and non-assessable, and will be free of Liens other than restrictions on transfer under this Agreement.

(e) Litigation. There is no action, suit, proceeding or investigation pending or, to the Company's knowledge, currently threatened against the Company. The Company is not a party or subject to the provisions of any order, writ, injunction, judgment or decree of any court or government agency or instrumentality. There is no action, suit, proceeding or investigation by the Company currently pending or that the Company intends to initiate.

(f) No Conflict. The execution, delivery and performance of this Agreement, the Security Agreement, the Note, the Warrant, the Registration Rights Agreement, the Escrow Agreement, and the other agreements entered into by the Company in connection with the Offering, and including the Subordination Agreement entered into in conjunction with the offer of the August 2012 Notes (the "Transaction Documents") and the consummation by the Company of the transactions contemplated hereby and thereby will not: (i) conflict with or result in a violation of any provision of the charter or by-laws of the Company or (ii) violate or conflict with, or result in a breach of any provision of, or constitute a default (or an event which with notice or lapse of time or both could become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture, patent, patent license or instrument to which the Company is a party, or (iii) result in a violation of any law, rule, regulation, order, judgment or decree (including federal and state securities laws and regulations and regulations of any self-regulatory organizations to which the Company or its securities are subject) applicable to the Company or by which any property or asset of the Company is bound or affected. The Company is not in violation of its charter, bylaws, or other organizational documents. The business of the Company is not being conducted in violation of any law, rule, ordinance or regulation of any governmental entity, except for possible violations which would not, individually or in the aggregate, have a Material Adverse Effect. Except for filings pursuant to Regulation D of the Securities Act, and applicable state securities laws, which have been made or will be made by the Company in the required time thereunder, the Company is not required to obtain any consent, authorization or order of, or make any filing or registration with, any court, governmental agency, regulatory agency, self-regulatory organization or stock market or any third party in order for it to execute, deliver or perform any of its obligations under this Agreement or any Transaction Document in accordance with the terms hereof or thereof or to issue and sell the Securities in accordance with the terms hereof.

(g) Intellectual Property. Other than inventions of the Company whose patent applications have yet to be filed (the "Confidential IP"), Schedule 4(g) to this Agreement sets forth a complete and accurate listing of all of the Company's patents and patent applications ("Patents"). At the Purchaser's request the Company shall make available to the Purchaser prior to the applicable Closing Date a schedule of Confidential IP, provided that the Purchaser execute and deliver a non-disclosure agreement relating to the Confidential IP that is reasonably acceptable to the Company. The Company owns valid title, free and clear of any Liens, or possesses the requisite valid and current licenses or rights, free and clear of any Liens, to use all Patents in connection with the conduct of its business as now operated, and to the best of the Company's knowledge, as presently contemplated to be operated in the future. There is no claim or action by any person pertaining to, or proceeding pending, or to the Company's knowledge threatened, which challenges the right of the Company with respect to any Patents necessary to enable it to conduct its business as now operated, and to the Company's knowledge, as presently contemplated to be operated in the future. To the Company's knowledge, the Company's current and intended products, services and processes do not infringe on any Intellectual Property or other rights held by any person, and the Company is unaware of any facts or circumstances which might give rise to any of the foregoing. The Company has not received any notice of infringement of, or conflict with, the asserted rights of others with respect to the Patents. It will not be necessary to use any inventions of any of its employees or consultants (or persons it currently intends to hire) made prior to their employment by the Company. Each employee and consultant of the Company has assigned to the Company all intellectual property rights he or she owns that are related to the Company's business as now conducted and as presently proposed to be conducted.

(h) Management. As of the date of this Agreement, the Company's Board of Directors consists of five members, namely, Christopher Cobb, Bill Alexander, Dr. David Breed, Hamo Hacopian and Charles De Tarr, and the Company has the following officers:

Paul Bundschuh	Chief Executive Officer
Christopher Cobb	President and Chief Operating Officer
Charles De Tarr	Chief Financial Officer, Secretary
Bill Alexander	Chief Technology Officer

Prior to an offering of the Common Stock to the public, the Company intends to enter into a formal employment agreement with the Chief Executive Officer.

(i) Financial Statements. Schedule 4(i) to this Agreement includes a true and complete copy of (A) the audited financial statements for 2011, 2010 and 2009 and (B) un-audited balance sheet as of June 30, 2012 and the un-audited income statement for the six month period ended June, 2012. (the "Income Statements" and collectively with the Balance Sheet, the "Financial Statements"). The Financial Statements fairly present the financial condition and operating results of the Company as of the dates, and for the periods, indicated therein, subject to normal year-end audit adjustments. Except as set forth in the Financial Statements, the Company has no material liabilities or obligations, contingent or otherwise, other than liabilities incurred in connection with the consummation of the transactions contemplated under the Offering, an estimate of which is set forth on Schedule 4(i), and those incurred in the ordinary course of business subsequent to June 30, 2012. Since June 30, 2012, nothing has occurred which would have a Material Adverse Effect.

(j) Financial Information and Projections. Any financial estimates and projections in the Company Information and/or Budget have been prepared by management of the Company and are the most current financial estimates and projections available by the Company. Although the Company does not warrant that the results contained in such projections will be achieved, to the best of the Company's knowledge and belief, such projections are reasonable estimations of future financial performance of the Company and its expected financial position, results of operations, and cash flows for the projection period (subject to the uncertainty and approximation inherent in any projection). At the time they were made, all of the material assumptions upon which the projections are based were, to the best of the Company's knowledge and belief, reasonable and appropriate. Nothing in this Section 4(j) is intended to modify or amend in any way the representations and warranties of Purchaser in Section 5.

(k) Tax Matters. The Company has made or filed all federal, state and foreign income and all other tax returns, reports and declarations required by any jurisdiction to which it is subject and has paid all taxes and other governmental assessments and charges, shown or determined to be due on such returns, reports and declarations, except those being contested in good faith and has set aside on its books provisions reasonably adequate for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations apply. All such tax returns and reports filed on behalf of the Company were complete and correct and were prepared in good faith without willful misrepresentation. There are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and the officers of the Company know of no basis for any such claim. The Company has not executed a waiver with respect to the statute of limitations relating to the assessment or collection of any foreign, federal, state or local tax. The Company has not received notice that any of its tax returns is presently being audited by any taxing authority.

(l) Certain Transactions. Except as set forth on Schedule 4(l) to this Agreement, there are no loans, leases, royalty agreements or other transactions between: (i) the Company or any of its respective customers or suppliers, and (ii) any officer, employee, consultant or director of the Company or any person owning 5% or more of the ownership interests of the Company or any member of the immediate family of such officer, employee, consultant, director, shareholder or owner or any corporation or other entity controlled by such officer, employee, consultant, director, shareholder or owner, or a member of the immediate family of such officer, employee, consultant, director, shareholder or owner.

(m) Material Agreements. Except as disclosed on Schedule 4(m) to this Agreement (each contract, agreement, commitment or understanding disclosed on Schedule 4(m) being hereinafter referred to as a "Material Agreement") or as contemplated by this Agreement or any Transaction Document, there are no agreements, understandings, commitments, instruments, contracts, employment agreements, proposed transactions or judgments to which the Company is a party or by which it is bound which may involve obligations (contingent or otherwise), or a related series of obligations (contingent or otherwise), of or to, or payments, or a related series of payments, by or to the Company in excess of $10,000 in any one year. All Material Agreements are in full force and effect and constitute legal, valid and binding obligations of the Company, and to the Company's knowledge, the other parties thereto, and are enforceable in accordance with their respective terms. Neither the Company nor any person is in default under the terms of any Material Agreement, and no circumstance exists that would, with the giving of notice or the passage of time, constitute a default under any Material Agreement.

(n) Title to Assets. The Company has good and marketable title to all real and personal property owned by it that is material to the business of the Company, in each case free and clear of all liens and encumbrances, except those, if any, included on Schedule 4(n) or incurred in the ordinary course of business consistent with past practice. Any real property and facilities held under lease by the Company are held by it under valid, subsisting and enforceable leases (subject to laws of general application relating to bankruptcy, insolvency, reorganization, or other similar laws affecting creditors' rights generally and other equitable remedies) with which the Company is in compliance in all material respects.

(o) Subsidiaries; Joint Ventures. Except for the subsidiaries described in Schedule 4(o), the Company has no subsidiaries and (i) does not otherwise own or control, directly or indirectly, any other Person and (ii) does not hold equity interests, directly or indirectly, in any other Person. Except as described in Schedule 4(o), the Company is not a participant in any joint venture, partnership, or similar arrangement material to its business. "Person" means an individual, entity, partnership, limited liability company, corporation, association, trust, joint venture, unincorporated organization, and any government, governmental department or agency or political subdivision thereof.

(p) No General Solicitation. Neither the Company nor any person participating on the Company's behalf in the transactions contemplated hereby has conducted any "general solicitation," as such term is defined in Regulation D promulgated under the Securities Act, with respect to any securities offered in the Offering.

(q) No Integrated Offering. Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf, has directly or indirectly made any offers or sales in any security or solicited any offers to buy any security under circumstances that would require registration under the Securities Act of the issuance of the Securities. The issuance of the Securities will not be integrated (as defined in Rule 502 of the Securities Act) with any other issuance of the Company's securities (past, current or future) that would require registration under the Securities Act of the issuance of the Securities. The offering of the August 2012 Notes may be integrated with this Offering, but such integration would not require registration under the Securities Act.

(r) No Brokers. The Company has taken no action which would give rise to any claim by any person for brokerage commissions, transaction fees or similar payments relating to this Agreement or the transactions contemplated hereby, other than to the Placement Agent, whose fee is described in Section 5(g).

(s) Offering. Subject to the accuracy of the Purchaser's representations and warranties in Section 5 of this Agreement, and the accuracy of other purchasers' representations and warranties in their respective Securities Purchase Agreements, the offer, sale and issuance of the Securities in the Offering, constitute transactions exempt from the registration requirements of Section 5 of the Securities Act and from the registration or qualification requirements of applicable state securities laws, and neither the Company nor any authorized agent acting on its behalf will take any action hereafter that would cause the loss of such exemption.

(t) Risks Related to the Company and the Offering. An investment in the Securities involves a high degree of risk and uncertainty. Schedule 4(t) includes information about the material risks faced by the Company, however, they may not be the only risks. Additional unknown risks or risks that the Company currently considers to be immaterial may also impair the Company's business operations. If any of the events or circumstances described in Schedule 4(t) actually occurs, the Company's business, financial condition or results of operations could suffer.

5. Purchaser Acknowledgements and Representations. In connection with the purchase of the Securities, Purchaser represents and warrants as of the Closing Date applicable to the Purchaser and/or acknowledges, to the Company, the following:

(a) Acceptance. The Company may accept or reject this Agreement and the number of Securities subscribed for hereunder, in whole or in part, in its sole and absolute discretion. The Company has no obligation to issue any of the Securities to any person who is a resident of a jurisdiction in which the issuance of the Securities would constitute a violation of the Securities Laws.

(b) Irrevocability. This Agreement is and shall be irrevocable, except that the Purchaser shall have no obligations hereunder to the extent that this Agreement is rejected by the Company.

(c) Binding. This Agreement and the rights, powers and duties set forth herein shall be binding upon the Purchaser, the Purchaser's heirs, estate, legal representatives, successors and assigns and shall inure to the benefit of the Company, its successors and assigns.

(d) No Governmental Review. No federal or state agency has made any finding or determination as to the fairness of the Offering for investment, or any recommendation or endorsement of the Securities.

(e) No Preemptive or Voting Rights. Unless and until the entire Principal Amount or a portion of it is converted into Common Stock or the Warrant exercised and the Common Stock issued, the Purchaser is not entitled to voting rights. The Securities do not entitle the Purchaser to preemptive rights.

(f) Professional Advice; Investment Experience. The Company has made available to the Purchaser, or to the Purchaser's attorney, accountant or representative, all documents that the Purchaser has requested, and the Purchaser has requested all documents and other information that the Purchaser has deemed necessary to consider respecting an investment in the Company. The Company has provided answers to all questions concerning the Offering and an investment in the Company. The Purchaser has carefully considered and has, to the extent the Purchaser believes necessary, discussed with the Purchaser's professional technical, legal, tax and financial advisers and his/her/its representative (if any) the suitability of an investment in the Company for the Purchaser's particular tax and financial situation. All information the Purchaser has provided to the Company concerning the Purchaser and the Purchaser's financial position is, to Purchaser's knowledge, correct and complete as of the date set forth below, and if there should be any material adverse change in such information prior to the acceptance of this Agreement by the Company, the Purchaser will immediately provide such information to the Company. The Purchaser has such knowledge, skill, and experience in technical, business, financial, and investment matters so that he/she/it is capable of evaluating the merits and risks of an investment in the Securities. To the extent necessary, the Purchaser has retained, at his/her/its own expense, and relied upon, appropriate professional advice regarding the technical, investment, tax, and legal merits and consequences of this Agreement and owning the Securities. The Purchaser acknowledges and understands that the proceeds from the sale of the Securities will be used as described in Section 7(b).

(g) Brokers and Finders; Placement Agent Services. Schedule 5(g) includes information regarding the compensation to be paid to the Placement Agent for various services rendered or to be rendered to the Company.

(h) Investment Purpose. Purchaser is purchasing the Securities for investment for his, her or its own account only and not with a view to, or for resale in connection with, any "distribution" thereof within the meaning of the Securities Act in violation of such act. Purchaser further represents that he/she/it does not presently have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person, with respect to any of the Securities. If the Purchaser is an entity, the Purchaser represents that it has not been formed for the specific purpose of acquiring the Securities. Purchaser acknowledges that an investment in the Securities is a high-risk, speculative investment.

(i) Reliance on Exemptions. Purchaser understands that the Securities are being offered and sold to it in reliance upon specific exemptions from the registration requirements of United States federal and state securities laws and that the Company is relying upon the truth and accuracy of, and the Purchaser's compliance with, the representations, warranties, agreements, acknowledgments and understandings of Purchaser set forth herein in order to determine the availability of such exemptions and the eligibility of the Purchaser to acquire the Securities.

(j) Restricted Securities. Purchaser understands that the Securities are "restricted securities" under applicable Securities Laws and that, pursuant to these laws, Purchaser must hold the Securities indefinitely unless they are registered with the Securities and Exchange Commission and qualified by state authorities, or an exemption from such registration and qualification requirements is available. Purchaser acknowledges that the Company has no obligation to register or qualify the Securities for resale, except as provided in Section 11 herein. Purchaser further acknowledges that if an exemption from registration or qualification is available, it may be conditioned on various requirements including, but not limited to, the time and manner of sale, the holding period for the Securities, and requirements relating to the Company which are outside of the Purchaser's control, and which the Company is under no obligation and may not be able to satisfy.

(k) Professional Advice. The Company has not received from its legal counsel, accountants or professional advisors any independent valuation of the Company or any of its equity securities, or any opinion as to the fairness of the terms of the Offering or the adequacy of disclosure of materials pertaining to the Company or the Offering.

(l) Risk of Loss. The Purchaser has adequate net worth and means of providing for his/her/its current needs and personal contingencies to sustain a complete loss of the investment in the Company at the time of investment, and the Purchaser has no need for liquidity in the investment in the Securities. The Purchaser understands that an investment in the Securities is highly risky and that he/she/it could suffer a complete loss of his/her/its investment.

(m) Information. The Purchaser understands that any plans, estimates and projections, provided by or on behalf of the Company, involve significant elements of subjective judgment and analysis that may or may not be correct; that there can be no assurance that such plans, projections or goals will be attained; and that any such plans, projections and estimates should not be relied upon as a promise or representation of the future performance of the Company. The Purchaser acknowledges that neither the Company, the Placement Agent nor anyone acting on the Company's behalf makes any representation or warranty, express or implied, as to the accuracy or correctness of any such plans, estimates and projections, and there are no assurances that such plans, estimates and projections will be achieved. The Purchaser understands that the Company's technology and products are new, and not all of the technology and/or products may be tested and commercialized, and that there is no guarantee that the technology and products will be commercially successful. The Purchaser understands that all of the risks associated with the technology are not now known. Before investing in the Offering, the Purchaser has been given the opportunity to ask questions of the Company about the technology and the Company's business and the Purchaser has received answers to those questions.

(n) Authorization; Enforcement. Each Transaction Document to which a Purchaser is a party: (i) has been duly and validly authorized, (ii) has been duly executed and delivered on behalf of the Purchaser, and (iii) will constitute, upon execution and delivery by the Purchaser thereof and the Company, the valid and binding agreements of the Purchaser enforceable in accordance with their terms, except to the extent limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application affecting enforcement of creditors' rights and general principles of equity that restrict the availability of equitable or legal remedies.

(o) Residency. If the Purchaser is an individual, then Purchaser resides in the state or province identified in the address of such Purchaser set forth in Section 6; if the Purchaser is a partnership, corporation, limited liability company or other entity, then the office or offices of the Purchaser in which its principal place of business is identified in the address or addresses of the Purchaser set forth in Section 6.

(p) Communication of Offer. The Purchaser was contacted by either the Company or the Placement Agent with respect to a potential investment in the Securities. The Purchaser is not purchasing the Securities as a result of any "general solicitation" or "general advertising," as such terms are defined in Regulation D of the Securities Act, which includes, but is not limited to, any advertisement, article, notice or other communication regarding the Securities published in any newspaper, magazine or similar media or on the internet or broadcast over television, radio or the internet or presented at any seminar or any other general solicitation or general advertisement.

(q) No Conflicts. The execution, delivery and performance by the Purchaser of this Agreement and the consummation by the Purchaser of the transactions contemplated hereby will not (i) result in a violation of the organizational documents of the Purchaser (if the Purchaser is an entity), (ii) conflict with, or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture or instrument to which the Purchaser is a party, or (iii) result in a violation of any law, rule, regulation, order, judgment or decree (including federal and state securities laws) applicable to the Purchaser.

(r) Organization. If the Purchaser is an entity, it is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization with the requisite corporate or partnership power and authority to enter into and to consummate the transactions contemplated by the applicable Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. If the Purchaser is an entity, the execution, delivery and performance by the Purchaser of the transactions contemplated by this Agreement have been duly authorized by all necessary corporate or, if the Purchaser is not a corporation, such partnership, limited liability company or other applicable like action, on the part of the Purchaser.

(s) No Other Representations. Other than the representations and warranties contained herein, the Purchaser has not received and is not relying on any representation, warranties or assurances as to the Company, its business or its prospects from the Company or any other person or entity.

[*Remainder of Page Intentionally Blank; Agreement Continues on Following Page*]

6. Purchaser Information.

(a) Status as an Accredited Investor. By initialing the appropriate space(s) below, the Purchaser represents and warrants that he/she/it is an "Accredited Investor" within the meaning of Regulation D of the Securities Act.

☐ a.	A director, executive officer or general partner of Company.	
☐ b.	A natural person whose individual net worth or joint net worth with spouse at time of purchase exceeds $1,000,000. (In calculation of net worth, you may include equity in personal property and real estate (excluding your principal residence), cash, short term investments, stocks and securities. Equity in personal property and real estate should be based on the fair market value of such property less debt secured by such property.)	
☐ c.	A natural person who had an individual income in excess of $200,000 in each of two most recent years or joint income with spouse in excess of $300,000 in each of those years and has a reasonable expectation of reaching same level of income in current year.	
☐ d.	A corporation, limited liability company, partnership, tax-exempt organization (under Section 501(c)(3) of Internal Revenue Code of 1986, as amended) or Massachusetts or similar business trust (i) not formed for specific purpose of acquiring Common Stock and (ii) having total assets in excess of $5,000,000.	
☐ e.	An entity which falls within one of following categories of institutional accredited investors, set forth in 501(a) of Regulation D under Securities Act [if you have marked this category, also mark which of following items describes you:]	
	☐ 1.	A bank as defined in Section 3(a)(2) of Securities Act, or any savings and loan association or other institution as defined in Section 3(a)(5)(A) of Securities Act whether acting in its individual or a fiduciary capacity.
	☐ 2.	A broker/dealer registered pursuant to Section 15 of Securities Exchange Act of 1934.
	☐ 3.	An insurance company as defined in Section 2(13) of Securities Act.
	☐ 4.	An investment company registered under Investment Company Act of 1940 or a business development company as defined in Section 2(a)(48) of that act.
	☐ 5.	A Small Business Investment Company licensed by U.S. Small Business Administration under Section 301(c) or (d) of Small Business Investment Act of 1958.
	☐ 6.	Any plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions for benefit of its employees, if such plan has total assets in excess of $5,000,000.
	☐ 7.	Any private business development company as defined in Section 202(a)(22) of Investment Advisers Act of 1940.
	☐ 8.	An employee benefit plan within meaning of Employee Retirement Income Security Act of 1974, if investment decision is made by a plan fiduciary, as defined in Section 3(21) of such act, which is either a bank, savings and loan association, insurance company or registered investment adviser, or if employee benefit plan has total assets in excess of $5,000,000 or, if a self-directed plan, with investment decisions made solely by persons that are accredited investors.
	☐ 9.	A trust, with total assets in excess of $5,000,000, not formed for specific purpose of acquiring Class A Common Stock offered, whose purchase is directed by sophisticated person as described in Rule 506(b)(2)(ii) of Regulation D.
☐ f.	An entity in which all equity owners are accredited investors as described above.	

PURCHASER MUST INDICATE THE APPLICABLE CATEGORY OR CATEGORIES BY INITIALING EACH APPLICABLE SPACE ABOVE; IF JOINT INVESTORS, BOTH PARTIES MUST INITIAL.

(b) Subscription Information. Please complete the following information.

Requested Subscription Amount: $_____
(subject to Company acceptance)

Name of Purchaser as it is to appear on the Senior Secured Convertible Promissory Note and Warrant

Indicate ownership as:

____ (a)	Individual	
____ (b)	Community Property	
____ (c)	Joint Tenants with Right of Survivorship	**) All parties**
____ (d)	Tenants in Common	**) must sign**
____ (e)	Corporate	
____ (f)	Partnership	
____ (g)	Trust	

_____	_____
Address of Residence (or Business, if not an individual)	Address for Sending Notices (if different)
_____	_____
City, State and Zip Code	City, State and Zip Code
_____	_____
Telephone	Telephone
_____	_____
State of Residence (or State of Organization, if an entity)	State of Residence (or State of Organization, if an entity)
_____	_____
SSN/TIN	SSN/TIN
_____	_____
E-mail	E-mail

[R*emainder of Page Intentionally Left Blank; Agreement Continues on Following Page*]

7. Covenants.

(a) In addition to the other agreements and covenants set forth herein, as long as a Note (or any August 2012 Note) is outstanding, without the consent of a majority in interest of the Purchasers (including the Purchasers of the August 2012 Notes), the Company will not, and will not permit any of its subsidiaries to, directly or indirectly, to undertake the following:

(i) The Company will not enter into any equity line of credit or similar agreement, nor issue nor agree to issue any floating or Variable Rate Securities nor any of the foregoing or equity with price reset rights. For purposes hereof, "Equity Line of Credit" shall include any transaction involving a written agreement between the Company and an investor or underwriter whereby the Company has the right to "put" its securities to the investor or underwriter over an agreed period of time and at an agreed price or price formula, and "Variable Rate Securities" shall include: (A) any debt or equity securities which are convertible into, exercisable or exchangeable for, or carry the right to receive additional shares of Common Stock or with a fixed conversion, exercise or exchange price that is subject to being reset at some future date at any time after the initial issuance of such debt or equity security, and (B) any amortizing convertible security which amortizes prior to its maturity date, where the Company is required or has the option to (or any investor in such transaction has the option to require the Company to) make such amortization payments in shares of Common Stock.

(ii) The Company will not enter into an agreement to issue, nor will the Company issue, any equity, convertible debt or other securities convertible into Common Stock or other equity of the Company nor modify any of the foregoing which may be outstanding.

(iii) The Company will not enter into any transaction that results in a merger, sale of assets or other corporate reorganization or acquisition; results in the distribution of a dividend or the repurchase of outstanding shares of Common Stock (except in accordance with the provisions of the Company's equity incentive plan); causes a liquidation proceeding or bankruptcy proceeding; results in a change to the Company's corporate status; or results in the incurrence of debt outside of normal trade debt.

(b) In addition to the other agreements and covenants set forth herein, the Company agrees to the following:

(i) Until the Notes (including the August 2012 Notes) are paid in full, the Company will not engage in any of the following without the consent of the Placement Agent: (i) change the size of the Board of Directors; (ii) purchase shares of the Company's Common Stock other than in accordance with the Company's equity incentive plan; (iii) engage in any transactions with affiliates; (iv) increase the number of authorized shares of Common Stock included in the Company's equity incentive plan; (v) make changes in senior management or the compensation of senior management; (vi) approve an annual budget; (vii) engage or dismiss its accountants; (viii) alter any provision of its Certificate of Incorporation, including increasing or decreasing the authorized number of shares of Common Stock or Preferred Stock. For purposes of this subparagraph (i), the term "affiliates" refers to the officers, directors and holders of 10% or more of the Company's common stock.

(ii) The Company will use the net proceeds from the Offering for the following purposes:

Use of Proceeds		(in thousands)
Payroll, payroll taxes and benefits	$	1,795
Product testing and development		255
IP development		140
Working capital		240
Marketing and promotion (excluding pay)		163
Capital expenditures		90
Placement agent fees		325
General and administrative, other		242
Total Use of Proceeds	**$**	**3,250**

The Company expects that the proceeds of the Offering will be sufficient to support its operations for approximately 12 months.

(iii) The Company will retain the services of a PCAOB registered auditor prior to an IPO and such auditor will perform and complete the audits of the financial statements necessary to meet SEC filing and the listing requirements of NASDAQ or AMEX exchanges.

(iv) The Company will have a capital structure acceptable to the Placement Agent and, as noted above, will cause the conversion of all promissory notes and preferred shares outstanding prior to this Offering (including securities owned by TETF) to Common Stock at the time of an IPO. The promissory notes (with the exception of the August 2012 Notes) will convert at the IPO Price according to their terms and the TETF owned securities at the IPO Price less their contractual discount. All rights attached shall be extinguished. Existing warrant holders will continue to maintain the existing warrants under the terms of the warrant agreement as issued.

(v) Within 90 days of the Closing Date, the Company's Board of Directors shall be composed of five members with three independent directors mutually acceptable to the Company and the Placement Agent.

(vi) The Company and the Placement Agent will agree to an intellectual property strategy, which the Company will implement.

(vii) The Company will institute an employee stock option or equity incentive plan acceptable to the Placement Agent.

(viii) In addition to the shares of Common Stock that will be locked up in accordance with Section 8 below, the shares of Common Stock or securities convertible into or exercisable for shares of Common Stock which are held by (A) all officers, directors and employees of the Company, (B) 5% or greater holders as determined pursuant to Rule 13d-3 of the Securities Exchange Act of 1934, as amended, (C) merger participants, if any and (D) the Placement Agent and IP Development Company will be locked up until the later of (x) 12 months following the date of the final prospectus for the IPO and (y) the listing of the Company's Common Stock on an exchange, which may include a listing on any listing level of Nasdaq.

8. Market Stand-Off; Purchaser Distribution.

(a) Lock-Up. In connection with the initial underwritten public offering by the Company of its equity securities pursuant to an effective registration statement filed under the Securities Act, Purchaser shall not, without the prior written consent of the Company's managing underwriter, (i) lend, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock (whether such shares or any such securities are then owned by the Purchaser or are thereafter acquired), or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of stock or such other securities, in cash or otherwise. Such restriction (the "Market Stand-Off") shall be in effect for such period of time following the date of the final prospectus for the offering as may be requested by the Company or such underwriters. In no event, however, shall such period exceed 180 days or such longer period requested by the underwriters to comply with regulatory restrictions on the publication of research reports (including, without limitation, NASD Rule 2711). In the event of the declaration of a stock dividend, a spin-off, a stock split, an adjustment in conversion ratio, a recapitalization or a similar transaction affecting the Company's outstanding securities without receipt of consideration, any new, substituted or additional securities that are by reason of such transaction distributed with respect to any Company Common Stock subject to the Market Stand-Off, or into which such Company Common Stock thereby becomes convertible, shall immediately be subject to the Market Stand-Off. To enforce the Market Stand-Off, the Company may impose stop-transfer instructions with respect to the Securities until the end of the applicable stand-off period. This Section 8(a) shall not apply to Securities registered in the public offering under the Securities Act, and the Purchaser shall be subject to this Section 8(a) only if the directors and officers of the Company are subject to the lockup arrangements included in Section 7(b)(viii) above.

(b) Securities. As used in this Section 8 and in Section 9, the term "securities" also refers to the purchased Securities, all securities received in conversion, exercise, or replacement thereof, or in connection with the Securities pursuant to stock dividends or splits, all securities received in replacement of the Securities in a recapitalization, merger, reorganization, exchange or the like, and all new, substituted or additional securities or other properties to which Purchaser is entitled by reason of Purchaser's ownership of the Securities.

9. Restrictive Legends and Stop-Transfer Orders.

(a) Legends. The certificate or certificates representing the Securities shall bear the following legends (as well as any legends required by applicable state corporate law and the Securities Laws):

(i) THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH SALE OR DISTRIBUTION MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL (OR OTHER EVIDENCE) IN A FORM SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933.

(ii) THE SECURITIES REPRESENTED HEREBY MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE TERMS OF A SECURITIES PURCHASE AGREEMENT BETWEEN THE COMPANY AND THE SECURITY HOLDER DATED _____, 2012, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

(iii) Any legend required to be placed thereon by any appropriate securities commissioner.

(b) Stop-Transfer Notices. The Purchaser agrees that, to ensure compliance with the restrictions referred to herein, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(c) Refusal to Transfer. The Company shall not be required (i) to transfer on its books any Securities that have been sold or otherwise transferred in violation of any of the provisions of this Agreement or (ii) to treat as owner of such Securities or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Securities shall have been so transferred.

(d) Removal of Legend. The Securities held by Purchaser will no longer be subject to the legend referred to in Section 9(a)(ii) following the expiration or termination of the lock-up provisions of Section 8 (and of any agreement entered pursuant to Section 8). After such time, and upon Purchaser's request, a new certificate or certificates representing the Securities shall be issued without the legend referred to in Section 9(a)(ii), and delivered to Purchaser. The Company will bear any cost or expense related to removing the legend.

10. Conditions to Closing.

(a) Conditions to the Company's Obligation to Sell. The obligation of the Company hereunder to issue and sell the Securities to the Purchaser is subject to the satisfaction, at or before the applicable Closing Date of each of the following conditions, provided that these conditions are for the Company's sole benefit and may be waived by the Company at any time in its sole discretion:

(i) The Purchaser shall have complied with Section 3(a);

(ii) The representations and warranties of the Purchaser shall be true and correct in all material respects; and

(iii) No litigation, statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by or in any court or governmental authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby which prohibits the consummation of any of the transactions contemplated by this Agreement.

(b) Conditions to Each Purchaser's Obligation to Purchase. The obligation of the Purchaser hereunder to purchase the Securities is subject to the satisfaction, at or before the applicable Closing Date of each of the following conditions, provided that these conditions are for the Purchaser's sole benefit and may be waived by the Purchaser at any time in his/her/its sole discretion:

(i) The Company shall have complied with Section 3(c);

(ii) The representations and warranties of the Company shall be true and correct as of the applicable Closing Date, and the Company shall have performed, satisfied and complied with the covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Company at or prior to the applicable Closing Date. The Purchaser shall have received a certificate or certificates, executed by the Chief Executive Officer of the Company, dated as of the applicable Closing Date, to the foregoing effect and as to such other matters as may be reasonably requested by the Purchaser including, but not limited to, certificates with respect to the Company's charter, by-laws and Board of Directors' resolutions relating to the transactions contemplated hereby;

(iii) No litigation, statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by or in any court or governmental authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby which prohibits the consummation of any of the transactions contemplated by this Agreement;

(iv) No event shall have occurred which would reasonably be expected to have a Material Adverse Effect;

(v) The Company shall have caused its legal counsel, Richardson & Patel LLP to deliver a legal opinion addressed to the Purchasers and to the Placement Agent with respect to the matters set forth on Exhibit H attached hereto; and

(vi) The Company shall have provided such other documents as the Placement Agent may reasonably request, each in form and substance satisfactory to the Placement Agent.

11. Public Company Status; Registration Rights. The Company will use reasonable best efforts to become a publicly traded and publicly reporting company under both the Securities Act and the Securities Exchange Act of 1934 and the Purchaser shall have certain registration rights, all in accordance with the Registration Rights Agreement of even date herewith.

12. Miscellaneous.

(a) Governing Law. This Agreement and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of New York, without giving effect to principles of conflicts of law.

(b) Entire Agreement; Enforcement of Rights. This Agreement together with the exhibits and schedules attached hereto, set forth the entire agreement and understanding of the parties relating to the subject matter herein and supersedes any and all prior agreements or discussions between them, including any term sheet, letter of intent or other document executed by the parties prior to the date hereof relating to such subject matter. No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, shall be effective unless in writing signed by the parties to this Agreement; provided, however, that the Purchaser acknowledges and agrees that the Placement Agent may, in its sole discretion acting by prior written consent on behalf of Purchaser, waive any covenant of the Company described in Section 7. The failure by either party to enforce any rights under this Agreement shall not be construed as a waiver of any rights of such party.

(c) Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, the parties agree to renegotiate such provision in good faith. If the parties cannot reach a mutually agreeable and enforceable replacement for such provision, then (i) such provision shall be excluded from this Agreement, (ii) the balance of the Agreement shall be interpreted as if such provision were so excluded and (iii) the balance of the Agreement shall be enforceable in accordance with its terms.

(d) Construction. This Agreement is the result of negotiations between and has been reviewed by each of the parties hereto and their respective counsel, if any; accordingly, this Agreement shall be deemed to be the product of all of the parties hereto, and no ambiguity shall be construed in favor of or against any one of the parties hereto.

(e) Notices. Any notice required or permitted by this Agreement shall be in writing and shall be deemed sufficient when delivered personally (including two business days after deposit with a reputable overnight courier service, properly addressed to the party to receive the same) or sent by fax or 48 hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the party to be notified at such party's address or fax number as set forth herein or as subsequently modified by written notice.

(f) Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument.

(g) Successors and Assigns. The rights and benefits of this Agreement shall inure to the benefit of, and be enforceable by the Company's successors and assigns. The covenants and obligations of the Company hereunder shall inure to the benefit of, and be enforceable by the Purchaser against the Company, its successors and assigns, including any entity into which the Company is merged. The rights and obligations of Purchasers under this Agreement may only be assigned with the prior written consent of the Company.

(h) Third Party Beneficiary. This Agreement is intended for the benefit of the undersigned parties and their respective permitted successors and assigns, and the Placement Agent, and is not for the benefit of, nor may any provision hereof be enforced by, any other person.

(i) Further Assurances. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

(j) Expenses. The Company shall pay all costs and expenses incurred by the Company and the Placement Agent with respect to the negotiation, execution, delivery and performance of the Agreement, including $25,000 in legal fees and expenses of counsel to the Placement Agent.

(k) Survival. The representations, warranties, covenants and agreements made herein shall survive the closing of the transaction contemplated hereby. All statements as to factual matters contained in any certificate or other instrument delivered by or on behalf of the Company pursuant hereto in connection with the transactions contemplated hereby shall be deemed to be representations and warranties by the Company hereunder solely as of the date of such certificate or instrument. The representations, warranties, covenants and obligations of the Company, and the rights and remedies that may be exercised by the Purchaser, shall not be limited or otherwise affected by or as a result of any information furnished to, or any investigation made by or knowledge of, any of the Purchasers or any of their representatives.

(l) Attorneys' Fees. In the event that any suit or action is instituted under or in relation to this Agreement, including without limitation to enforce any provision in this Agreement, the prevailing party in such dispute shall be entitled to recover from the losing party all fees, costs and expenses of enforcing any right of such prevailing party under or with respect to this Agreement, including without limitation, such reasonable fees and expenses of attorneys and accountants, which shall include, without limitation, all fees, costs and expenses of appeals.

(m) Remedies. All remedies afforded to any party by law or contract, shall be cumulative and not alternative and are in addition to all other rights and remedies a party may have, including any right to equitable relief and any right to sue for damages as a result of a breach of this Agreement. Without limiting the foregoing, no exercise of a remedy shall be deemed an election excluding any other remedy.

(n) Consent of Spouse. If the Purchaser is married on the date of this Agreement, such Purchaser's spouse shall execute and deliver to the Company the Spousal Consent, effective on the date hereof. Notwithstanding the execution and delivery thereof, such consent shall not be deemed to confer or convey to the spouse any rights in such Purchaser's Securities that do not otherwise exist by operation of law or the agreement of the parties. If any Purchaser should marry or remarry subsequent to the date of this Agreement, such Purchaser shall within 30 days thereafter obtain his/her new spouse's acknowledgement of and consent to the existence and binding effect of all restrictions contained in this Agreement by causing such spouse to execute and deliver a Consent of Spouse acknowledging the restrictions and obligations contained in this Agreement and agreeing and consenting to the same.

[*Remainder of Page Intentionally Left Blank*]

The Purchaser, by his or her signature below, or by that of its authorized representative, confirms that Purchaser has carefully reviewed and understands this Agreement.

IN WITNESS WHEREOF, the Purchaser has executed this Agreement as of October __, 2012.

PURCHASER (if individual):

Signature

Name (*type or print*)

Signature of Co-Signer (*if any*)

Name of Co-Signer (*type or print*)

PURCHASER (if entity):

Name of Entity

By:

Name:

Its:

AGREED AND ACCEPTED as of _____, 2012.

IDEAL POWER CONVERTERS, INC.

By: _____
Paul Bundschuh
Chief Executive Officer

Subscription Amount (as accepted by the Company):

$_____

EXHIBIT A

COMPANY INFORMATION

[*see attached*]

EXHIBIT B

SPOUSAL CONSENT

I, _____, spouse of _____, have read and hereby approve the foregoing Agreement. In consideration of the Company's granting my spouse the right to purchase the Securities as set forth in the Agreement, I hereby agree to be irrevocably bound by the Agreement and further agree that any community property or similar interest that I may have in the Securities shall be similarly bound by the Agreement. I hereby appoint my spouse as my attorney-in-fact with respect to any amendment or exercise of any rights under the Agreement.

Spouse of _____

OR

I hereby represent and warrant that I am unmarried as of the date of this Agreement.

Signature

EXHIBIT C

FORM OF NOTE

[*see attached*]

EXHIBIT D

FORM OF WARRANT

[*see attached*]

EXHIBIT E

SECURITY AGREEMENT

[*see attached*]

EXHIBIT F

SUBORDINATION AGREEMENT

[*see attached*]

EXHIBIT G

REGISTRATION RIGHTS AGREEMENT

[*see attached*]

EXHIBIT H

FORM OF LEGAL OPINIONS

1. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Texas and has all requisite corporate power and authority to carry on its business as now conducted and as proposed to be conducted. The Company has no direct or indirect subsidiaries. The Company is duly qualified as a foreign corporation to do business and is in good standing in every jurisdiction in which its ownership or use of property or the nature of the business conducted by it makes such qualification necessary except where the failure to be so qualified or in good standing would not have a Material Adverse Effect.

2. The Company has the requisite corporate power and authority to execute, deliver and perform its obligations under the Transaction Documents. The Transaction Documents, and the issuance of the Notes, and Warrants and the reservation and issuance of Common Stock issuable upon conversion of the Notes and exercise of the Warrants have been (a) duly approved by the Board of Directors of the Company, and (b) the Securities, when issued pursuant to the Agreement and upon delivery, shall be validly issued and outstanding, fully paid and non-assessable.

3. The execution, delivery and performance of the Transaction Documents by the Company and the consummation of the transactions contemplated thereby, will not, with or without the giving of notice or the passage of time or both: (a) violate the provisions of the Articles of Incorporation or bylaws of the Company; or (b) to our knowledge, violate any judgment, decree, order or award of any court binding upon the Company.

4. The Transaction Documents constitute the valid and legally binding obligations of the Company and are enforceable against the Company in accordance with their respective terms.

5. The Securities have not been registered under the Securities Act of 1933, as amended (the "Act") or under the laws of any state or other jurisdiction, and are or will be issued pursuant to a valid exemption from registration.

6. The Purchaser has been granted valid security interests in the Collateral pursuant to the Security Agreement, enforceable against the Company in accordance with the respective terms and provisions of the Security Agreement, and to the extent such security interest may be perfected under the Uniform Commercial Code by the filing of financing statements, then upon the due and timely filing of Uniform Commercial Code financing statements respecting the Company, with the Secretary of State of the State of Texas, those security interests will be perfected in such Collateral to the extent described in those statements and the Security Agreement.

7. The Subordination Agreement is a valid and binding obligation of the Company and of TETF, enforceable against TETF in accordance with its respective terms and provisions.

IDEAL POWER CONVERTERS, INC.

Schedules to the

Securities Purchase Agreement

Dated _____, 2012

The following disclosures are intended only to list those items required to be listed in the Sections of the Agreement corresponding to the number of the schedule, and to qualify and limit the representations, warranties and covenants made by IDEAL POWER CONVERTERS, INC., a Texas corporation (the "Company"), in the Securities Purchase Agreement dated _____, 2012 (the "Agreement") between the Company and the Purchasers listed thereto. Unless otherwise noted herein, any capitalized term in the following schedules (the "Schedules") shall have the same meaning assigned to such term in the Agreement.

Ideal Power Converters, Inc.

DISCLOSURE SCHEDULES

October [___], 2012

These Disclosure Schedules are provided in connection with the representations and warranties in Section 4 of the Securities Purchase Agreement dated October [___], 2012 (the "***Agreement***") by and between Ideal Power Converters, Inc., a Texas corporation (the "***Company***"), and the Purchasers named therein. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Agreement.

Nothing contained herein is intended to broaden the scope of any representation or warranty contained in the Agreement or to create any covenant on the part of the Company. Inclusion of any item in these Disclosure Schedules (a) does not represent a determination that such item is material nor shall it be deemed to establish a standard of materiality, except to the extent that the representation or warranty in the Agreement to which such item relates includes a representation or warranty as to materiality; (b) does not represent a determination that such item did not arise in the ordinary course of business, except to the extent that the representation or warranty in the Agreement to which such item relates includes a representation or warranty as to the ordinary course of business; and (c) shall not constitute, or be deemed to be, an admission to any party other than the Purchasers concerning such item.

All references to "Section" or "subsection" refer to a Section or subsection in the Agreement, unless the context otherwise requires. The headings in these Schedules are for convenience of reference only and shall not affect the disclosures contained herein. The disclosures in any section or subsection of these Disclosure Schedules shall qualify other sections and subsections in these Disclosure Schedules only to the extent it is readily apparent from a reading of the disclosure that such disclosure is applicable to such other sections and subsections. As used in these Disclosure Schedules, "Company" means Ideal Power Converters, Inc. only.

These Disclosure Schedules includes descriptions of certain of the Company's agreements or instruments. The descriptions are qualified in their entirety by reference to the detailed terms of the applicable agreement or instrument, provided that each agreement or instrument described herein was previously delivered or made available to a counsel for the Purchasers.

All of the capitalization, share and per share information in this Disclosure Schedule gives effect to the Reclassification and the Stock Split provided for in the Amended and Restated Certificate of Formation of the Company (the "Restated Certificate").

Schedule 4(b)(i) Capitalization

Outstanding Common Shareholders

IDEAL POWER CONVERTERS INC
Outstanding Common Shareholders

Shareholder	Number of Shares Common Stock (as of Sept 30, 2012)
William C Alexander	1,280,250
Hamo Hacopian	625,000
Dr. David Breed	312,500
Cindy D. Breed	312,500
Charles De Tarr	281,925
Battery Ventures VIII, L.P.	122,175
John Bundschuh	108,550
Paul Bundschuh	106,620
Dynamic Manufacturing Solutions LLC	96,150
Mike Barron	42,160
Herman and Ann Breed	40,000
John P. Bundschuh	27,469
Paul Rousch	27,195
Salim A. and Rita S. Momin	25,000
Thomas Ryan (was 25,000)	24,000
Joel Sher	18,815
Peter W. Bundschuh	14,675
William D. Bundschuh	14,675
Chris Cobb	23,814
Mercom Capital LLC	11,289
Total	3,514,762

Outstanding Preferred Shareholders

Shareholder	**Number of Shares Preferred Stock (as of July 18, 2012)**
None	0
TOTAL:	0

Schedule 4(b)(ii) Outstanding options, warrants and convertible promissory notes

1. The Company has issued the following warrants, copies of which have been made available to counsel for the Purchasers:

    a. Common Stock Warrant, dated November 3, 2008, granting Entrepreneurs Foundation of Central Texas the right to purchase 85,950 shares of Common Stock of the Company at an exercise price of $0.0004 per share.

    b. Right to Purchase Shares pursuant to that Investment Unit issued by Ideal Power Converters, Inc. to the Office of the Governor Economic Development and Tourism, dated October 1, 2010, which provides for the issuance of shares of the Company's Common Stock or shares of the same class of capital stock or series of preferred stock as shall be issued in the First Qualifying Financing Transaction (defined therein).

    c. Warrants issued in conjunction with the placement of the August 2012 Notes.

    d. Senior Secured Convertible Promissory Notes in the principal amount of $750,000 issued on August 31, 2012, referred to as the August 2012 Notes.

2. The following agreements, copies of which have been made available to counsel for the Purchasers, provide for issuance of Common Stock:

    a. In connection with an offer for full employment, Mike Barron is eligible to be granted a stock option with a 2 year vesting period for 9,407 shares with a strike price of $2.65754.

    b. Services Agreement, by and between Dynamic Manufacturing Solutions, LLC and Ideal Power Converters, Inc., dated January 15, 2010, which provided that Dynamic Manufacturing Solutions, LLC would receive $65 per hour, to be paid through issuances of Common Stock of Company. According to the Services Agreement, each share of Common Stock of the Company was valued at $31.20 (prior to the stock split), based on a valuation of approximately $4,000,000 and 128,196 issued and optioned shares. All shares issued pursuant to this agreement shall give effect to the Reclassification and the Stock Split provided in the Restated Certificate. Compensation to Dynamic Manufacturing in the form of Common Stock of the Company is capped at a number of shares representing 3% of the total outstanding shares of Common Stock of the Company. As of December 31, 2010, Dynamic Manufacturing Solutions, LLC reached the cap in the contract with 1,846 hrs at the $65/hr rate valued at $120,000 and 96,150 shares were issued (after stock split). The Company has no outstanding obligations to Dynamic Manufacturing Solutions, LLC under this agreement, except that Dynamic Manufacturing Solutions, LLC, shall be paid an hourly rate of $85 per hour, if the Company fails to provide Dynamic Manufacturing Solutions, LLC with a right of first refusal on certain future manufacturing projects.

The Company has issued the following options, copies of which have been made available to counsel for the Purchasers:

Outstanding Option holders

Option Number	Holder	Date	Number of Shares of Common Stock	Exercise Price	Acceleration?
1	Robert Groover	6/15/2007	15,000	$ 0.04	Fully vested
2	Patrick Holmes	6/15/2007	10,000	$ 0.04	Fully vested
5	Charles De Tarr	1/31/2009	63,675	$ 0.17452	Fully vested
6	Paul Bundschuh	5/12/2009	2,925	$ 0.3416	Fully vested
9	Paul Bundschuh	8/25/2009	3,050	$ 0.334	Fully vested
12	Robert King	2/23/2010	64,100	$ 1.248	Yes, upon a change of control
13-A	Mike Barron	6/30/2010	34,550	$ 1.248	Yes, upon a change of control
14	Paul Bundschuh	6/30/2010	28,050	$ 1.248	Fully vested
15	Donald Haygood	6/30/2010	1,200	$ 1.248	Yes, upon a change of control
16	Hamid Toliyat	9/10/2010	48,375	$ 1.248	Yes, upon a change of control
17	Mike Barron	9/30/2010	26,350	$ 1.248	Yes, upon a change of control
18	Paul Bundschuh	9/30/2010	14,025	$ 1.248	Fully vested
19	Donald Haygood	9/30/2010	1,200	$ 1.248	Yes, upon a change of control
20	Paul Roush	9/30/2010	3,575	$ 1.248	Fully vested
21	Paul Bundschuh	12/31/2010	14,025	$ 1.248	Fully vested
22	Donald Haygood	12/31/2010	1,200	$ 1.248	Yes, upon a change of control
23	Donald Haygood	3/31/2011	564	$ 2.65754	Fully vested
24	Donald Haygood	6/30/2011	564	$ 2.65754	Yes, upon a change of control
25	Donald Haygood	11/14/2011	9,407	$ 2.65754	Yes, upon a change of control, unless assumed by purchaser of company
26	Larry Burns	11/14/2011	9,407	$ 2.65754	Yes, upon a change of control, unless assumed by purchaser of company
27	Paul Roush	11/14/2011	9,407	$ 2.65754	Yes, upon a change of control, unless assumed by purchaser of company
28	Mike Barron	11/14/2011	9,407	$ 2.65754	Yes, upon a change of control, unless assumed by purchaser of company
29	Chris Cobb	**6/01/2012 (new-2012)**	45,155	$ 2.65754	Yes, upon a change of control, unless assumed by purchaser of company
	Total		415,211		

Outstanding Warrant holders

Name - Note holders with warrants prior to 8/31/12	Note Amount	warrant conversion rate	Shares from conversion of notes
Bundschuh, John P	13,000	$ 2.65754	4,892
Bundschuh, Paul	13,000	$ 2.65754	4,892
Bundschuh, Peter W	13,000	$ 2.65754	4,892
Bundschuh, William	13,000	$ 2.65754	4,892
Charles De Tarr	150,000	$ 2.65754	56,443
Chris Cobb	200,000	$ 2.65754	75,258
Dr Breed	25,000	$ 2.65754	9,407
Joel Sher	15,000	$ 2.65754	5,644
John Mike Barron	26,575	$ 2.65754	10,000
Passel LTD	100,000	$ 2.65754	37,629
Mike Barron	26,575	$ 2.65754	10,000
Sher's family Trust	10,000	$ 2.65754	3,763
RAndrew Webb	40,000	$ 2.65754	15,052
Magnus LeVicki	50,000	$ 2.65754	18,814
Notes (w/warrants) total -prior to 8/31/12 funding	695,151		261,578

Entrepreneurs Foundation of Central Texas		85,950
	sub-total	347,528

Name - Note holders with warrants (8/31/12)	Note Amount	warrant conversion rate	Shares from conversion of notes
Aaron Grunfeld	15,000	see warrant	see warrant
Allen Estrin	5,000	agreements	agreements
Amy Wang	10,000		
Ankur Desai	5,000		
Anthony DiGiandomenico	25,000		
Ben Padnos	50,000		
Bob Clifford	50,000		
Brad Handler	15,000		
Dan Landry	10,000		
Dan Sanker	10,000		
Dave Mossberg	10,000		
Erick Richardson	50,000		
Greg Suess	20,000		
Harvey Kesner	15,000		
Jeff Padnos	50,000		
Jim Tierney	35,000		
Kevin Leung	50,000		
Kit Jennings	25,000		
Lon Bell	100,000		
Mick Cavalier	50,000		
Nimish Patel	10,000		
Paul Teske	10,000		
Peter Appel	100,000		
Ralph Ferrara	10,000		
Sandy Greenberg	10,000		
Tom Wallace	10,000		
Notes (w/warrants) total - 8/31/2012 funding	750,000		

Office of the Governor Economic Development and Tourism	Number and type of shares to be issued dependent upon First Qualifying Financing Transaction (defined therein)

Schedule 4 g IP status

Dkt#	Status	Where?	App No	Filed	Priority	Pat No	Pub No
IPC011CN	pending	CN	200780029208.4	6/6/06	6/6/06		
IPC011FP	pending	FP	7795915.3		6/6/06		
IPC012	issued	US	11/759,006	6/6/07	6/6/06	7,599,196	US 2008-0013351 A1
IPC012A	pending	US	12/479,207	6/5/09	6/6/06	8,300,476	US 2010-0067272 A1
IPC012F	pending	US	13/205,243	8/8/11	6/6/06		US 2012/0020129
IPC012F	pending	US	13/205,250	8/8/11	6/6/06		US 2012/0033464
IPC012G	pending	US	13/205,264	8/8/11	6/6/06		US 2012/0033553
IPC013	issued	US	11/758,970	6/6/07	6/6/06	7,778,045	US 2008-0031019 A1
IPC013B	pending	US	13/214,575	8/22/11	6/6/06		US 2012/0051100
IPC020A	pending	US	13/205,212	8/8/11	6/29/09		US 2011/0292697
IPC020B	pending	US	13/541,903	7/5/12	6/29/09		
IPC020BR	pending	BR	PI1011551-0	12/28/11	6/29/09		
IPC020C	pending	US	13/541,905	7/5/12	6/29/09		
IPC020CN	pending	CN	2010800387048	2/29/12	6/29/09		
IPC020D	pending	US	13/541,910	7/5/12	6/29/09		
IPC020F	pending	US	13/541,914	7/5/12	6/29/09		
IPC020FP	pending	FP	10800310.4	1/13/12	6/29/09		WO2011/008567
IPC020KR	pending	KR	2012-7000720	1/10/12	6/29/09		WO2011/008567
IPC020WO	expiring	PCT	PCT/US10/40504	6/29/10	6/29/09		WO2011/008567
IPC021A	pending	US	13/205,225	8/8/11	8/17/09	8,295,069	US 2012/0014151
IPC021B	pending	US	13/542,223	7/5/12	8/17/09		
IPC021BR	pending	BR	BR112012003612-7	2/16/12	8/17/09		
IPC021C	pending	US	13/542,225	7/5/12	8/17/09		
IPC021WO	expiring	PCT	PCT/US10/45819	8/17/10	8/17/09		WO2011/022442
IPC022	pending	US	13/308,200	11/30/11	11/30/10		
IPC022WO	pending	PCT	PCT/US11/62689	11/30/11	11/30/10		WO 2012/075172
IPC023	pending	US	13/401,771	2/20/12	2/18/11		
IPC024	pending	US	13/400,567	2/20/12	2/18/11		
IPC028	pending	US	13/308,356	11/30/11	11/30/10		
IPC028WO	pending	PCT	PCT/US11/62710	11/30/11	11/30/10		WO 2012/075189
IPC029P	pending	US	61/700,131	9/12/12	9/12/12		

Ideal Power Converters

List of Patent Families

William C. Alexander

No.	AN or Number	Title(s)	Technology Description	Benefit
1	7,599,196 7,778,045	UNIVERSAL POWER CONVERTER UNIVERSAL POWER CONVERSION METHODS	A unique arrangement of passive and active circuit elements that are operated to transfer power by indirect means between input and output power ports.	Fully isolated power transfer can be bidirectional or multidirectional, with change in voltage, frequency (including DC), polarity, and/or phase. Additionally, all switching is very "soft", resulting in very low switching stresses and loss. Many other benefits accrue with this technology, such as high current control bandwidth.
2	13/205,212	ENERGY-TRANSFER REACTANCE POWER TRANSFER DEVICES, METHODS, AND SYSTEMS WITH CROWBAR SWITCH SHUNTING	A means of shutting down the IPC converter quickly to protect it against transients.	Increased ruggedness and agility in power conversion.
3	**13/205,225**	**POWER CONVERSION WITH ADDED PSEUDO-PHASE**	Provides for an "port" internal to the IPC converter for tem-porary storage of en-ergy as needed to buffer the power flow from a steady power source to an unsteady power sink, or vice-versa	Eliminates the need for large, expensive, and dangerous electrolytic capacitors to interface a DC input to a single phase AC output
4	61/418,144	Photovoltaic String Monitoring and Diagnostic	A technique using an IPC inverter to monitor the current-voltage (I-V) curves of an attached solar PV array	Useful for detecting abnormalities in said PV array
5	61/444,365	Sealed Compartment Vent and Dehumidifier	Uses a desiccant and active heater to control the humidity in the power electronics compartment of an IPC PV inverter, using the diurnal heating and cooling cycle of the inverter	Keeps the internal humidity low even in an environment with high humidity, which prolongs the life of the inverter
6	61/444,385	Zero Current Crossing Detection Circuit	A means to detect when the current through the IPC converter's link inductor goes through zero	A low latency, noise free technique for finding when the link inductor current is zero

Schedule 4(i) Financial Statements

1. Attached are (A) **the audited financial statements** for 2011, 2010 and 2009 from Maxwell Locke & Ritter (**in a separate pdf file**). (B) the un-audited balance sheet as of June 30, 2012 and the un-audited income statement for the six month period ended June, 2012 (the "Income Statements" and collectively with the Balance Sheet, the "Financial Statements").

Schedule 4(m) Material Agreements

Table of Notes

Convertible Notes	Date	Note Amount	Due date	conversion rate or lower	shares given 2.65754
Passel LTD	4/26/2011	$ 100,000.00	12/31/2013	2.65754	37,629
Fred Beach	6/21/2011	$ 50,000.00	12/31/2013	2.65754	18,814
Mr Redwine	9/1/2011	$ 70,000.00	12/31/2013	2.65754	26,340
Don Barr	9/29/2011	$ 100,000.00	12/31/2013	2.65754	37,629
Charles De Tarr	10/9/2011	$ 40,000.00	12/31/2013	2.65754	15,052
Bundschuh, John P	4/12/2012	$ 13,000.00	12/31/2013	2.65754	4,892
Bundschuh, Paul	4/12/2012	$ 13,000.00	12/31/2013	2.65754	4,892
Bundschuh, Peter W	4/12/2012	$ 13,000.00	12/31/2013	2.65754	4,892
Bundschuh, William	4/12/2012	$ 13,000.00	12/31/2013	2.65754	4,892
Charles De Tarr	(multiple)	$ 150,000.00	12/31/2013	2.65754	56,443
Chris Cobb	5/22/2012	$ 200,000.00	12/31/2014	2.65754	75,258
Dr Breed	2/24/2012	$ 25,000.00	12/31/2013	2.65754	9,407
Joel Sher	3/25/2012	$ 15,000.00	12/31/2013	2.65754	5,644
John Mike Barron	4/7/2012	$ 26,575.40	12/31/2013	2.65754	10,000
Passel LTD	4/23/2012	$ 100,000.00	12/31/2013	2.65754	37,629
Mike Barron	4/18/2012	$ 26,575.40	12/31/2013	2.65754	10,000
Sher's family Trust	3/25/2012	$ 10,000.00	12/31/2013	2.65754	3,763
R Andrew Webb	6/11/2012	$ 40,000.00	12/31/2014	2.65754	15,052
Magnus Le'Vicki	7/17/2012	$ 50,000.00	12/31/2013	2.65754	18,814
sub-total		$ 1,055,150.80			397,042
August 31 Round					
Aaron Grunfeld	8/31/2012	$ 15,000.00	8/31/2013	see details	see details
Allen Estrin	8/31/2012	$ 5,000.00	8/31/2013	see details	see details
Amy Wang	8/31/2012	$ 10,000.00	8/31/2013	see details	see details
Ankur Desai	8/31/2012	$ 5,000.00	8/31/2013	see details	see details
Anthony DiGiandomenico	8/31/2012	$ 25,000.00	8/31/2013	see details	see details
Ben Padnos	8/31/2012	$ 50,000.00	8/31/2013	see details	see details
Bob Clifford	8/31/2012	$ 50,000.00	8/31/2013	see details	see details
Brad Handler	8/31/2012	$ 15,000.00	8/31/2013	see details	see details
Dan Landry	8/31/2012	$ 10,000.00	8/31/2013	see details	see details
Dan Sanker	8/31/2012	$ 10,000.00	8/31/2013	see details	see details
Dave Mossberg	8/31/2012	$ 10,000.00	8/31/2013	see details	see details
Erick Richardson	8/31/2012	$ 50,000.00	8/31/2013	see details	see details
Greg Suess	8/31/2012	$ 20,000.00	8/31/2013	see details	see details
Harvey Kesner	8/31/2012	$ 15,000.00	8/31/2013	see details	see details
Jeff Padnos	8/31/2012	$ 50,000.00	8/31/2013	see details	see details
Jim Tierney	8/31/2012	$ 35,000.00	8/31/2013	see details	see details
Kevin Leung	8/31/2012	$ 50,000.00	8/31/2013	see details	see details
Kit Jennings	8/31/2012	$ 25,000.00	8/31/2013	see details	see details
Lon Bell	8/31/2012	$ 100,000.00	8/31/2013	see details	see details
Mick Cavalier	8/31/2012	$ 50,000.00	8/31/2013	see details	see details
Nimish Patel	8/31/2012	$ 10,000.00	8/31/2013	see details	see details
Paul Teske	8/31/2012	$ 10,000.00	8/31/2013	see details	see details
Peter Appel	8/31/2012	$ 100,000.00	8/31/2013	see details	see details
Ralph Ferrara	8/31/2012	$ 10,000.00	8/31/2013	see details	see details
Sandy Greenberg	8/31/2012	$ 10,000.00	8/31/2013	see details	see details
Tom Wallace	8/31/2012	$ 10,000.00	8/31/2013	see details	see details
sub-total		$ 750,000.00			
Total - all Notes		$ 1,805,150.80			

With the exception of the August 2012 Notes, all notes in the table above bear interest at 6%. All of the August 2012 Notes and certain of the remaining notes were issued together with warrants, as noted in the schedule of warrants. All notes are convertible.

1. Commercial Lease, by and between Ideal Power Converters, Inc. and Bee Creek Center, LLC, dated May 1, 2010 with extension dated January 3, 2012.

2 Promissory Note pursuant to that Investment Unit issued by Ideal Power Converters, Inc. to the Office of the Governor Economic Development and Tourism, dated October 1, 2010.

3. Services Agreement, by and between Dynamic Manufacturing Solutions, LLC and Ideal Power Converters, Inc., dated January 15, 2010.

4. Master Services Agreement, by and between Austin Technology Incubator and Ideal Power Converters, Inc, dated October 10, 2008.

5. Research Agreement No. 10-1520, by and between the Texas Engineering Experiment Station and Ideal Power Converters, Inc., dated November 22, 2010. Certain provisions of such agreement provide for joint title and/or license of certain jointly developed Intellectual Property.

6. Consulting Services Agreement, by and between Ray Lowe and Ideal Power Converters, Inc., dated April 23, 2011.

7. Consulting Services Agreement, by and between Selchau Consulting, LLC and Ideal Power Converters, Inc., dated March 1, 2011.

8. Consulting Services Agreement, by and between Scott Wartha and Ideal Power Converters, Inc., dated November 12, 2010.

9. Retainer Agreement by and between Comprehensive Technologies and Ideal Power Converters, Inc. dated April 1. The Agreement covers a period of nine months at $2,000 per month, starting April 1, 2011 and concluding December 31, 2011. Expired.

10. Sales Representative Agreement between Comprehensive Technologies and Ideal Power Converters, Inc. dated May 13, 2011.

11. Westlake Securities d/b/a Focus Strategies. Agreement dated March 7 and expired in July 2012 to assist in non-exclusive attempt to raise capital from a list of 5-6 financial firms.

12. Amplify Capital. Agreement dated December 6, 2011 7 and expired in July 2012 to assist in non-exclusive attempt to raise capital.

13. Grant Award Notice to Ideal Power Converters, Inc. for $40,000 in Eureka Grant Funds under the American Recovery and Reinvestment Act-2009 (ARRA). State Energy Program (Eureka Program). Innovation Marketing Grant. $40,000 received and spent.

14. IPC Cost Share On Department of Energy ARPA-E project. In a three year period, the Company commits to provide $127,965 in labor, while being allocated $427,590 from the $2,777,778 project budget.

15. Brian Quock. Independent sales rep agreement dated May 15th with Brian Quock. Sales in California.

16. Chris Cobb. Signed offer of employment dated May 21, 2012. With details of compensation.

17. Todd Ritter. Not yet finalized. Agreement with sales rep based in Hawaii (new, waiting on final copy).

18. Mercom Capital. Agreement dated May 5, 2012 for marketing and promotion services.

19. Purchase Order, by and between Lockheed Martin Corporation and Ideal Power Converters, Inc., dated September 10, 2010.

20. Purchase Order, by and between Lockheed Martin Corporation and Ideal Power Converters, Inc., dated June 10, 2010.

21. Purchase Order, by and between Lockheed Martin Corporation and Ideal Power Converters, Inc., dated January 14, 2010.

22. License Agreement, by and between Lockheed Martin Corporation and Ideal Power Converters, Inc., dated December 22, 2009, License No. 09-MC-LI-0006

23. Texas Emerging Technology Fund Award and Security Agreement, by and between the State of Texas and Ideal Power Converters, Inc., dated October 1, 2010.

24. Research Agreement No. 10-1520, by and between the Texas Engineering Experiment Station and Ideal Power Converters, Inc., dated November 22, 2010. Certain provisions of such agreement provide for joint title and/or license of certain jointly developed Intellectual Property.

25. Statement of Work, issued by the Company to Texas Engineering Experiment Station, governed by the Research Agreement. Project almost completed.

26. Demonstration Agreement, by and between the City of Austin and Ideal Power Converters, Inc., dated May 20, 2010.

Schedule 4(l) Certain Transactions

1. Use of DataCorp for IT services including internet site. Company is owned by Hamo Hacopian who is on the board. Mr. Hamo Hacopian currently owns more than 5%.

2. Convertible promissory notes held by CFO Charles De Tarr ($190,000), Chris Cobb President and COO ($200,000), and Dr Breed ($25,000). Both Charles De Tarr and Dr Breed own more than 5%.

3. Some recent payables paid by (same individuals as #2) to be repaid as part of accounts payables.

Schedule 4(r) No Brokers

1 Westlake Securities d/b/a Focus Strategies. Agreement dated March 7 and expired in July 2012. Used to assist in non-exclusive attempt to raise capital from a list of 5-6 financial firms (mainly Texas "Cap-Co's")

2 Amplify Capital. Agreement dated December 6, 2011 and expired in July 2012 to assist in non-exclusive attempt to raise capital.

Schedule 4(t) Risk Factors

An investment in the Securities being offered under this Securities Purchase Agreement is speculative and involves a high degree of risk. You should purchase the Securities being offered hereby only if you can afford to sustain a total loss of your investment. Accordingly, in analyzing this investment you should carefully consider the following risk factors, as well as the other information included in this Securities Purchase Agreement and related exhibits and disclosure schedules, as well as other information furnished by the Company. The order of the risk factors is not necessarily indicative of the relative importance of any described risk. These risk factors are not the only risks we face and this list should not be considered exhaustive. We consider the risks described below to be material, however there may be other risks that currently are not known to us. The occurrence of any one of the following events would be likely to have a material adverse effect on the Company and our business, prospects, financial condition, and/or results of operation, and you could lose all or part of your investment in the Company.

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 have a limited operating history, which makes it difficult to evaluate our business. Although we have issued patents and patent applications pending with the United States Patent and Trademark Office ("USPTO") and equivalent offices in the European Union (the "EU"), South Korea, China, Brazil and Canada for a power converter topology and our methods of operating said topology, and have had them validated by UL certifications from Intertek, a Nationally Recognized Test Laboratory, the California Energy Commission, and three Solar PV Inverter installations fielded with a total of 13 inverters, (running without problems for more than three months each), 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 may not be able to meet our product development and commercialization milestones.

We are subject to product and commercialization milestones and dates for achieving development goals related to technology and design improvements of our products, under our agreement with the Texas Emerging Technology Fund, an entity overseen by the Office of the Governor of Texas. To achieve these milestones we must complete substantial additional research, development and testing of our products and technologies, such as the grid-battery and Level III DC charger converters that we currently have under development. Except for our Solar PV Inverter products, we anticipate that it will take at least six to twelve months to develop and ready our other products for scaled production. 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, or within the timeframe as planned. Our plans and ability to achieve profitability depend on acceptance 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 Level III DC Electric Vehicle Chargers. More generally, the commercialization of our products may also be adversely affected by many factors not within our control, including:

- 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;
- emergence of newer, possibly more effective technologies;
- future cost and availability of the raw materials and components needed to manufacture and use our products; and
- adoption of new regulatory or industry standards which 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 those products.

A material part of our success depends on our ability to manage our suppliers and manufacturers.

We rely upon contract manufacturers to produce our products. There can be no assurance that key manufacturers will provide 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.

We have not devoted significant resources towards the marketing and sale of our products, we expect to face intense competition in the markets in which we do business, and we continue significantly to rely on the marketing and sales efforts of third parties whom we do not control.

To date, we primarily focused on the sale of Solar PV Inverter products and, while we have sold increasing quantities of our products on a yearly basis, even by adding veteran industry 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 the Solar PV Inverter product will continue to be conducted by a combination of independent manufactures representatives, third-party strategic partners, distributors, or OEMs. Consequently, commercial success of our products will depend to a great extent on the efforts of others. We have entered and intend to continue entering into strategic marketing and distribution agreements or other collaborative relationships to market and sell our Solar PV Inverter and Grid-Battery Converter and value added products. However, 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 which 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.

We will face intense competition in the markets of our product applications for our Solar PV Inverter, Grid-Battery Converter, Level III DC Vehicle Charger and other value-added products. We will compete directly with currently available products, some of which may be less expensive. The companies that make these other products may have established sales relationships and more name-brand recognition in the market than we do. In addition, some of those companies may have significantly greater financial, marketing, manufacturing and other resources.

The prototype of our new 3-Port Inverter 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 building a prototype of a 3-Port Inverter, which is an integrated Solar PV Inverter and Battery Charger/Inverter, based on improvements on our current PV inverter products. We will commence the design and construction of prototypes of our new 3-Port Inverter. We do not yet know if the prototypes will produce positive results consistent with our expectations. The prototypes may also cost significantly more than expected, and the prototype design and construction process may uncover problems of which we are currently not aware. Theseand 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 are highly dependent on certain 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 Bill Alexander(Chief Technology Officer), Paul Bundschuh (Vice President of Business Development), and Michael Barron (Director or Research and Development and Firmware Engineering). If we lose the services of any of these persons, we would be forced to expend significant time and money in the pursuit of replacements, which would result in both 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 or on terms that would not be unduly expensive or burdensome to us. We have no long-term employment agreements with our executives, and we do not currently carry a key-man life insurance policy that would assist us in recouping our costs in the event of their death or disability.

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 inverter products 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.

Our independent registered public accounting firm has issued an unqualified opinion with an explanatory paragraph in the notes to the financial statements to the effect that failure to obtain financing or collect revenue receipts in a timely manner would raise substantial doubt about our ability to continue as a going concern.

This unqualified opinion with an explanatory paragraph could have a material adverse effect on our business, financial condition, results of operations and cash flows. We are dependent on the proceeds of this offering of senior, secured convertible notes and following its completion will require additional financing to fund our operations. We have no committed sources of capital and do not know whether additional financing will be available when needed on terms that are acceptable, if at all. This going concern statement from our independent registered public accounting firm may discourage some investors from purchasing our securities or providing alternative capital financing. The failure to satisfy our capital requirements will adversely affect our business, financial condition, results of operations and prospects. Unless we raise additional funds, either through the sale of our securities or one or more collaborative arrangements, we will not have sufficient funds to continue operations. No assurance can be given that any funds we obtain will prove adequate for our needs.

Risks Relating to the Industry

The recent economic downturn has adversely affected, and is likely to continue affecting, our operations and financial condition potentially impacting our ability to continue as a going concern.

The recent economic downturn has resulted in a reduction in spending on durable goods, industrial equipment and machinery, and less than favorable credit markets, all of which may adversely affect us. Although our top-selling product is currently used primarily in the solar power industry, we expect to derive future sales from a wide range of customers for a wide range of potential applications. If the solar power market declines or stagnates, or there is a down-turn in other industries from which we expect to derive sales, our operations and financial condition could be negatively impacted. While economic stimulus measures undertaken by federal and state governments appear favorably to have targeted clean energy products we currently are unable to project if we can translate these programs into increases in sales, further research and development support, grants or other investments.

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

Our business is highly competitive. 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. These competitors include Satcon, SMA, RefuSOL, and Chint Solar. All aspects of our businesses, including pricing, financing, servicing, as well as 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. Although we place a high value upon our ability to develop superior products and to be more entrepreneurial than our competitors, 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 reduce demand for our future products, harming our operating results.

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. federal Investment Tax Credit and the incentive programs in South Korea, the State of Texas, and the State of California and state renewable portfolio standards programs). In addition, 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 may result in the diminished economic competitiveness of our product to our customers and could materially and adversely affect the growth of alternative energy technologies, including power converter technology, as well as our future operating results.

If our products do not provide demonstrably superior features include outstanding reliability, efficiency and cost effectiveness we will not be able to penetrate our targeted markets.

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. Other companies, some of which have substantially greater resources than ours, are currently engaged in the development of products and technologies that are similar to, or may be competitive with, our products and technologies.

We may be affected by environmental and other governmental regulation.

We are subject to federal, state, provincial, and local regulation with respect to the manufacture of our power converters. Accordingly, compliance with existing or future laws and regulations could have a material adverse effect on our business prospects and results of operations.

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, we will have to revise our plans of operation.

Our intellectual property may not have been properly valued for financial statement purposes.

Our balance sheet at June 30, 2012 lists $293,005 in intangible property, an amount which reflects costs incurred to date on development of patents net of amortization. If our auditors later determine that the proper asset value of our intellectual property in accordance GAAP is less than that amount, our asset base could be materially reduced.

Our operating system of internal controls has been inadequate.

As of August 2012, we did not have a comprehensive operating system of internal controls designed to ensure reliable financial reporting, effective and efficient operations, compliance with applicable laws and regulations as well as safeguarding our assets against theft and unauthorized use, acquisition, or disposal. During 2012, however, we instituted a minimal control environment comprised of the: (i) identification and allocation of expenses in QuickBooks; (ii) institution of formal expense reports; (iii) improved tracking of deposits and withdrawals; (iv) forecasting and tracking of monthly expense budgets; and (v) implementation of written documentation for changes to our stock and warrant ledger entries. Although we are a private company, our current system of internal controls is not likely to be sufficient to meet the standards required of a public reporting company under the Securities Exchange Act of 1934. Although we intend to institute improvements in our controls and procedures, we cannot provide assurance that our controls and procedures will be implemented on a timely basis or that they will at any given time be found to meet applicable regulatory requirements.

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.

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 and our business, operating results and financial condition. Our expansion will 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.

We expect to incur operating losses in the foreseeable future.

We were incorporated in May 2007. From inception through December 31, 2011, we generated relatively small operating revenues from our business. Accordingly, we are relying on the Offering and a follow-on private placement in order to generate sufficient funds to commercialize our devices or instrumentalities embodying our proprietary intellectual property; and we are relying on this and a subsequent additional follow-on financing to fully implement our business plan. We have sold 30 of our power converter devices through the date of this Offering. Accordingly, there is only a limited operating history upon which to evaluate our prospects. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered in the establishment of a new business in a new industry and the risks and expenses associated with our current under-capitalized financial condition. Further, there can be no assurance that we will be able to implement our business plan, generate sustainable revenue or ever achieve profitable operations. We may be unable to successfully implement our business model and strategies and we may have operating losses until such time as we develop a substantial and stable revenue base.

An inability to meet our capital expenditure needs could adversely affect our ability to build and maintain our business.

Our business requires substantial capital in order to effectively market, sell, and further improve our products. We may be unable to fund our capital expenditure requirements if: (i) we are unable to generate sufficient cash from our operations or (ii) we are unable to secure additional financing on acceptable terms, or in dollar terms necessary to fund our expenditures. Furthermore, there is no assurance that we will be able to raise any necessary additional funds through bank financing or the issuances of equity or debt securities on terms acceptable to us, if at all. We may be unable to obtain adequate financing to implement our business plan which could negatively impact our liquidity and ability to continue operations.

Risks Relating to Our Securities

The Offering may not be fully subscribed and, even if the Offering is fully subscribed, we anticipate the need for additional capital in the future. If additional capital is not available, we may not be able to continue to operate our business pursuant to our business plan or at all.

We will offer the securities on "best-efforts" basis, meaning that we may raise substantially less than the total maximum offering amounts. If we do not raise a minimum of $750,000 in this Offering, and at least $3 million to $4.25 million in one or more future private placements within the next several months, we may lack sufficient amount of capital to execute our business plan. Even if this Offering is fully subscribed, we expect we will need substantial additional financing in the future, which we may seek to raise through, equity, bank and other debt financing. Any future equity financings will be dilutive to existing shareholders, and any future debt financings may involve covenants and other restrictions affecting our business activities. Additional future financing may not be available on acceptable terms, or at all.

The concentration of ownership of our common stock gives a few individuals significant control over important policy and operating decisions and could delay or prevent changes in control.

As of August 2012, our executive officers and directors beneficially owned over 66% of the issued and outstanding shares of our common stock on a fully-diluted basis. As a result, these persons have the ability to exert significant control over matters that could include the election of directors, changes in the size and composition of the board of directors, mergers and other business combinations involving the Company, and operating decisions affecting us. In addition, through control of the board of directors and voting power, they may be able to control certain decisions, including decisions regarding the qualification and appointment of officers, dividend policy, access to capital (including borrowing from third-party lenders and the issuance of additional equity securities), and the acquisition or disposition of our assets. In addition, the concentration of voting power in the hands of those individuals could have the effect of delaying or preventing a change in control of the Company, even if the change in control would benefit our shareholders. A perception in the investment community of an anti-takeover environment at the Company could cause investors to value our securities lower than in the absence of such a perception.

There is no public market for the Company's securities, so you will not be able to liquidate them if you need money.

Prior to this Offering, there has been no public market for the common stock or Securities. It is not likely that an active market for the Company's Securities will develop or be sustained soon after this Offering. We cannot provide any assurance that we will successfully complete a public offering or become a public reporting company, or that a market for our Securities and common stock will ever develop.

The Company has the ability to issue additional shares of its common stock or Securities without asking for shareholder approval, which could cause the investment of the Securities offered hereby to be diluted.

Our articles of incorporation currently authorize the Board of Directors to issue up to 5,000,000 shares of common stock, and up to 275,000 shares of Preferred Stock. In the event all of the Securities offered hereby are issued and sold and assuming the conversion and exercise of all of all notes, options and warrants, including the Securities, the Company presently anticipates that it will have approximately 8 million shares of common stock outstanding on a fully-diluted basis outstanding (provided however, the total number of shares outstanding will be dependent on the per share price in a future securities offering). Accordingly, in order to accommodate the future issuance of shares of common stock, we will be required to amend our articles of incorporation with approval of our shareholders, nonetheless, the Board of Directors has the authority to issue shares of Preferred Stock or common stock, or warrants or other rights to purchase shares of such stock up to maximum authorized in the articles of incorporation without obtaining shareholder approval.

Management will have broad discretion in using the proceeds received from this Offering. You may not approve of the ways in which our management uses those proceeds.

We expect to use the net proceeds of this Offering contemplated by this Securities Purchase Agreement primarily for facility capital expenditures, building a prototype, the hiring of staff, the filing of additional patent applications, and for general working capital, as set forth in Section 7(b) of the Securities Purchase Agreement. Management has broad discretion in allocating proceeds of this Offering. You will not have the authority to approve the uses to which our management allocates money. Management's failure to effectively use this money could have a material adverse effect on our business.

Assumptions underlying the projections in our business plan are highly speculative and may prove to be untrue.

Management may have provided certain projections to investors in connection with this Offering. These projections include, but are not limited to: forecasts, valuations, financial projections, cost and profit analysis, projected marketing expense and other prospective information ("Prospective Information"). If any of the assumptions upon which these projections are based prove to be untrue, including resumed growth of the economy in general, expected growth in the solar power industry as well as the industries in which our products and future products have application, these projections could be adversely affected and the results anticipated in the Prospective Information may not be achieved. Investors should be aware that these and other projections and predictions of future performance, whether included with the Securities Purchase Agreement or subsequently delivered to Investors, are based on certain assumptions which are highly speculative. Such Prospective Information is not (and should not be regarded as) a representation or warranty by us or any other person that the overall objectives of our Company will ever be achieved, that the projected results in the Prospective Information will become a reality, or that we will ever achieve significant revenues or profitability. Prospective Information and these projections and any other forecasts of future performance should not be relied upon by the Investor in making an investment decision.

We do not intend to pay any dividends or distributions on our common stock.

We do not anticipate paying any cash dividends on our common stock in the foreseeable future. Dividends, if and when paid, are subject to our financial condition, as well as other business considerations. In addition, applicable state law may limit the ability of a corporation to pay dividends.

If we become a public reporting company, the costs of public company compliance may have a material adverse effect on the results of our operations and may make it more difficult for us to focus on the implementation of our business plan.

If we complete an initial public offering of our securities or otherwise are able to cause one or more classes of our securities to trade in the public securities markets, we will become subject to additional layers of governmental regulation including the Exchange Act and rules and regulations promulgated by the SEC. We may become obligated to file annual , quarterly and current reports as well as proxy statements and other filings with the SEC. These compliance obligations, will require us to incur significant legal and accounting costs which could have a material adverse effect on our results of operations. Our management will need to devote substantial time to such compliance matters, which might divert our attention from the development of the business and implementation of our business plan.

There are restrictions on the transfer of the Securities being offered in this Offering, and the common stock underlying the Securities.

Neither the Securities offered in this Offering nor the common stock underlying such Securities have been registered with the Securities and Exchange Commission under the Securities Act of 1933 or registered or qualified with any state or territorial securities regulatory agency. The Securities Purchase Agreement provides that you agree that the Company will not be required to transfer your Securities on its stock transfer records or issue Shares to any person to whom you sell the Securities unless you provide the Company with documentation satisfactory to the Company that the transfer is not in violation of the registration requirements of the Securities Act of 1933, which may include an opinion of legal counsel for which you may be required to pay. There is no assurance that our shares of common stock will become publicly traded, that your shares will be successfully registered, or that other required conditions to permit securities transfers will be met.

If you need to raise money from the sale of your shares, neither the Company nor any of its officers, directors, stockholders or agents will be under any obligation to purchase the Securities you buy in this Offering and you may not be able to liquidate your shares because there is not public market for the shares at this time and there is no assurance a public market will develop. The Securities we are offering is unlikely to be accepted as collateral by lending institutions.

Your investment in the Securities should, therefore, be considered only if you have no immediate need for liquidity in your investment.

We are obligated under a Fund Award and Security Agreement, and related Investment Unit, dated October 1, 2010 with the Texas Emerging Technology Fund, which include certain covenants that restrict our business activities, and bind us to significant repayment obligations in the event of default.

Under our agreement with the Texas Emerging Technology Fund, we may become obligated to repay an amount equal to $1 million plus accrued interest, if we breach the terms of our agreement at any time prior to October 1, 2020, and this contingent obligation is secured by all of our assets. Although the Office of the Governor of the State of Texas has agreed to subordinate its security interest to the security interest granted to and held by the investors in the Securities in this Offering, a breach of our agreement with the Texas Emerging Technology Fund could trigger our payment obligations, and if we are unable to perform those obligations, our business could be materially and adversely affected.

Our agreement with Texas Emerging Technology Fund requires us to, among other things, maintain our principal place of business and manufacturing center within the State of Texas, and to use reasonable efforts to use qualified Texas-based suppliers. If we are unable to comply with these and other covenants, or they become cost-prohibitive or not cost-effective, we may have to seek waivers from the State of Texas in order to avoid default, and if such waivers are not granted then our business may be materially and adversely affected.

Due to our limited revenue and asset base, we cannot provide assurance that we will be able to repay the principal of the Notes when due, or that the Note holders' rights and senior security interest, if exercised by the Note holders, will be sufficient to make the note holders whole.

We are an early stage company with limited revenue, and our current asset base consists mainly of intellectual property. Our present ability to repay the principal amount of the senior secured Notes is very limited. Under the terms of the Notes, the principal and accrued interest under the Notes will automatically convert into common stock upon a firm commitment initial public offering of our common stock. However, if we do not complete an initial public offering, the Notes will become due and we will be obligated to pay the principal and accrued interest on the Notes in cash. While we plan to monetize our intellectual property and generate increasing revenue from sales of our products, we cannot provide assurance of when, or if ever, these efforts will result in profitable operations. Accordingly, there can be no assurance that we will be able to repay the senior secured Notes when they become due. If the holders of the senior secured Notes attempt to enforce their rights and security interest in the collateral, which currently consists mainly of intellectual property, it is uncertain whether the value of such collateral in a sale or liquidation would be sufficient to cover the total principal amount of the senior secured notes.

Upon their exercise of conversion rights under the Notes, investors will very likely suffer immediate and substantial dilution.

Upon an investor's exercise of conversion rights under the Notes, it is very likely that the investor's conversion price ("Conversion Price") for the shares of common stock issuance upon conversion of the Notes ("Conversion Shares")will be substantially higher than the average purchase price paid by certain early-stage investors in the Company for their shares of common stock. The average price per share paid by these early stage investors for their shares of common stock in the Company may in many instances be negligible; as a result, investors who convert their Notes into Conversion Shares will very likely incur immediate and substantial dilution.

We anticipate issuing additional senior secured convertible notes, which will have a first priority security interest on par with the notes being issued in this Offering, and such issuances may increase the amount of risk, and reduce the amount of collateral available to, the investors in this Offering.

We plan to issue additional senior secured convertible notes, which will have a first priority security interest on par, with respect to payment and priority, with the notes being issued in this Offering. The collateral, which generally consists of all of our assets (with certain exceptions), is limited in value, and will be shared with any additional first priority senior creditors. Accordingly, an increase in the amount of first priority senior indebtedness will reduce the amount of collateral that corresponds to each dollar invested by the senior creditors, thereby increasing the amount of risk on the part of all senior creditors. There can be no assurance that if the senior creditors exercise their rights to take or dispose of the collateral, that the total amount of collateral being provided as security in this Offering and future offerings will be sufficient to make whole the investors in this Offering together with additional senior creditors who will have a security interest on par with the investors in this Offering.

The Conversion Price of the Notes may be arbitrarily set by the terms of a future financing, which have not yet been determined.

There is no present market for the Notes and the underlying Conversion Shares. Under the terms of the Notes, the Conversion Price for the underlying Conversion Shares depends on the price per share of an initial public offering of the Company, or a private placement financing. The price per share as agreed by investors in these future financings is not necessarily indicative of the actual or fair value of the Notes or the underlying Conversion Shares, and may not bear any relation to our net worth, earnings or other financial metrics. We cannot assure you that the conversion price of the Notes will meet your expectations, or will result in any particular return on your investment. In addition, we cannot provide any assurance that a subsequent initial public offering or private placement financing will occur at all, and as a result, the Notes may not become convertible into equity securities of the Company. In such event, the holders of Notes may be limited to seeking recovery of their cash investment.

Risks Relating to Our Intellectual Property

If our existing, newly developed or proposed intellectual property is not adequately protected by valid, issued patents or if we are not otherwise able to protect our proprietary information, our financial condition, operations or ability to develop and commercialize our existing, newly developed or proposed intellectual property based instrumentalities may be harmed.

The success of our operations will depend in part on our ability to:

- Obtain patent protection for our devices and devices or instrumentalities embodying our proprietary intellectual property, and other methods or components on which we rely, both in the United States and in other countries with substantial markets;
- Defend patents once obtained; and
- Maintain trade secrets and operate without infringing upon the patents and proprietary rights of others.

Our business substantially relies on our own intellectual property related to various technologies that are material to our devices or instrumentalities embodying our proprietary intellectual property and processes. It is likely that we will depend on our ability to successfully prosecute and enforce the patents, file patent applications and prevent infringement of those patents and patent applications.

If we are not able to maintain adequate patent protection for our devices or instrumentalities embodying our proprietary intellectual property, we may be unable to prevent our competitors from using our technology.

The patent positions of the technologies being developed by us involve complex legal and factual uncertainties. As a result, we cannot be certain that we will be able to obtain adequate patent protection for our devices or instrumentalities embodying our proprietary intellectual property. There can be no assurance that:

- The scope of any patent protection will be sufficient to provide us with competitive advantages;
- Any patents obtained by us will be held valid if subsequently challenged;
- Others will not claim rights in or ownership of the patents and other proprietary rights we may hold; or
- Unauthorized parties may try to copy aspects of our devices or instrumentalities embodying our proprietary intellectual property and technologies or obtain and use information we consider proprietary.

Policing the unauthorized use of our proprietary rights is difficult. We cannot guarantee that harm or threat to our intellectual property will not occur. In addition, changes in, or different interpretations of, patent laws in the United States and other countries may also adversely affect the scope of our patent protection and our competitive situation.

We cannot offer any assurance that current and potential competitors or other third parties have not filed or received, or will not file or receive applications in the future for patents or obtain additional proprietary rights relating to devices or instrumentalities embodying our proprietary intellectual property or processes used or proposed to be used by us.

Additionally, there is certain subject matter that is patentable in the United States but not generally patentable outside of the United States. Differences in what constitutes patentable subject matter in various countries may limit the protection we can obtain outside of the United States.

1 Innovations in power converter technology that arise while our patent applications are pending may contain more favorable or superior technology than our power converter technology, which might render our patents irrelevant if and when they are issued. This may harm our future operations.
2
3 From 2007 through 2011 we filed 26 patent applications for our power converter topology and methods of operation of that topology with the USPTO and equivalent offices in the EU and China. To date, we have two issued patents, and several pending patent applications. While various patent offices are reviewing our pending applications and before the related patents, if any, are issued, third parties may develop an alternative catalyst with reduced costs and improved durability as compared to our methods. Although we plan to simultaneously improve our technology and file additional patents, if any such innovations by our competitors arise, our power converter topology and our methods of operating said topology may be difficult to market, which would harm our operations.

We may be subject to costly claims, and, if we are unsuccessful in resolving conflicts regarding patent rights, we may be prevented from developing, commercializing or marketing our devices or instrumentalities embodying our proprietary intellectual property.

Given the innovative nature and broad scope of our intellectual property, it is entirely foreseeable that we will encounter substantial litigation regarding patent and other intellectual property rights in the industries in which we presently or intend to compete. We may be subject to legal actions claiming damages and seeking to stop third party licensees from manufacturing and marketing our devices or instrumentalities embodying our proprietary intellectual property. In addition, litigation may be necessary to enforce our proprietary rights or to determine the enforceability, scope and validity of the proprietary rights of others. If we become involved in litigation, it could be costly and divert our efforts and resources. In addition, if any of our competitors file patent applications in the United States claiming technology also invented by us we may need to participate in interference proceedings held by the U.S. Patent and Trademark Office to determine priority of invention and the right to a patent for the technology. Like litigation, interference proceedings can be lengthy and often result in substantial costs and diversion of resources.

As more potentially competing patent applications are filed, and as more patents are actually issued, in the fields in which we presently compete, or in other fields in which we may become involved and with respect to devices or instrumentalities embodying our proprietary intellectual property, component methods or compositions that we may employ, the risk increases that we may be subjected to litigation or other proceedings that claim damages or seek to stop our licensees from manufacturing, marketing, or commercialization efforts. Even if such patent applications or patents are ultimately proven to be invalid, unenforceable or non-infringed, such proceedings are generally expensive and time consuming and could consume a significant portion of our resources and substantially impair our licensees' marketing and product development efforts.

We may not have adequate protection for our unpatented proprietary information, which could adversely affect our prospects and competitive position.

We also rely on trade secrets, know-how and continuing technological innovations to develop and maintain our competitive position. However, others may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets or disclose our technology. To protect our trade secrets, we may enter into confidentiality agreements with employees, consultants and potential collaborators. However, these agreements may not provide meaningful protection of our trade secrets or adequate remedies in the event of unauthorized use or disclosure of such information. Likewise, our trade secrets or know-how may become known through other means or be independently discovered by our competitors. Any of these events could prevent us from developing or commercializing our product candidates.

If we fail to protect, or incur significant costs in defending, our intellectual property and other proprietary rights, our business, financial condition, and results of operations could be materially harmed.

Our success depends, in large part, on our ability to protect our intellectual property and other proprietary rights. We intend to rely primarily on patents, trademarks, copyrights, trade secrets and unfair competition laws, as well as license agreements and other contractual provisions, to protect our intellectual property and other proprietary rights. However, a significant portion of our technology is not patented, and we may be unable or may not seek to obtain patent protection for this technology. Moreover, existing U.S. legal standards relating to the validity, enforceability and scope of protection of intellectual property rights offer only limited protection, may not provide us with any competitive advantages, and may be challenged by third parties. The laws of countries other than the United States may be even less protective of intellectual property rights. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property or otherwise gaining access to our technology. Unauthorized third parties may try to copy or reverse engineer our devices or instrumentalities embodying our proprietary intellectual property or portions of our devices or instrumentalities embodying our proprietary intellectual property or otherwise obtain and use our intellectual property. Moreover, many of our employees have access to our trade secrets and other intellectual property. If one or more of these employees leave us to work for one of our competitors, then they may disseminate this proprietary information, which may as a result damage our competitive position. If we fail to protect our intellectual property and other proprietary rights, then our business, results of operations or financial condition could be materially harmed.

In addition, affirmatively defending our intellectual property rights and investigating whether we are pursuing a product or service development that may violate the rights of others may entail significant expense. We have not found it necessary to resort to legal proceedings to protect our intellectual property, but may find it necessary to do so in the future. Any of our intellectual property rights may be challenged by others or invalidated through administrative processes or litigation. If we resort to legal proceedings to enforce our intellectual property rights or to determine the validity and scope of the intellectual property or other proprietary rights of others, then the proceedings could result in significant expense to us and divert the attention and efforts of our management and technical employees, even if we prevail.

We may be sued by third parties for alleged infringement of their proprietary rights, which could be costly, time-consuming and limit our ability to use certain technologies in the future.

We may become subject to claims that our technologies infringe upon the intellectual property or other proprietary rights of third parties. Any claims, with or without merit, could be time-consuming and expensive, and could divert our management's attention away from the execution of our business plan. Moreover, any settlement or adverse judgment resulting from these claims could require us to pay substantial amounts or obtain a license to continue to use the disputed technology, or otherwise restrict or prohibit our use of the technology. We cannot assure you that we would be able to obtain a license from the third party asserting the claim on commercially reasonable terms, if at all, that we would be able to develop alternative technology on a timely basis, if at all, or that we would be able to obtain a license to use a suitable alternative technology to permit us to continue offering, and our customers to continue using, our affected product. An adverse determination also could prevent us from offering our devices or instrumentalities embodying our proprietary intellectual property to others. Infringement claims asserted against us may have a material adverse effect on our business, results of operations or financial condition.

Schedule 5(g) Brokers and Finders; Placement Agent Services

The Company will pay to the Placement Agent for services rendered in conjunction with this Offering compensation in the amount of 10% of the gross proceeds raised and a warrant for the purchase of the Company's Common Stock. The number of shares of Common Stock subject to the warrant will equal 10% of the shares of Common Stock into which the Notes issued to the Purchasers in this Offering may be converted plus 10% of the number of shares of Common Stock that are subject to the Warrants issued to the Purchasers in this Offering. The warrant will have a term of 7 years and will include anti-dilution and cashless exercise provisions as well as representations and warranties that are customary and standard in warrants issued to placement agents or underwriters. The Common Stock underlying the warrant will also have registration rights identical to those provided to the Purchasers. The exercise price will equal 125% of the exercise price of the Warrants issued to the Purchasers. The Company has also signed a Strategic Consulting Agreement and an Intellectual Property Consulting Agreement with the Placement Agent. Pursuant to the Strategic Consulting Agreement, the Company has issued to the Placement Agent a warrant for the purchase of 10% of the Company's Common Stock on a fully-diluted basis, with the exception of shares of Common Stock that may be issued to the Texas Emerging Technology Fund. The warrant has a term of 7 years and includes anti-dilution and cashless exercise provisions as well as representations and warranties that are customary and standard in warrants issued to placement agents or underwriters. The exercise price will equal the exercise price of the Warrants issued to the Purchasers of the August 2012 Notes. The Common Stock underlying the warrant has registration rights no less favorable than those granted to the Purchasers of the August 2012 Notes. In addition, the Company has agreed to pay travel and reasonable related expenses incurred by the Placement Agent on visits to the Company's worksite, as well as any other expenses that may be approved by the Company in advance. As compensation for services provided under the Intellectual Property Consulting Agreement, the Company will pay the sum of $4,500 to the Placement Agent for the preparation of each technical disclosure document provided for use in the Company's patent applications. The Company has also agreed to pay the travel and reasonable related expenses (not to exceed a total of $10,000) in connection with one visit by a team of 2 to 3 individuals from the Placement Agent who will provide assistance to the Company in preparing

in-depth documentation or other assistance for a period of 2 to 3 days.

Exhibit 10.18

IDEAL POWER CONVERTERS, INC.
REGISTRATION RIGHTS AGREEMENT

This **REGISTRATION RIGHTS AGREEMENT** (this "**Agreement**"), dated as of October [___], 2012, is made and entered into by and between Ideal Power Converters, Inc., a Texas corporation with headquarters located at5004 Bee Creek Road, Suite 600 Spicewood, Texas 78669 (the "**Company**"), and each of the purchasers set forth on the signature pages hereto (the "**Purchasers**").

WHEREAS, in connection with the Securities Purchase Agreement by and among the parties hereto of even date herewith (the "**Securities Purchase Agreement**"), the Company has agreed, upon the terms and subject to the conditions contained therein, to issue and sell to the Purchasers: (i) Senior Secured Convertible Promissory Notes for an aggregate purchase price of $3,250,000 which, together with the Senior Secured Convertible Promissory Notes issued by the Company on August 31, 2012 for an aggregate purchase price of $750,000, shall be referred to in this Agreement as the **"Notes"**, and (ii) warrants to purchase shares of the Company's common stock, $0.001 par value(the **"Common Stock"**) of the Company (the **"Warrants"**); and

WHEREAS, in order to induce the Purchasers to execute and deliver the Securities Purchase Agreement, the Company has agreed to provide certain registration rights under the Securities Act of 1933, as amended, and the rules and regulations thereunder, or any similar successor statute (collectively, the "**Securities Act**"), and applicable state securities laws.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and each Purchaser hereby agree as follows:

1. **Definitions.**

As used in this Agreement, the following capitalized terms shall have the following meanings. Capitalized terms used but not otherwise defined herein shall have the respective meanings set forth in the Securities Purchase Agreement.

(a) "**Business Day**" means any day other than Saturday, Sunday or a federal holiday.

(b) "**Closing Date**" shall have the meaning set forth in the Securities Purchase Agreement.

(c) "**Effectiveness Deadline**" means (i) with respect to any Registration Statement required to be filed pursuant to Section 2(a), 90 days after the Filing Deadline for such initial Registration Statement, and (ii) with respect to any additional Registration Statements that may be required to be filed by the Company pursuant to this Agreement, the earlier of the (A) 90th calendar day following the date on which the Company was required to file such additional Registration Statement and (B) 2nd Business Day after the date the Company is notified (orally or in writing, whichever is earlier) by the SEC that such Registration Statement will not be reviewed or will not be subject to further review.

(d) "**Filing Deadline**" means (i) with respect to any Registration Statement required to be filed pursuant to Section 2(a), within 60 days after receipt of a written request from the Required Holders pursuant to Section 2(a), and (ii) with respect to any additional Registration Statements that may be required to be filed by the Company pursuant to this Agreement, the date on which the Company was required to file such additional Registration Statement pursuant to the terms of this Agreement.

(e) "**Person**" means an individual, a limited liability company, a partnership, a joint venture, a corporation, a trust, an unincorporated organization or a government or any department or agency thereof.

(f) "**Purchasers**" means the Purchasers and any transferee or assignee who agrees to become bound by the provisions of this Agreement in accordance with Section 9 hereof.

(g) "**register**," "**registered**," and "**registration**" refer to a registration effected by preparing and filing a Registration Statement or Statements in compliance with the Securities Act and pursuant to Rule 415 under the Securities Act or any successor rule providing for offering securities on a continuous basis ("**Rule 415**"), and the declaration or ordering of effectiveness of such Registration Statement by the U.S. Securities and Exchange Commission (the "**SEC**"); provided, however, if the Required Holders in good faith determine that under applicable SEC interpretations, rules or policies a Rule 415 registration would not, in light of the circumstances of the Company or the proposed offering, permit the resale of all of the Registrable Securities immediately after effectiveness, or material limitations would be imposed on any such resale, then the registration shall be on Form S-1 or such other form that permits the maximum ability of holders of Registrable Securities to effectuate an unrestricted resale of such securities.

(h) "**Registrable Securities**" means (i) the Common Stock into which the Principal Amount, together with any accrued interest and any other amounts payable under the Notes may be converted and (ii) the shares of Common Stock issuable upon exercise or otherwise pursuant to the Warrants (without regard to any limitations on exercise set forth therein) (the "Warrant Shares"), and (iii) any shares of capital stock issued or issuable in exchange for or otherwise with respect to the foregoing.

(i) "**Registration Statement**" means a registration statement of the Company under the Securities Act which the Company may or is obligated to file hereunder.

(j) "**Required Holders**" means the holders of at least a majority of the Registrable Securities (excluding any Registrable Securities held by the Company or any of its subsidiaries) holding Notes, including senior secured promissory notes issued in the Subsequent Financing, with an aggregate minimum Principal Amount of $3 million.

(k) "**Rule 144**" means Rule 144 promulgated by the SEC under the Securities Act, as such rule may be amended from time to time, or any other similar or successor rule or regulation of the SEC that may at any time permit the Purchasers to sell securities of the Company to the public without registration.

(l) "**Rule 415**" means Rule 415 promulgated by the SEC under the Securities Act, as such rule may be amended from time to time, or any other similar or successor rule or regulation of the SEC providing for offering securities on a continuous or delayed basis.

(m) "**SEC**" means the United States Securities and Exchange Commission or any successor thereto.

2. **Registration.**

(a) Mandatory Registration. Subject to the terms and conditions, and in accordance with the provisions of Section 3 and Section 4 hereof, at any time after the one year anniversary of the Closing Date, if the Company shall receive a written request from the Required Holders that the Company file a registration statement under the Securities Act covering the registration of at least 25% of the Registrable Securities then outstanding, then the Company shall, within 30 days of the receipt thereof, give written notice of such request to the remaining Purchasers, and subject to the limitations of this Section 2, prepare and, as soon as practicable, but in no event later than the Filing Deadline, file with the SEC an initial Registration Statement on Form S-1 covering the resale of all of such Registrable Securities. Such initial Registration Statement, and each other Registration Statement required to be filed pursuant to the terms of this Agreement, shall contain (except if otherwise directed by the Required Holders) the "Selling Shareholders" and "Plan of Distribution" sections in substantially the form attached hereto as Exhibit 1. The Company shall use reasonable best efforts to have such initial Registration Statement, and each other Registration Statement required to be filed pursuant to the terms of this Agreement, declared effective by the SEC as soon as practicable, but in no event later than the applicable Effectiveness Deadline for such Registration Statement.

(b) Piggy-Back Registrations. Subject to the terms and conditions, and in accordance with the provisions of, Section 4 hereof, in the event that all Registrable Securities are not registered for resale, should the Company at any time prior to the expiration of the Registration Period (as hereinafter defined), determine to file with the SEC a Registration Statement relating to an offering for its own account or the account of others under the Securities Act of any of its equity securities (other than on Form S-4 or Form S-8 or their then equivalents relating to equity securities to be issued solely in connection with any acquisition of any entity or business or equity securities issuable in connection with stock option or other bona fide employee benefit plans), the Company shall send to each Purchaser who is entitled to registration rights under this Section 2(b) written notice of such determination and, if within 20 days after the effective date of such notice (as provided for in Section 11(b) hereof), such Purchaser shall so request in writing, the Company shall include in such Registration Statement all or any part of the Registrable Securities such Purchaser requests to be registered. Notwithstanding any other provision of this Agreement, the Company may withdraw any registration statement referred to in this Section 2(b) without incurring any liability to the Purchasers.

(c) Offering. Notwithstanding anything to the contrary contained in this Agreement, in the event the staff of the SEC (the "Staff") or the SEC seeks to characterize any offering pursuant to a Registration Statement filed pursuant to this Agreement as constituting an offering of securities by, or on behalf of, the Company, or in any other manner, such that the Staff or the SEC do not permit such Registration Statement to become effective and used for resales in a manner that does not constitute such an offering and that permits the continuous resale at the market by the Purchasers participating therein (or as otherwise may be acceptable to each Purchaser) without being named therein as an "underwriter," then the Company shall reduce the number of shares to be included in such Registration Statement by all Purchasers until such time as the Staff and the SEC shall so permit such Registration Statement to become effective as aforesaid. In making such reduction, the Company shall reduce the number of shares to be included by all Purchasers on a pro rata basis (based upon the number of Registrable Securities otherwise required to be included for each Purchaser) unless the inclusion of shares by a particular Purchaser or a particular set of Purchasers are resulting in the Staff or the SEC's "by or on behalf of the Company" offering position, in which event the shares held by such Purchaser or set of Purchasers shall be the only shares subject to reduction (and if by a set of Purchasers on a pro rata basis by such Purchasers or on such other basis as would result in the exclusion of the least number of shares by all such Purchasers); provided, that, with respect to such pro rata portion allocated to any Purchaser, such Purchaser may elect the allocation of such pro rata portion among the Registrable Securities of such Purchaser. In addition, in the event that the Staff or the SEC requires any Purchaser seeking to sell securities under a Registration Statement filed pursuant to this Agreement to be specifically identified as an "underwriter" in order to permit such Registration Statement to become effective, and such Purchaser does not consent to being so named as an underwriter in such Registration Statement, then, in each such case, the Company shall reduce the total number of Registrable Securities to be registered on behalf of such Purchaser, until such time as the Staff or the SEC does not require such identification or until such Purchaser accepts such identification and the manner thereof.

(d) Allocation of Registrable Securities. The initial number of Registrable Securities included in any Registration Statement and any increase in the number of Registrable Securities included therein shall be allocated pro rata among the Purchasers based on the number of Registrable Securities held by each Purchaser at the time such Registration Statement covering such initial number of Registrable Securities or increase thereof is declared effective by the SEC. In the event that a Purchaser sells or otherwise transfers any of such Purchaser's Registrable Securities, each transferee or assignee (as the case may be) that becomes an Purchaser shall be allocated a pro rata portion of the then-remaining number of Registrable Securities included in such Registration Statement for such transferor or assignee (as the case may be). Any shares of Common Stock included in a Registration Statement and which remain allocated to any Person which ceases to hold any Registrable Securities covered by such Registration Statement shall be allocated to the remaining Purchasers, pro rata based on the number of Registrable Securities then held by such Purchasers which are covered by such Registration Statement.

(e) No Inclusion of Other Securities. With the exception of any Registrable Securities that result from the Second Note Offering (as defined in the Securities Purchase Agreement), in no event shall the Company include any securities other than Registrable Securities on any Registration Statement without the prior written consent of the Required Holders. With the exception of the investors in the Second Note Offering who will be granted registration rights, until the Applicable Date the Company shall not enter into any agreement providing any registration rights to any of its security holders without the consent of the Required Holders.

(f) Termination. All registration rights under this Section 2 shall terminate and be of no further force and effect upon repayment of the Notes (with respect to each Note); provided, however, that if the Warrant Shares are not registered prior to the termination of the registration rights, then the Purchaser will have the right to require the Company to purchase the Warrant in accordance with Section 13 of the Warrant (the "Put Right"). The Put Right will expire 12 months from the termination of the registration rights in accordance with this Section 2(f).

(g) Late Fees. If for any reason the Company does not file a registration statement by the Filing Deadline ("Filing Default") or if for any reason it is unable to have that registration statement declared effective by the SEC as of the Effectiveness Deadline ("Effectiveness Default"), then the Company shall pay promptly an amount that is determined by (A) multiplying (i) the amount of the Offering, by (ii) 0.03, and then (iii) dividing by 30, followed by (B) multiplying the result by the number of elapsed days needed to cure the Filing Default or the Effectiveness Default. By way of example if the Company cured the Filing Default or the Effectiveness Default 10 days after the Filing Deadline or 10 days after the Effectiveness Deadline, then it would be required to pay the Purchasers as a group an aggregate of $2,250, according to their respective interests, no later than the earlier of (x) 10 business days after cure of the Filing Default or of the Effectiveness Default, or (ii) 10 business days after the month in which the Filing Default or the Effectiveness Default has occurred.

3. **Obligations of the Company**. In connection with the registration of the Registrable Securities, the Company shall have the following obligations:

(a) On or prior to the Filing Deadline the Company will use reasonable best efforts to become a publicly traded and publicly reporting company under both the Securities Act and the Securities Exchange Act of 1934 and will use reasonable best efforts to file a Registration Statement with the Securities and Exchange Commission ("SEC") on Form S-1 covering the registration of Common Stock of the Company, including the Registrable Securities, on or prior to the Filing Deadline and shall use its reasonable best efforts to cause such Registration Statement to be declared effective by the SEC as soon as practicable after such filing (but in no event later than the Effectiveness Date), and the Company shall take all such other actions associated with being a publicly traded company, including filing an application for listing the Common Stock on the NASDAQ Capital Market or such other exchange as agreed to by the Company and the underwriter. Subject to Allowable Grace Periods, upon effectiveness, the Company shall use its reasonable best efforts to keep such Registration Statement effective pursuant to Rule 415 at all times until such date as is the earlier of: (i) the date on which all of the Registrable Securities covered by the Registration Statement have been sold and (ii) the date on which the Registrable Securities (in the opinion of counsel to the Purchasers reasonably acceptable to the Company) may be immediately sold to the public by non-affiliates without registration or restriction (including, without limitation, as to volume by each holder thereof) under the Securities Act (the "**Registration Period**"). Notwithstanding anything to the contrary contained in this Agreement, the Company shall ensure that, when filed and at all times while effective, each Registration Statement (including, without limitation, all amendments and supplements thereto) and the prospectus (including, without limitation, all amendments and supplements thereto) used in connection with such Registration Statement (1) shall not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein, or necessary to make the statements therein (in the case of prospectuses, in the light of the circumstances in which they were made) not misleading and (2) will disclose (whether directly or through incorporation by reference to other SEC filings to the extent permitted) all material information regarding the Company and its securities. The Company shall submit to the SEC, within one Business Day after the later of the date that (i) the Company learns that no review of a particular Registration Statement will be made by the Staff or that the Staff has no further comments on a particular Registration Statement (as the case may be) and (ii) the consent of Legal Counsel is obtained pursuant to Section 3(c) (which consent shall be immediately sought), a request for acceleration of effectiveness of such Registration Statement to a time and date not later than 48 hours after the submission of such request.

(b) The Company shall use reasonable best efforts to prepare and file with the SEC such amendments (including post-effective amendments) and supplements to the Registration Statements and the prospectus used in connection with the Registration Statements, which prospectus is to be filed pursuant to Rule 424 promulgated under the Securities Act, as may be necessary to keep the Registration Statements effective at all times during the Registration Period, and, during such period, comply with the provisions of the Securities Act with respect to the disposition of all Registrable Securities of the Company covered by the Registration Statements; provided, however, by 8:30 a.m. (New York time) on the Business Day immediately following each Effective Date, the Company shall file with the SEC in accordance with Rule 424(b) under the Securities Act the final prospectus to be used in connection with sales pursuant to the applicable Registration Statement (whether or not such a prospectus is technically required by such rule).

(c) If requested by a Purchaser, the Company shall furnish to each Purchaser whose Registrable Securities are included in a Registration Statement promptly (but in no event more than two business days) after the Registration Statement is declared effective by the SEC, such number of copies of a final prospectus and all amendments and supplements thereto and such other documents as such Purchaser may reasonably request in order to facilitate the disposition of the Registrable Securities owned by such Purchaser. The Company will promptly notify each Purchaser of the effectiveness of each Registration Statement or any post-effective amendment. The Company will, as promptly as reasonably practical, respond to any and all comments received from the SEC (which comments relating to such Registration Statement that pertain to the Purchasers as "Selling Shareholders" shall promptly be made available to the Purchasers upon request; provided that, the Company shall not be obligated to make available any comments that would result in the disclosure to the Purchasers of material and non-public information concerning the Company or that contain information for which the Company has sought confidential treatment), with a view towards causing each Registration Statement or any amendment thereto to be declared effective by the SEC as soon as practicable, shall promptly file an acceleration request as soon as practicable following the resolution or clearance of all SEC comments or, if applicable, following notification by the SEC that any such Registration Statement or any amendment thereto will not be subject to review and, if required by law, shall promptly file with the SEC a final prospectus as soon as practicable following receipt by the Company from the SEC of an order declaring the Registration Statement effective.

(d) The Company shall use reasonable best efforts to: (i) register and qualify the Registrable Securities covered by the Registration Statements under such other securities or "blue sky" laws of such jurisdictions in the United States as the Purchasers who hold a majority-in-interest of the Registrable Securities being offered reasonably request (not to exceed 10 states), (ii) prepare and file in those jurisdictions such amendments (including post-effective amendments) and supplements to such registrations and qualifications as may be necessary to maintain the effectiveness thereof during the Registration Period, (iii) take such other actions as may be necessary to maintain such registrations and qualifications in effect at all times during the Registration Period, and (iv) take all other actions reasonably necessary or advisable to qualify the Registrable Securities for sale in such jurisdictions; provided, however, that the Company shall not be required in connection therewith or as a condition thereto to: (a) qualify to do business in any jurisdiction where it would not otherwise be required to qualify but for this Section 3(d), (b) subject itself to general taxation in any such jurisdiction, (c) file a general consent to service of process in any such jurisdiction, (d) provide any undertakings that cause the Company undue expense or burden, or (e) make any change in its charter or bylaws, which in each case the Board of Directors of the Company determines to be contrary to the best interests of the Company and its shareholders.

(e) The Company shall promptly notify each Purchaser (i) when a prospectus or any prospectus supplement or post-effective amendment has been filed, when a Registration Statement or any post-effective amendment has become effective, and when the Company receives written notice from the SEC that a Registration Statement or any post-effective amendment will be reviewed by the SEC, (ii) of any request by the SEC for amendments or supplements to a Registration Statement or related prospectus or related information, (iii) of the Company's reasonable determination that a post-effective amendment to a Registration Statement would be appropriate; and (iv) of the receipt of any request by the SEC or any other federal or state governmental authority for any additional information relating to the Registration Statement or any amendment or supplement thereto or any related prospectus. The Company shall respond as promptly as practicable to any comments received from the SEC with respect to each Registration Statement or any amendment thereto.

(f) The Company shall use its reasonable best efforts to prevent the issuance of any stop order or other suspension of effectiveness of any Registration Statement, and, if such an order is issued, to obtain the withdrawal of such order at the earliest possible moment and to notify each Purchaser who holds Registrable Securities being sold (or, in the event of an underwritten offering, the managing underwriters) of the issuance of such order and the resolution thereof.

(g) The sections of such Registration Statement covering information with respect to the Purchasers, the Purchaser's beneficial ownership of securities of the Company or the Purchasers intended method of disposition of Registrable Securities shall conform to the information provided to the Company by each of the Purchasers.

(h) In connection with an underwritten offering only, at the request of the Required Holders, the Company shall furnish, on the date that Registrable Securities are delivered to an underwriter for sale in connection with any Registration Statement: (i) an opinion, dated as of such date, from counsel representing the Company for purposes of such Registration Statement, in form, scope and substance as is customarily given in an underwritten public offering, addressed to the underwriters, if any, and the Purchasers and (ii) a letter, dated such date, from the Company's independent registered public accounting firm in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, addressed to the underwriters, if any, and the Purchasers.

(i) The Company shall take all reasonable efforts to cause all the Registrable Securities covered by the Registration Statement to be quoted on the NASDAQ Capital Market (or equivalent reasonably acceptable to the Required Holders) or listed on a national exchange.

(j) The Company shall provide a transfer agent and registrar, which may be a single entity, for the Registrable Securities not later than the effective date of the Registration Statement.

(k) The Company shall use its reasonable best efforts to cause the Registrable Securities covered by a Registration Statement to be registered with or approved by such other governmental agencies or authorities as may be necessary to consummate the disposition of such Registrable Securities.

(l) The Company shall make generally available to its security holders as soon as practical, but not later than ninety (90) days after the close of the period covered thereby, an earnings statement (in form complying with, and in the manner provided by, the provisions of Rule 158 under the Securities Act) covering a twelve-month period beginning not later than the first day of the Company's fiscal quarter next following the applicable Effective Date of each Registration Statement.

(m) The Company shall use its reasonable best efforts to comply with all applicable rules and regulations of the SEC in connection with any registration hereunder.

(n) Notwithstanding anything to the contrary herein (but subject to the last sentence of this Section 3(n)), at any time after the Effective Date of a particular Registration Statement, the Company may delay the disclosure of material, non-public information concerning the Company or any of its subsidiaries the disclosure of which at the time is not, in the good faith opinion of the board of directors of the Company, in the best interest of the Company and, upon the advice of counsel to the Company, otherwise required (a "**Grace Period**"), provided that the Company shall promptly notify the Purchasers in writing of the existence of material, non-public information giving rise to a Grace Period (provided that in each such notice the Company shall not disclose the content of such material, non-public information to any of the Purchasers) and the date on which such Grace Period will begin and end.

4. **Underwriting Requirements.** In connection with any Registration Statement involving an underwritten offering of shares of the Company's Common Stock, the Company shall not be required to include any of the Purchasers' Registrable Securities in such underwriting unless the Purchaser accepts the terms of the underwriting as agreed upon between the Company and its underwriters, and then only in such quantity as the underwriter in its sole discretion determines will not jeopardize the success of the offering by the Company. If the total number of Registrable Securities to be included in such offering (the "Requested Securities") exceeds the number of securities to be sold (other than by the Company) that the underwriter in its reasonable discretion determines is compatible with the success of the offering, then the Company shall be required to include in the offering only that number of such Requested Securities which the underwriter, in its sole discretion, determines will not jeopardize the success of the offering. If the underwriter determines that less than all of the Requested Securities requested to be registered can be included in such offering, then the securities to be registered that are included in such offering shall be allocated among the holders of the Registrable Securities (the "Holders") in proportion (as nearly as practicable to) the number of Requested Securities owned by each Holder. To facilitate the allocation of shares in accordance with the above provisions, the Company or the underwriters may round the number of shares allocated to any Holder to the nearest 10 shares. For purposes of the provision in this Section 4 concerning apportionment, for any Holder that is a partnership, limited liability company, or corporation, the partners, members, retired partners, retired members, shareholders, and affiliates of such Holder, or the estates and immediate family members of any such partners, retired partners, members, and retired members and any trusts for the benefit of any of the foregoing persons, shall be deemed to be a single "Holder," and any pro rata reduction with respect to such "Holder" shall be based upon the aggregate number of Requested Securities owned by all persons included in such "Holder," as defined in this sentence. The Purchasers understand that the underwriter may determine that none of the Registrable Securities can be included in the offering.

5. **Obligations of the Purchasers**. In connection with the registration of the Registrable Securities, the Purchasers shall have the following obligations:

(a) It shall be a condition precedent to the obligations of the Company to include any Purchaser's Registrable Securities in any Registration Statement that such Purchaser shall timely furnish to the Company such information regarding itself, the Registrable Securities held by it, the intended method of disposition of the Registrable Securities held by it and any other information as shall be reasonably required to effect the registration of such Registrable Securities and shall provide such information and execute such documents in connection with such registration as the Company may reasonably request. At least three business days prior to the first anticipated filing date of the Registration Statement, the Company shall notify each Purchaser of the information the Company requires from each such Purchaser.

(b) Each Purchaser, by such Purchaser's acceptance of the Registrable Securities, agrees to cooperate with the Company as reasonably requested by the Company in connection with the preparation and filing of the Registration Statements hereunder, unless such Purchaser has notified the Company in writing of such Purchaser's election to exclude all of such Purchaser's Registrable Securities from the Registration Statements.

(c) In the event that Purchasers holding a majority-in-interest of the Registrable Securities being registered determine to engage the services of an underwriter, each Purchaser agrees to enter into and perform such Purchaser's obligations under an underwriting agreement, in usual and customary form, including, without limitation, customary indemnification and contribution obligations, with the managing underwriter of such offering and take such other actions as are reasonably required in order to expedite or facilitate the disposition of the Registrable Securities, unless such Purchaser has notified the Company in writing of such Purchaser's election to exclude all of such Purchaser's Registrable Securities from such Registration Statement.

(d) Each Purchaser agrees that, upon receipt of any notice from the Company of the happening of any event of which the Company has knowledge as a result of which the prospectus included in any Registration Statement, as then in effect, includes an untrue statement of a material fact or omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or of the issuance of a stop order or other suspension of effectiveness of any Registration Statement, such Purchaser will immediately discontinue disposition of Registrable Securities pursuant to the Registration Statement covering such Registrable Securities until such Purchaser's receipt of the copies of the supplemented or amended prospectus and, if so directed by the Company, such Purchaser shall deliver to the Company (at the expense of the Company) or destroy (and deliver to the Company a certificate of destruction) all copies in such Purchaser's possession, of the prospectus covering such Registrable Securities current at the time of receipt of such notice.

(e) No Purchaser may participate in any underwritten registration hereunder unless such Purchaser: (i) agrees to sell such Purchaser's Registrable Securities on the basis provided in any underwriting arrangements in usual and customary form entered into by the Company, (ii) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents reasonably required under the terms of such underwriting arrangements, and (iii) agrees to pay its pro rata share of all underwriting discounts and commissions and any expenses in excess of those payable by the Company pursuant to Section 6 below.

(f) Each Purchaser covenants and agrees that it will comply with the prospectus delivery requirements of the Securities Act as applicable to it or an exemption therefrom in connection with the offer and sale of Registrable Securities pursuant to any Registration Statement.

6. **Expenses of Registration.** All reasonable expenses, other than underwriting discounts and commissions, incurred in connection with registrations, filings or qualifications pursuant to Sections 2 and 3, including, without limitation, all registration, listing and qualification fees, printers and accounting fees, the fees and disbursements of counsel for the Company, and the reasonable fees and disbursements of legal counsel to the underwriter (if any) shall be borne by the Company.

7. **Indemnification**.

(a) To the fullest extent permitted by law, the Company will, and hereby does, indemnify, hold harmless and defend each Purchaser and each of its directors, officers, shareholders, members, partners, employees, agents, advisors, representatives (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding the lack of such title or any other title) and each Person, if any, who controls such Purchaser within the meaning of the Securities Act or the Exchange Act and each of the directors, officers, shareholders, members, partners, employees, agents, advisors, representatives (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding the lack of such title or any other title) of such controlling Persons (each, an "**Indemnified Person**"), against any losses, obligations, claims, damages, liabilities, contingencies, judgments, fines, penalties, charges, costs (including, without limitation, court costs, reasonable attorneys' fees and costs of defense and investigation), amounts paid in settlement or expenses, joint or several, (collectively, "**Claims**") incurred in investigating, preparing or defending any action, claim, suit, inquiry, proceeding, investigation or appeal taken from the foregoing by or before any court or governmental, administrative or other regulatory agency, body or the SEC, whether pending or threatened, whether or not an indemnified party is or may be a party thereto ("**Indemnified Damages**"), to which any of them may become subject insofar as such Claims (or actions or proceedings, whether commenced or threatened, in respect thereof) arise out of or are based upon: (i) any untrue statement or alleged untrue statement of a material fact in a Registration Statement or any post-effective amendment thereto or in any filing made in connection with the qualification of the offering under the securities or other "blue sky" laws of any jurisdiction in which Registrable Securities are offered ("**Blue Sky Filing**"), or the omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus if used prior to the effective date of such Registration Statement, or contained in the final prospectus (as amended or supplemented, if the Company files any amendment thereof or supplement thereto with the SEC) or the omission or alleged omission to state therein any material fact necessary to make the statements made therein, in light of the circumstances under which the statements therein were made, not misleading or (iii) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any other law, including, without limitation, any state securities law, or any rule or regulation thereunder relating to the offer or sale of the Registrable Securities pursuant to a Registration Statement (the matters in the foregoing clauses (i) through (iii) being, collectively, "**Violations**"). Subject to Section 7(c), the Company shall reimburse the Indemnified Persons, promptly as such expenses are incurred and are due and payable, for any legal fees or other reasonable expenses incurred by them in connection with investigating or defending any such Claim. Notwithstanding anything to the contrary contained herein, the indemnification agreement contained in this Section 7(a): (i) shall not apply to a Claim by an Indemnified Person arising out of or based upon a Violation which occurs in reliance upon and in conformity with information furnished in writing to the Company by such Indemnified Person for such Indemnified Person expressly for use in connection with the preparation of such Registration Statement or any such amendment thereof or supplement thereto and (ii) shall not be available to a particular Purchaser to the extent such Claim is based on a failure of such Purchaser to deliver or to cause to be delivered the prospectus made available by the Company (to the extent applicable), including, without limitation, a corrected prospectus, if such prospectus or corrected prospectus was timely made available by the Company and then only if, and to the extent that, following the receipt of the corrected prospectus no grounds for such Claim would have existed; and (iii) shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of the Company, which consent shall not be unreasonably withheld or delayed. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Indemnified Person.

(b) In connection with any Registration Statement in which an Purchaser is participating, such Purchaser agrees to severally and not jointly indemnify, hold harmless and defend, to the same extent and in the same manner as is set forth in Section 7(a), the Company, each of its directors, each of its officers who signs the Registration Statement and each Person, if any, who controls the Company within the meaning of the Securities Act or the Exchange Act (each, an "**Indemnified Party**"), against any Claim or Indemnified Damages to which any of them may become subject, under the Securities Act, the Exchange Act or otherwise, insofar as such Claim or Indemnified Damages arise out of or are based upon any Violation, in each case, to the extent, and only to the extent, that such Violation occurs in reliance upon and in conformity with written information furnished to the Company by such Purchaser expressly for use in connection with such Registration Statement; and, subject to Section 7(c) and the below provisos in this Section 7(b), such Purchaser will reimburse promptly as such expenses are incurred and are due and payable, for any legal fees or other reasonable expenses incurred by them in connection with investigating or defending any such Claim; provided, however, the indemnity agreement contained in this Section 7(b) and the agreement with respect to contribution contained in Section 7 shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of such Purchaser, which consent shall not be unreasonably withheld or delayed, provided further that such Purchaser shall be liable under this Section 7(b) for only that amount of a Claim or Indemnified Damages as does not exceed the net proceeds to such Purchaser as a result of the applicable sale of Registrable Securities pursuant to such Registration Statement. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such Indemnified Party.

(c) Promptly after receipt by an Indemnified Person or Indemnified Party (as the case may be) under this Section 7 of notice of the commencement of any action or proceeding (including, without limitation, any governmental action or proceeding) involving a Claim, such Indemnified Person or Indemnified Party (as the case may be) shall, if a Claim in respect thereof is to be made against any indemnifying party under this Section 7, deliver to the indemnifying party a written notice of the commencement thereof, and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume control of the defense thereof with counsel mutually satisfactory to the indemnifying party and the Indemnified Person or the Indemnified Party (as the case may be); provided, however, an Indemnified Person or Indemnified Party (as the case may be) shall have the right to retain its own counsel with the fees and expenses of such counsel to be paid by the indemnifying party if: (i) the indemnifying party has agreed in writing to pay such fees and expenses; (ii) the indemnifying party shall have failed promptly to assume the defense of such Claim and to employ counsel reasonably satisfactory to such Indemnified Person or Indemnified Party (as the case may be) in any such Claim; or (iii) the named parties to any such Claim (including, without limitation, any impleaded parties) include both such Indemnified Person or Indemnified Party and the indemnifying party, and such Indemnified Person or such Indemnified Party shall have been advised by counsel that a conflict of interest is likely to exist if the same counsel were to represent such Indemnified Person or such Indemnified Party and the indemnifying party (in which case, if such Indemnified Person or such Indemnified Party notifies the indemnifying party in writing that it elects to employ separate counsel at the expense of the indemnifying party, then the indemnifying party shall not have the right to assume the defense thereof and such counsel shall be at the expense of the Indemnifying Party, provided further that in the case of clause (iii) above the indemnifying party shall not be responsible for the reasonable fees and expenses of more than one separate legal counsel for such Indemnified Person or Indemnified Party). The Indemnified Party or Indemnified Person shall reasonably cooperate with the indemnifying party in connection with any negotiation or defense of any such action or Claim by the indemnifying party and shall furnish to the indemnifying party all information reasonably available to the Indemnified Party or Indemnified Person which relates to such action or Claim. The indemnifying party shall keep the Indemnified Party or Indemnified Person reasonably apprised at all times as to the status of the defense or any settlement negotiations with respect thereto. No indemnifying party shall be liable for any settlement of any action, claim or proceeding effected without its prior written consent; provided, however, the indemnifying party shall not unreasonably withhold, delay or condition its consent. No indemnifying party shall, without the prior written consent of the Indemnified Party or Indemnified Person, consent to entry of any judgment or enter into any settlement or other compromise which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party or Indemnified Person of a release from all liability in respect to such Claim or litigation, and such settlement shall not include any admission as to fault on the part of the Indemnified Party. Following indemnification as provided for hereunder, the indemnifying party shall be subrogated to all rights of the Indemnified Party or Indemnified Person with respect to all third parties, firms or corporations relating to the matter for which indemnification has been made. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall not relieve such indemnifying party of any liability to the Indemnified Person or Indemnified Party under this Section 7, except to the extent that the indemnifying party is materially and adversely prejudiced in its ability to defend such action.

(d) No Person involved in the sale of Registrable Securities who is guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) in connection with such sale shall be entitled to indemnification from any Person involved in such sale of Registrable Securities who is not guilty of fraudulent misrepresentation.

(e) The indemnity and contribution agreements contained herein shall be in addition to (i) any cause of action or similar right of the Indemnified Party or Indemnified Person against the indemnifying party or others, and (ii) any liabilities the indemnifying party may be subject to pursuant to the law.

8. **Amendment of Registration Rights**. The terms and provisions of this Agreement may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only with written consent of the Company and the Required Holders. Any amendment or waiver effected in accordance with this Section 8 shall be binding upon each Purchaser and the Company; provided that no such amendment shall be effective to the extent that it (1) applies to less than all of the holders of Registrable Securities or (2) imposes any obligation or liability on any Purchaser without such Purchaser's prior written consent (which may be granted or withheld in such Purchaser's sole discretion). No waiver shall be effective unless it is in writing and signed by an authorized representative of the waiving party. No consideration shall be offered or paid to any Person to amend or consent to a waiver or modification of any provision of this Agreement unless the same consideration also is offered to all of the parties to this Agreement.

9. **Miscellaneous.**

(a) A person or entity is deemed to be a holder of Registrable Securities whenever such person or entity owns of record such Registrable Securities. If the Company receives conflicting instructions, notices or elections from two or more persons or entities with respect to the same Registrable Securities, the Company shall act upon the basis of instructions, notice or election received from the registered owner of such Registrable Securities.

(b) Any notices required or permitted to be given under the terms hereof shall be sent by certified or registered mail (return receipt requested) or delivered personally or by courier (including a recognized overnight delivery service)or by facsimile and shall be effective five days after being placed in the mail, if mailed by regular United States mail, or upon receipt, if delivered personally or by courier (including a recognized overnight delivery service) or by facsimile, in each case addressed to a party. The addresses for such communications shall be:

If to the Company:

Ideal Power Converters, Inc.
5004 Bee Creek Road, Suite 600
Spicewood, Texas 78669
Attention: Chief Executive Officer
Telephone: (512) 264-1542
Facsimile No.: (512) 264-1546

If to a Purchaser:

To the address set forth on the signature page of this Agreement.

With a copy (not constituting notice) to:

MDB Capital Group, LLC
401 Wilshire Blvd., Suite 1020
Santa Monica, CA 90401
Attention: Anthony DiGiandomenico
Telephone: (310) 526-5015
Facsimile No.: (310) 536-5020

Each party shall provide notice to the other party of any change in address.

(c) Failure of any party to exercise any right or remedy under this Agreement or otherwise, or delay by a party in exercising such right or remedy, shall not operate as a waiver thereof.

(d) This Agreement shall be governed by, and construed in accordance with, the internal laws of the State of New York without regard to the choice of law principles thereof. Each of the parties hereto irrevocably submits to the exclusive jurisdiction of the courts of the State of New York located in New York County and the United States District Court for the Southern District of New York for the purpose of any suit, action, proceeding or judgment relating to or arising out of this Agreement and the transactions contemplated hereby. Service of process in connection with any such suit, action or proceeding may be served on each party hereto anywhere in the world by the same methods as are specified for the giving of notices under this Agreement. Each of the parties hereto irrevocably consents to the jurisdiction of any such court in any such suit, action or proceeding and to the laying of venue in such court. Each party hereto irrevocably waives any objection to the laying of venue of any such suit, action or proceeding brought in such courts and irrevocably waives any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum. EACH OF THE PARTIES HERETO WAIVES ANY RIGHT TO REQUEST A TRIAL BY JURY IN ANY LITIGATION WITH RESPECT TO THIS AGREEMENT AND REPRESENTS THAT COUNSEL HAS BEEN CONSULTED SPECIFICALLY AS TO THIS WAIVER.

(e) In the event that any provision of this Agreement is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any provision hereof which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision hereof.

(f) This Agreement and the other Transaction Documents (including all schedules and exhibits thereto) constitute the entire agreement among the parties hereto with respect to the subject matter hereof and thereof. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein and therein. This Agreement and the other Transaction Documents (including all schedules and exhibits thereto) supersede all prior agreements and understandings among the parties hereto with respect to the subject matter hereof and thereof.

(g) This Agreement shall be binding upon and inure to the benefit of the parties and their successors and assigns. This Agreement is not for the benefit of, nor may any provision hereof be enforced by, any Person, other than the parties hereto or their respective permitted successors and assigns.

(h) The headings in this Agreement are for convenience of reference only and shall not form part of, or affect the interpretation of, this Agreement. Unless the context clearly indicates otherwise, each pronoun herein shall be deemed to include the masculine, feminine, neuter, singular and plural forms thereof. The terms "including," "includes," "include" and words of like import shall be construed broadly as if followed by the words "without limitation." The terms "herein," "hereunder," "hereof" and words of like import refer to this entire Agreement instead of just the provision in which they are found.

(i) This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party. This Agreement, once executed by a party, may be delivered to the other party hereto by facsimile transmission or electronic mail delivery of a copy of this Agreement bearing the signature of the party so delivering this Agreement.

(j) Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

(k) Except as otherwise provided herein, all consents and other determinations to be made by the Purchasers pursuant to this Agreement shall be made by the Required Holders.

(l) The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

(m) The obligations of each Purchaser under this Agreement and the other Transaction Documents are several and not joint with the obligations of any other Purchaser, and no Purchaser shall be responsible in any way for the performance of the obligations of any other Purchaser under this Agreement or any other Transaction Document. Nothing contained herein or in any other Transaction Document, and no action taken by any Purchaser pursuant hereto or thereto, shall be deemed to constitute the Purchasers as, and the Company acknowledges that the Purchasers do not so constitute, a partnership, an association, a joint venture or any other kind of group or entity, or create a presumption that the Purchasers are in any way acting in concert or as a group or entity with respect to such obligations or the transactions contemplated by the Transaction Documents or any matters, and the Company acknowledges that the Purchasers are not acting in concert or as a group, and the Company shall not assert any such claim, with respect to such obligations or the transactions contemplated by this Agreement or any of the other the Transaction Documents. Each Purchaser shall be entitled to independently protect and enforce its rights, including, without limitation, the rights arising out of this Agreement or out of any other Transaction Documents, and it shall not be necessary for any other Purchaser to be joined as an additional party in any proceeding for such purpose.

[Remainder of page intentionally left blank; signature pages follow.]

IN WITNESS WHEREOF, the undersigned Purchasers and the Company have caused this Registration Rights Agreement to be duly executed as of the date first above written.

IDEAL POWER CONVERTERS, INC.

By: _____
Name Paul Bundschuh
Title Chief Executive Officer

PURCHASERS:

The Purchasers executing the Signature Page in the form attached hereto as Annex A and delivering the same to the Company or its agents shall be deemed to have executed this Agreement and agreed to the terms hereof.

Annex A

Registration Rights Agreement
Purchaser Counterpart Signature Page

The undersigned, desiring to: enter into this Registration Rights Agreement dated as of August __, 2012 (the "**Agreement**"), between the undersigned, Ideal Power Converters, Inc., a Texas corporation (the "**Company**"), and the other parties thereto, in or substantially in the form furnished to the undersigned, hereby agrees to join the Agreement as a party thereto, with all the rights and privileges appertaining thereto, and to be bound in all respects by the terms and conditions thereof.

IN WITNESS WHEREOF, the undersigned has executed the Agreement as of August 31, 2012.

PURCHASER:

Name and Address, Fax No. and Social Security No./EIN of Purchaser:

_____

_____

_____

_____

Fax No.: _____
Soc. Sec. No./EIN: _____

If a partnership, corporation, trust or other business entity:

By:
_____
Name:
Title:

If an individual:

_____

Signature

EXHIBIT 1

SELLING STOCKHOLDERS

The shares of common stock being offered by the selling shareholders are those issuable to the selling shareholders upon conversion of the senior secured convertible promissory notes and the exercise of the warrants. For additional information regarding the issuance of the senior secured convertible promissory notes and the warrants, see "Private Placement of Senior Secured Convertible Promissory Notes and Warrants" above. We are registering the shares of common stock in order to permit the selling shareholders to offer the shares for resale from time to time. Except for the ownership of the senior secured convertible promissory notes and the warrants issued pursuant to the Securities Purchase Agreement, the selling shareholders have not had any material relationship with us within the past three years.

The table below lists the selling shareholders and other information regarding the beneficial ownership (as determined under Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder) of the shares of common stock beneficially held by each of the selling shareholders, based on their respective beneficial ownership of the shares of common stock as of _____, 2013, assuming conversion of all amounts owed under the senior secured convertible promissory notes and exercise of the warrants held by each such selling shareholder on that date but taking account of any limitations on exercise set forth therein. The third column lists the number of shares of common stock being sold in this offering. The fourth column lists the shares of common stock that will be beneficially owned by each selling shareholder following this offering. We have assumed for purposes of preparing this table that each selling shareholder will sell all of the shares of common stock being offered.

In accordance with the terms of a registration rights agreement with the selling shareholders, this prospectus generally covers the resale of the sum of (i) the number of shares of common stock that may be issued in connection with the conversion of all amounts owed under the senior secured convertible promissory notes, in each case determined as if all amounts owed under the senior secured convertible promissory notes were converted and (ii) 100% of the maximum number of shares of common stock issuable upon exercise of the warrants, in each case, determined as if the outstanding warrants were exercised in full.

Name of Selling Shareholder	Number of Shares of Common Stock Owned Prior to Offering	Maximum Number Of Shares of Common Stock to be Sold Pursuant to this Prospectus	Number of Shares of Common Stock Owned After Offering

PLAN OF DISTRIBUTION

We are registering the shares of common stock issuable upon conversion of all amounts due under the senior secured convertible promissory notes and the exercise of the warrants to permit the resale of these shares of common stock by the holders of these securities from time to time after the date of this prospectus. We will not receive any of the proceeds from the sale by the selling shareholders of the shares of common stock. We will bear all fees and expenses incident to our obligation to register the shares of common stock.

The selling shareholders may sell all or a portion of the shares of common stock held by them and offered hereby from time to time directly or through one or more underwriters, broker-dealers or agents. If the shares of common stock are sold through underwriters or broker-dealers, the selling shareholders will be responsible for underwriting discounts or commissions or agent's commissions. The shares of common stock may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of the sale, at varying prices determined at the time of sale or at negotiated prices. These sales may be effected in transactions, which may involve crosses or block transactions, pursuant to one or more of the following methods:

- on any national securities exchange or quotation service on which the securities may be listed or quoted at the time of sale;
- in the over-the-counter market;
- in transactions otherwise than on these exchanges or systems or in the over-the-counter market;
- through the writing or settlement of options, whether such options are listed on an options exchange or otherwise;
- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- short sales made after the date the Registration Statement is declared effective by the SEC;
- agreements between broker-dealers and the selling shareholders to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

The selling shareholders may also sell shares of common stock under Rule 144 promulgated under the Securities Act of 1933, as amended, if available, rather than under this prospectus. In addition, the selling shareholders may transfer the shares of common stock by other means not described in this prospectus. If the selling shareholders effect such transactions by selling shares of common stock to or through underwriters, broker-dealers or agents, such underwriters, broker-dealers or agents may receive commissions in the form of discounts, concessions or commissions from the selling shareholders or commissions from purchasers of the shares of common stock for whom they may act as agent or to whom they may sell as principal (which discounts, concessions or commissions as to particular underwriters, broker-dealers or agents may be in excess of those customary in the types of transactions involved). In connection with sales of the shares of common stock or otherwise, the selling shareholders may enter into hedging transactions with broker-dealers, which may in turn engage in short sales of the shares of common stock in the course of hedging in positions they assume. The selling shareholders may also sell shares of common stock short and deliver shares of common stock covered by this prospectus to close out short positions and to return borrowed shares in connection with such short sales. The selling shareholders may also loan or pledge shares of common stock to broker-dealers that in turn may sell such shares.

The selling shareholders may pledge or grant a security interest in some or all of the warrants or shares of common stock owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of common stock from time to time pursuant to this prospectus or any amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act amending, if necessary, the list of selling shareholders to include the pledgee, transferee or other successors in interest as selling shareholders under this prospectus. The selling shareholders also may transfer and donate the shares of common stock in other circumstances in which case the transferees, donees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

To the extent required by the Securities Act and the rules and regulations thereunder, the selling shareholders and any broker-dealer participating in the distribution of the shares of common stock may be deemed to be "underwriters" within the meaning of the Securities Act, and any commission paid, or any discounts or concessions allowed to, any such broker-dealer may be deemed to be underwriting commissions or discounts under the Securities Act. At the time a particular offering of the shares of common stock is made, a prospectus supplement, if required, will be distributed, which will set forth the aggregate amount of shares of common stock being offered and the terms of the offering, including the name or names of any broker-dealers or agents, any discounts, commissions and other terms constituting compensation from the selling shareholders and any discounts, commissions or concessions allowed or re-allowed or paid to broker-dealers.

Under the securities laws of some states, the shares of common stock may be sold in such states only through registered or licensed brokers or dealers. In addition, in some states the shares of common stock may not be sold unless such shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with.

There can be no assurance that any selling shareholder will sell any or all of the shares of common stock registered pursuant to the registration statement, of which this prospectus forms a part.

The selling shareholders and any other person participating in such distribution will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, including, without limitation, to the extent applicable, Regulation M of the Exchange Act, which may limit the timing of purchases and sales of any of the shares of common stock by the selling shareholders and any other participating person. To the extent applicable, Regulation M may also restrict the ability of any person engaged in the distribution of the shares of common stock to engage in market-making activities with respect to the shares of common stock. All of the foregoing may affect the marketability of the shares of common stock and the ability of any person or entity to engage in market-making activities with respect to the shares of common stock.

We will pay all expenses of the registration of the shares of common stock pursuant to the registration rights agreement, estimated to be $[_____] in total, including, without limitation, Securities and Exchange Commission filing fees and expenses of compliance with state securities or "blue sky" laws; provided, however, a selling shareholder will pay all underwriting discounts and selling commissions, if any. We will indemnify the selling shareholders against liabilities, including some liabilities under the Securities Act in accordance with the registration rights agreements or the selling shareholders will be entitled to contribution. We may be indemnified by the selling shareholders against civil liabilities, including liabilities under the Securities Act that may arise from any written information furnished to us by the selling shareholder specifically for use in this prospectus, in accordance with the related registration rights agreements or we may be entitled to contribution.

Once sold under the registration statement, of which this prospectus forms a part, the shares of common stock will be freely tradable in

the hands of persons other than our affiliates.

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY OTHER JURISDICTION. BY ACQUIRING THIS NOTE, THE HOLDER REPRESENTS THAT THE HOLDER WILL NOT SELL OR OTHERWISE DISPOSE OF THIS NOTE WITHOUT REGISTRATION OR COMPLIANCE WITH AN EXEMPTION FROM REGISTRATION UNDER THE AFORESAID ACTS AND THE RULES AND REGULATIONS THEREUNDER.

THE SECURITIES REPRESENTED HEREBY MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE TERMS OF A SECURITIES PURCHASE AGREEMENT BETWEEN THE COMPANY AND THE SECURITY HOLDER DATED NOVEMBER 21, 2012, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

IDEAL POWER CONVERTERS, INC.

SENIOR SECURED CONVERTIBLE PROMISSORY NOTE

$_____ November 21, 2012

FOR VALUE RECEIVED, Ideal Power Converters, Inc. (the "Maker") hereby promises to pay to the order of _____ or his successors or assigns (the "Holder") the principal amount of _____ Dollars ($_____) (the "Principal Amount"). This Senior Secured Convertible Promissory Note shall be referred to herein as the "Note".

1. Purpose. This Note is made and delivered by the Maker to the Holder pursuant to the terms of that certain Securities Purchase Agreement, dated as of November 21, 2012 (the "Original Issue Date"), by and among the Maker, the Escrow Agent, the Holder, and the other Purchasers of the Maker's Notes (the "Purchase Agreement"). This Note is one of a series of substantially identical Notes issued by the Maker under the Purchase Agreement. All capitalized terms used and not defined herein shall have the meanings ascribed to them in the Purchase Agreement.

2. Interest. Interest on the Principal Amount from time-to-time remaining unpaid shall accrue from the date of this Note at the higher of: (i) the rate of one percent (1%) per annum, simple interest; or (ii) at the lowest rate that may accrue without causing the imputation of interest under the Internal Revenue Code. Interest shall be computed on the basis of a 360 day year and a 30 day month.

3. Maturity Date. All amounts payable hereunder shall be due and payable on the earlier to occur of (i) November 21, 2013 (the "Calendar Due Date"), (ii) the occurrence of an Event of Default (as defined below) or (iii) the closing of an IPO Financing (as defined below).

4. Method of Repayment.

4.1 Mandatory Conversion Upon Initial Public Offering. If, prior to the Calendar Due Date, the Maker closes a firm commitment underwritten initial public offering of its common stock that raises gross proceeds of at least $10 million (the "IPO Financing"), the amounts payable hereunder shall be repaid with shares of the Maker's Common Stock in accordance with the terms of paragraph 5.1 of this Note.

4.2 Other Optional Conversions. At any time prior to a conversion pursuant to paragraph 4.1 above or the Calendar Due Date, including in the event that the Maker consummates a Change of Control, at the option of the Holder all amounts payable under this Note may be converted into shares of the Maker's Common Stock in accordance with Section 5.1 below. In the event of a conversion for any reason other than the closing of an IPO Financing or a Change of Control, this Note shall be converted into that number of shares of Common Stock determined by dividing (x) the Principal Amount and accrued interest by (y) the lower of (i) $1.46 or (ii) 0.70 of the per share consideration paid in the most recent Private Equity Financing to occur prior to the Holder's election (as appropriately adjusted to reflect stock dividends, stock splits, combinations, recapitalizations and the like with respect to the Maker's capital stock after the date hereof).

4.3 Repayment Election. If this Note is not repaid prior to the Calendar Due Date in accordance with paragraphs 4.1 or 4.2 above, or if, by the Calendar Due Date this Note is not cancelled and replaced in accordance with the terms of Section 5.8 below, the Holder may elect to be repaid on the Calendar Due Date in one of the following ways: (i) the Holder may elect to receive, and the Maker shall repay, all amounts payable hereunder in a lump sum, in lawful money of the United States, which payment shall be equal to the Principal Amount and all accrued interest or (ii) the Holder may elect to receive the lump sum payment in shares of the Maker's Common Stock in accordance with subparagraph 5.2 below.

4.4 Prepayment Right. The Maker has the right to prepay this Note in lawful money of the United States with the written consent of the Holder. If this Note is prepaid in lawful money of the United States prior to an IPO, the payment amount shall equal 110% of the Principal Amount.

5. Conversion of Note. The following provisions shall govern the conversion of any and all amounts due under this Note.

5.1 Conversion in Conjunction with an IPO Financing or a Change of Control. In the event of an IPO Financing which closes prior to the Calendar Due Date, the Note shall have a conversion price equal to the lower of 0.70 times the IPO Price or $1.46 (the "IPO Conversion Price"). The "IPO Price" means the price per share paid by public investors in the IPO, without regard to any underwriting discount or expense (as appropriately adjusted to reflect stock dividends, stock splits, combinations, recapitalizations and the like with respect to the Maker's capital stock after the date hereof). In the event of a Change of Control which closes prior to the Calendar Due Date, the Note shall have a conversion price equal to the lower of 0.70 times the per share consideration paid in the Change of Control transaction or $1.46 per share (the "Change of Control Price").

5.2 Conversion in Conjunction with an Election. In the event that the Holder elects to receive payment of this Note in shares of the Maker's Common Stock in accordance with subparagraph 4.3(ii) above, the Note shall have a conversion price equal to the lower of 0.70 times the price per share paid by investors in the most recent Private Equity Financing to occur prior to the Calendar Due Date or $1.46, after giving effect to adjustments that reflect stock dividends, stock splits, combinations, recapitalizations and the like with respect to the Maker's capital stock after the date hereof) (the "Private Financing Conversion Price").

5.3 Conversion Rate. The number of shares of Common Stock issuable upon conversion pursuant to subparagraphs 5.1 or 5.2 shall be determined by dividing (x) the Principal Amount and accrued interest (the "Conversion Amount") by (y) the IPO Conversion Price, the Change of Control Price, the Private Financing Conversion Price or $1.46, as applicable.

5.4 No Fractional Shares. The Maker shall not issue any fraction of a share of Common Stock upon any conversion. If the issuance would result in the issuance of a fraction of a share of Common Stock, the Maker shall round up such fraction of a share of Common Stock up to the nearest whole share. The Maker shall pay any and all transfer, stamp and similar taxes that may be payable with respect to the issuance and delivery of Common Stock upon conversion.

5.5 Mechanics of Conversion.

5.5.1 Conversion upon an IPO Financing or Change of Control. The closing of an IPO Financing or a Change of Control prior to the Calendar Due Date will be the "Conversion Date". Within 20 days of the Conversion Date, the Maker shall transmit to the Holder a certificate for the number of shares of Common Stock representing full repayment of the Conversion Amount on the Conversion Date, together with an explanation of the calculation. Upon receipt of such notice, the Holder shall surrender this Note to a common carrier for delivery to the Maker as soon as practicable on or following such date (or an indemnification undertaking with respect to this Note in the case of its loss, theft or destruction). The person or persons entitled to receive the shares of Common Stock issuable upon a conversion of this Note shall be treated for all purposes as the record holder or holders of such shares of Common Stock on the Conversion Date.

5.5.2 Voluntary Conversion. If this Note is voluntarily converted pursuant to paragraphs 4.2 or 4.3, the Holder shall give written notice to the Maker notifying the Maker of its election to convert. Before the Holder shall be entitled to voluntarily convert this Note, the Holder shall surrender this Note at the Maker's principal executive office, or, if this Note has been lost, stolen, destroyed or mutilated, then, in the case of loss, theft or destruction, the Holder shall deliver an indemnity agreement reasonably satisfactory in form and substance to the Maker (without the requirement of a bond) or, in the case of mutilation, the Holder shall surrender and cancel this Note. The Maker shall, as soon as practicable thereafter, issue and deliver to such Holder at such principal executive office a certificate or certificates for the number of shares of Common Stock to which the Holder shall be entitled upon such conversion (bearing such legends as are required by applicable state and federal securities laws in the opinion of counsel to the Maker), together with a replacement Note (if any principal amount or interest is not converted). Such conversion shall be deemed to have been made immediately prior to the close of business on the date of the surrender of this Note or the delivery of an indemnification agreement (or such later date requested by the Holder or such earlier date agreed to by the Maker and the Holder). The person or persons entitled to receive securities issuable upon such conversion shall be treated for all purposes as the record holder or holders of such securities on such date.

5.6 Reservation of Common Stock. Until the Notes are paid in full, the Maker shall at all times keep reserved for issuance under this Note a number of shares of Common Stock as shall be necessary to satisfy the Maker's obligation to issue shares of Common Stock hereunder (without regard to any limitation otherwise contained herein with respect to the number of shares of Common Stock that may be acquirable upon exercise of this Note). If, notwithstanding the foregoing, and not in limitation thereof, at any time while any of the Notes remain outstanding the Maker does not have a sufficient number of authorized and unreserved shares of Common Stock to satisfy its obligation to reserve for issuance upon exercise of the Notes at least a number of shares of Common Stock equal to the number of shares of Common Stock as shall from time to time be necessary to effect the exercise of the Notes then outstanding (the "Required Reserve Amount") (an "Authorized Share Failure"), then the Maker shall immediately take all action necessary to increase the Maker's authorized shares of Common Stock to an amount sufficient to allow the Maker to maintain the Required Reserve Amount for all the Notes then outstanding. Without limiting the generality of the foregoing sentence, as soon as practicable after the date of the occurrence of an Authorized Share Failure, but in no event later than 60 days after the occurrence of such Authorized Share Failure, the Company shall hold a meeting of its shareholders for the approval of an increase in the number of authorized shares of Common Stock. In connection with such meeting, the Maker shall provide each shareholder with a proxy statement and shall use its best efforts to solicit its shareholders' approval of such increase in authorized shares of Common Stock and to cause its board of directors to recommend to the shareholders that they approve such proposal.

5.7 Adjustments. The Conversion Price and number and kind of shares or other securities to be issued upon conversion determined pursuant to Section 5 hereof, shall be subject to adjustment from time to time upon the happening of certain events while this conversion right remains outstanding, as follows:

5.7.1 Merger, Sale of Assets, etc. If the Maker at any time shall consolidate with or merge into or sell or convey all or substantially all its assets to any other corporation, this Note, as to the unpaid Principal Amount thereof and accrued interest thereon, shall thereafter be deemed to evidence the right to purchase such number and kind of shares or other securities and property as would have been issuable or distributable on account of such consolidation, merger, sale or conveyance, upon or with respect to the securities subject to the conversion or purchase right immediately prior to such consolidation, merger, sale or conveyance. The foregoing provision shall similarly apply to successive transactions of a similar nature by any such successor or purchaser. Without limiting the generality of the foregoing, the anti-dilution provisions of this Section shall apply to such securities of such successor or purchaser after any such consolidation, merger, sale or conveyance.

5.7.2 Reclassification, etc. If the Maker at any time shall, by reclassification or otherwise, change the Common Stock into the same or a different number of securities of any class or classes that may be issued or outstanding, this Note, as to the unpaid principal portion thereof and accrued interest thereon, shall thereafter be deemed to evidence the right to purchase an adjusted number of such securities and kind of securities as would have been issuable as the result of such change with respect to the Common Stock immediately prior to such reclassification or other change.

5.7.3 Notice of Adjustment. Whenever the applicable Conversion Price is adjusted pursuant to this Section 5.7, the Maker shall promptly mail to the Holder a notice setting forth the applicable Conversion Price after such adjustment and setting forth a statement of the facts requiring such adjustment.

5.8 Consent Required for Certain Corporate Actions. Without the consent of at least a majority in interest of the Holders of the Notes (including the holders of the senior secured convertible promissory notes sold by the Maker on August 31, 2012 in the total principal amount of $750,000 (the "August 2012 Notes")), the Maker will not enter into any transaction that results in a merger, sale of assets or other corporate reorganization or acquisition; results in the distribution of a dividend or the repurchase of outstanding shares of Common Stock (except in accordance with the provisions of the Company's equity incentive plan); causes a liquidation proceeding or bankruptcy proceeding; results in a change to the Company's corporate status; or results in the incurrence of debt outside of normal trade debt.

6. Registration; Book-Entry. The Company shall maintain a register (the "Register") for the recordation of the names and addresses of the holders of each Note and the Principal Amount of the Notes held by such holders (the "Registered Notes"). The entries in the Register shall be conclusive and binding for all purposes absent manifest error. The Maker and the holders of the Notes shall treat each person whose name is recorded in the Register as the owner of a Note for all purposes, including, without limitation, the right to receive payments of the Principal Amount and interest, if any, hereunder, notwithstanding notice to the contrary. A Registered Note may be assigned or sold in whole or in part only in accordance with the terms of paragraph 12.3 of this Note and by registration of such assignment or sale on the Register.

7. Defaults; Remedies.

7.1 Events of Default. The occurrence of any one or more of the following events shall constitute an event of default hereunder (each, an "Event of Default"):

7.1.1 The Maker fails to make any payment when due under this Note;

7.1.2 The Maker fails to observe and perform any of its covenants or agreements on its part to be observed or performed under the Purchase Agreement or any other Transaction Document, and such failure shall continue for more than 20 days after notice of such failure has been delivered to the Maker;

7.1.3 Any representation or warranty made by the Maker in the Purchase Agreement or any other Transaction Document is untrue in any material respect as of the date of such representation or warranty except, in the case of a breach of a covenant which is curable, only if such breach continues for a period of at least 10 consecutive Business Days;

7.1.4 The Maker admits in writing its inability to pay its debts generally as they become due, files a petition in bankruptcy or a petition to take advantage of any insolvency act, makes an assignment for the benefit of its creditors, consents to the appointment of a receiver of itself or of the whole or any substantial part of its property, on a petition in bankruptcy filed against it be adjudicated a bankrupt, or files a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any State thereof;

7.1.5 A court of competent jurisdiction enters an order, judgment, or decree appointing, without the consent of the Maker, a receiver of the Maker or of the whole or any substantial part of its property, or approving a petition filed against the Maker seeking reorganization or arrangement of the Maker under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any State thereof, and such order, judgment, or decree shall not be vacated or set aside or stayed within 60 days from the date of entry thereof;

7.1.6 Any court of competent jurisdiction assumes custody or control of the Maker or of the whole or any substantial part of its property under the provisions of any other law for the relief or aid of debtors, and such custody or control is not be terminated or stayed within 60 days from the date of assumption of such custody or control;

7.1.7. The Notes shall cease to be, or be asserted by the Maker not to be, a legal, valid and binding obligation of the Maker enforceable in accordance with their terms;

7.1.8 A judgment or judgments for the payment of money aggregating in excess of $75,000 are rendered against the Maker which judgments are not, within 60 days after the entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within 60 days after the expiration of such stay; provided, however, that any judgment which is covered by insurance or an indemnity from a credit worthy party shall not be included in calculating the $75,000 amount set forth above so long as the Maker provides the Holder a written statement from such insurer or indemnity provider (which written statement shall be reasonably satisfactory to the Holder) to the effect that such judgment is covered by insurance or an indemnity and the Maker will receive the proceeds of such insurance or indemnity within 30 days of the issuance of such judgment;

7.1.9 Any Event of Default occurs with respect to any of the Notes or with respect to any of the August 2012 Notes;

7.1.10 A default by the Maker under any one or more obligations in an aggregate monetary amount in excess of $50,000 for more than 30 days after the due date, unless the Maker is contesting the validity of such obligation in good faith and has segregated cash funds equal to not less than one-half of the disputed amount;

7.1.11 A default by the Maker under the Texas Emerging Technology Fund Award and Security Agreement dated October 1, 2010 or the Investment Unit dated October 1, 2010, each between the Maker and the Office of the Governor Economic Development and Tourism of the State of Texas, which default continues for more than 30 days after notice of such default has been delivered to the Maker;

7.1.12 The Maker fails to deliver the shares of Common Stock to the Holder pursuant to and in the form required by this Note or, if required, a replacement Note more than five Business Days after the required delivery date of such Common Stock or Note;

7.1.13 The Maker fails to have reserved for issuance upon conversion of the Note the amount of Common stock as set forth in this Note; or

7.1.14 The security interest created in the Collateral, as defined in the Security Agreement, is not a perfected first lien.

7.2 Notice by the Maker. The Maker shall notify the Holder in writing as soon as reasonably practicable but in no event more five days after the occurrence of any Event of Default of which the Maker acquires knowledge.

7.3 Remedies. Upon the occurrence of any Event of Default, all other sums due and payable to the Holder under this Note shall, at the option of the Holder, become due and payable immediately without presentment, demand, notice of nonpayment, protest, notice of protest, or other notice of dishonor, all of which are hereby expressly waived by the Maker. Any payment under this Note (i) not paid within 10 days following the Calendar Due Date or (ii) due immediately following acceleration by the Holder shall bear interest at the rate of 15% from the date of the Note until paid, subject to paragraph 7.5. To the extent permitted by law, the Maker waives the right to and stay of execution and the benefit of all exemption laws now or hereafter in effect. In addition to the foregoing, upon the occurrence of any Event of Default, the Holder may forthwith exercise singly, concurrently, successively, or otherwise any and all rights and remedies available to the Holder by law, equity, or otherwise.

7.4 Remedies Cumulative, etc. No right or remedy conferred upon or reserved to the Holder under this Note, or now or hereafter existing at law or in equity or by statute or other legislative enactment, is intended to be exclusive of any other right or remedy, and each and every such right or remedy shall be cumulative and concurrent, and shall be in addition to every other such right or remedy, and may be pursued singly, concurrently, successively, or otherwise, at the sole discretion of the Holder, and shall not be exhausted by any one exercise thereof but may be exercised as often as occasion therefor shall occur. No act of the Holder shall be deemed or construed as an election to proceed under any one such right or remedy to the exclusion of any other such right or remedy; furthermore, each such right or remedy of the Holder shall be separate, distinct, and cumulative and none shall be given effect to the exclusion of any other.

7.5 Usury Compliance. All agreements between the Maker and the Holder are expressly limited, so that in no event or contingency whatsoever, whether by reason of the consideration given with respect to this Note, the acceleration of maturity of the unpaid Principal Amount and interest thereon, or otherwise, shall the amount paid or agreed to be paid to the Holder for the use, forbearance, or detention of the indebtedness which is the subject of this Note exceed the highest lawful rate permissible under the applicable usury laws. If, under any circumstances whatsoever, fulfillment of any provision of this Note shall involve transcending the highest interest rate permitted by law which a court of competent jurisdiction deems applicable, then the obligations to be fulfilled shall be reduced to such maximum rate, and if, under any circumstances whatsoever, the Holder shall ever receive as interest an amount that exceeds the highest lawful rate, the amount that would be excessive interest shall be applied to the reduction of the unpaid Principal Amount under this Note and not to the payment of interest, or, if such excessive interest exceeds the unpaid balance of the Principal Amount under this Note, such excess shall be refunded to the Maker. This provision shall control every other provision of all agreements between the Maker and the Holder.

8. Replacement of Note. Upon receipt by the Maker of evidence satisfactory to it of the loss, theft, destruction, or mutilation of this Note and (in case of loss, theft, or destruction) of indemnity satisfactory to it, and upon surrender and cancellation of this Note, if mutilated, the Maker will make and deliver a new Note of like tenor in lieu of this Note.

9. Intentionally omitted.

10. Maker's Covenants.

10.1 Rank. All payments due under this Note (a) shall rank *pari passu* with all other Notes, including the August 2012 Notes and (b) shall be senior to all other indebtedness of the Maker.

10.2 Security. This Note and the other Notes are secured to the extent and in the manner set forth in the Security Agreement of even date herewith.

10.3 Existence of Liens. So long as this Note is outstanding, the Maker shall not, and the Maker shall not permit any of its subsidiaries (if any) to, directly or indirectly, allow or suffer to exist any mortgage, lien, pledge, charge, security interest or other encumbrance upon or in any property or assets (including accounts and contract rights) owned by the Maker or any of its subsidiaries (collectively, "Liens") other than Permitted Liens.

10.4 Restricted Payments. The Maker shall not, and the Maker shall not permit any of its subsidiaries (is any) to, directly or indirectly, redeem, defease, repurchase, repay or make any payments in respect of, by the payment of cash or cash equivalents (in whole or in part, whether by way of open market purchases, tender offers, private transactions or otherwise), all or any portion of any indebtedness, whether by way of payment in respect of principal of (or premium, if any) or interest on, such indebtedness if at the time such payment is due or is otherwise made or, after giving effect to such payment, an event constituting, or that with the passage of time and without being cured would constitute, an Event of Default has occurred and is continuing.

10.5 Valid Issuance of Securities. The Maker covenants that the securities issuable upon the conversion of this Note will, upon conversion of this Note, be validly issued, fully paid and nonassessable and free from all taxes, liens and charges in respect of the issue thereof.

10.6 Timely Notice. The Maker shall deliver to the Holder at least 10 days' advance written notice of (i) a proposed financing which would permit the Holder to convert the Principal Amount, accrued interest, and any other amount due under this Note in accordance with paragraph 4.3 or (ii) a proposed Change of Control, provided that the Holder agrees to be bound by any applicable confidentiality agreement or agreements as the Maker reasonably shall deem necessary or appropriate.

11. Certain Definitions.

11.1 "Business Days" shall mean any day that is not a Saturday, Sunday or a federal holiday.

11.2 "Change of Control" means any liquidation, dissolution or winding up of the Maker, either voluntary or involuntary, and shall be deemed to be occasioned by, or to include, (i) the acquisition of the Maker by another entity by means of any transaction or series of related transactions (including, without limitation, any stock acquisition, reorganization, merger or consolidation) unless the Maker's shareholders of record as constituted immediately prior to such acquisition or sale will, immediately after such acquisition or sale (by virtue of securities issued as consideration for the Maker's acquisition or sale or otherwise) hold at least a majority of the voting power of the surviving or acquiring entity, or its direct or indirect parent entity (except that any bona fide equity or debt financing transaction for capital raising purposes shall not be deemed a Change of Control for this purpose) or (ii) a sale, exclusive license or other disposition of all or substantially all of the assets of the Maker, including a sale, exclusive license or other disposition of all or substantially all of the assets of the Maker's subsidiaries, if such assets constitute substantially all of the assets of the Maker and such subsidiaries taken as a whole.

11.3 "Permitted Liens" shall have the meaning included in the Security Agreement of even date herewith.

12.1 Amendments, Waivers, and Consents.

12.1 Amendment and Waiver by the Holders. The Notes, including this Note, may be amended, modified, or supplemented, and waivers or consents to departures from the provisions of the Notes may be given, if the Maker and holders of an aggregate majority of the Principal Amount of the Notes then outstanding, consent to the amendment; provided, however, that no term of this Note may be amended or waived in such a way as to adversely affect the Holder disproportionately to the holder or holders of any other Notes without the written consent of the Holder and neither the principal balance or interest rate of the Note may be amended or modified without the consent of the Holder. Such consent may not be effected orally, but only by a signed statement in writing. Any such amendment or waiver shall apply to and be binding upon the Holder of this Note, upon each future holder of this Note, and upon the Maker, whether or not this Note shall have been marked to indicate such amendment or waiver. No such amendment or waiver shall extend to or affect any obligation not expressly amended or waived or impair any right consequent thereon.

12.2 Severability. In the event that for any reason one or more of the provisions of this Note or their application to any person or circumstance shall be held to be invalid, illegal, or unenforceable in any respect or to any extent, such provision shall nevertheless remain valid, legal, and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality, or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal, or unenforceable provision had never been contained herein.

12.3 Assignment; Binding Effect. The Maker may not assign this Note without the prior written consent of the Holder. Any attempted assignment in violation of this Section 12.3 shall be null and void. Subject to the foregoing, this Note inures to the benefit of the Holder, its successors and assigns, and binds the Maker, and their respective successors and permitted assigns, and the words "Holder" and "Maker" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

12.4 Notice Generally. All notices required to be given to any of the parties hereunder shall be given as set forth in the Purchase Agreement.

12.5 Governing Law; Jurisdiction; Jury Trial. This Note shall be construed and enforced in accordance with, and all questions concerning the construction, validity, interpretation and performance of this Note shall be governed by, the internal laws of the State of New York, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of New York or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of New York. The Maker hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in The City of New York, Borough of Manhattan, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. The Maker hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address it set forth on the signature page hereto and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. In the event that any provision of this Note is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of this Note. Nothing contained herein shall be deemed or operate to preclude the Holder from bringing suit or taking other legal action against the Maker in any other jurisdiction to collect on the Maker's obligations to the Holder, to realize on any collateral or any other security for such obligations, or to enforce a judgment or other court ruling in favor of the Holder. THE MAKER HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION WITH OR ARISING OUT OF THIS NOTE OR ANY TRANSACTION CONTEMPLATED HEREBY. **This Note shall be deemed an unconditional obligation of Maker for the payment of money and, without limitation to any other remedies of Holder, may be enforced against Maker by summary proceeding pursuant to New York Civil Procedure Law and Rules Section 3213 or any similar rule or statute in the jurisdiction where enforcement is sought. For purposes of such rule or statute, any other document or agreement to which Holder and Maker are parties or which Maker delivered to Holder, which may be convenient or necessary to determine Holder's rights hereunder or Maker's obligations to Holder are deemed a part of this Note, whether or not such other document or agreement was delivered together herewith or was executed apart from this Note.**

12.6 Section Headings, Construction. The headings of paragraphs in this Note are provided for convenience only and will not affect its construction or interpretation. All words used in this Note will be construed to be of such gender or number as the circumstances require. Unless otherwise expressly provided, the words "hereof" and "hereunder" and similar references refer to this Note in its entirety and not to any specific section or subsection hereof.

12.7 Payment of Collection, Enforcement and Other Costs. If (a) this Note is placed in the hands of an attorney for collection or enforcement or is collected or enforced through any legal proceeding or the Holder otherwise takes action to collect amounts due under this Note or to enforce the provisions of this Note, or (b) there occurs any bankruptcy, reorganization, receivership of the Maker or other proceedings affecting the Maker's creditors' rights and involving a claim under this Note, then the Maker shall pay the costs incurred by the Holder for such collection, enforcement or action or in connection with such bankruptcy, reorganization, receivership or other proceeding, including, but not limited to, attorneys' fees and disbursements.

12.8 Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to the Holder, upon any breach or default of the Maker under this Note shall impair any such right, power, or remedy of the Holder nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default therefore or thereafter occurring. Any waiver, permit, consent, or approval of any kind or character on the part of the Holder of any breach or default under this Note or any waiver on the part of the Holder of any provisions or conditions of this Note must be made in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Note or by law or otherwise afforded to the Holders, shall be cumulative and not alternative.

[EXECUTION PAGE FOLLOWS]

IN WITNESS WHEREOF, Ideal Power Converters, Inc. has caused this Senior Secured Convertible Promissory Note to be executed and delivered on the date set forth above on the cover page of this Note.

IDEAL POWER CONVERTERS, INC.

By: _____
Paul Bundschuh, Chief Executive Officer

By: _____

Charles De Tarr, Chief Financial Officer

Exhibit 10.20

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (the "Agreement"), dated as of November 21, 2012, is entered into by and among IDEAL POWER CONVERTERS, INC., a Texas corporation ("Debtor"), the Subscribers identified on **Schedule 1** hereto (the "Subscribers"), who are parties to the Securities Purchase Agreement dated as of August 31, 2012 (the "August Purchase Agreement") and to the Securities Purchase Agreement dated as of October , 2012 (the "October Purchase Agreement" and together with the August Purchase Agreement, the "Purchase Agreements"), by and among Debtor and such Subscribers, and Anthony DiGiandomenico ("Collateral Agent").

RECITALS

WHEREAS, Subscribers have made senior secured loans in one or more tranches or series, initially in the amount $750,000 (the "Initial Senior Debt") and thereafter up to an aggregate principal amount of $4,000,000 inclusive of the Initial Senior Debt (collectively the "Senior Loans") to the Debtor, intended, collectively, as a loan secured by a first-priority senior security interest in all assets of the Debtor.

WHEREAS, the Senior Loans are evidenced by one or more senior secured convertible promissory notes (each a "Note" and collectively the "Notes") issued by the Debtor, as to the Initial Senior Debt, on August 31, 2012 pursuant to the August Purchase Agreement and on or about the date of this Agreement pursuant to the October Purchase Agreement. The Notes were or will be executed by the Debtor as borrower, in favor of and to document indebtedness to, the Subscribers (each, a "Holder" and collectively the "Holders").

WHEREAS, the Debtor, the Subscribers of the Initial Senior Debt and the Collateral Agent entered into a Subordination Agreement with The Office of the Governor Economic Development and Tourism, of the State of Texas ("Subordinated Lender") pursuant to which the Subordinated Lender agreed to subordinate its rights, priority and claims under its Subordinated Debt Instrument, to the Senior Loans made or being made under the Notes.

WHEREAS, in consideration of the Senior Loans made and to be made by the Subscribers to the Debtor and for other good and valuable consideration, and as security for the performance by the Debtor of its obligations under the Notes, and as security for the repayment of the Senior Loans and all other sums due from the Debtor to the Subscribers arising under the Transaction Documents (as defined in the Purchase Agreement, the Notes, and any other agreement between or among them (collectively, the "Obligations")), the Debtor, for good and valuable consideration, receipt of which is acknowledged, has agreed to grant to the Subscribers and to the Collateral Agent on behalf of the Subscribers a security interest in the Collateral (as such term is hereinafter defined), on the terms and conditions hereinafter set forth.

WHEREAS, the following terms which are defined in the Uniform Commercial Code in effect in the State of New York on the date hereof are included on **Schedule 2** and are used herein as so defined: Account, Chattel Paper, Documents, Equipment, General Intangible, Goods, Instrument, Inventory and Proceeds.

AGREEMENT

1. Definitions; Interpretation. All capitalized terms used in this Agreement and not otherwise defined herein shall have the meanings assigned to them in the Note and Purchase Agreement. As used in this Agreement, the following terms shall have the following meanings:

"Agreement" means this Security Agreement, including any amendments hereto.

"Collateral Agent" shall have the meaning as set forth in the Preamble.

"Collateral" shall have the meaning as set forth in Section 2.2.

"Debtor" shall have the meaning as set forth in the Preamble.

"Event of Default" shall have the meaning as set forth in Section 8.

"Holder" or "Holders" shall have the meaning as set forth in the Recitals.

"Senior Loans" shall have the meaning as set forth in the Recitals.

"Majority in Interest" shall have the meaning as set forth in Section 12.3.

"Note" and "Notes" shall have the meanings as set forth in the Recitals.

"Obligations" shall have the meaning as set forth in the Recitals.

"Permitted Liens" shall have the meaning as set forth in Section 5.1.

"Subscribers" shall have the meaning as set forth in the Preamble.

2. Grant of General Security Interest in Collateral.

2.1 As security for the Obligations of the Debtor, the Debtor hereby grants each of the Subscribers, a security interest in the Collateral, which security interest shall be in pari passu with the security interest granted to the Subscribers of the Initial Senior Debt dated August 31, 2012.

2.2 "Collateral" shall mean all of the following property of the Debtor:

(A) All now owned and hereafter acquired right, title and interest of the Debtor in, to and in respect of all Accounts, Goods, real or personal property, all present and future books and records relating to the foregoing and all products and Proceeds of the foregoing, and as set forth below:

(i) all now owned and hereafter acquired right, title and interest of the Debtor in, to and in respect of all: Accounts, interests in goods represented by Accounts, returned, reclaimed or repossessed goods with respect thereto and rights as an unpaid vendor; contract rights; Chattel Paper; investment property; General Intangibles (including but not limited to, tax and duty claims and refunds, registered and unregistered patents, trademarks, service marks, certificates, copyrights, trade names, applications for the foregoing, trade secrets, goodwill, processes, drawings, blueprints, customer lists, licenses, whether as licensor or licensee, choses in action and other claims, and existing and future leasehold interests and claims in and to equipment, real estate and fixtures); Documents; Instruments; letters of credit, bankers' acceptances or guaranties; cash moneys, deposits including but not limited to the deposit accounts identified on **Schedule 3**; securities, bank accounts, deposit accounts, credits and other property now or hereafter owned or held in any capacity by Debtors, as well as agreements or property securing or relating to any of the items referred to above;

(ii) Goods. All now owned and hereafter acquired right, title and interest of Debtors in, to and in respect of goods, including, but not limited to:

(a) All Inventory, wherever located, whether now owned or hereafter acquired, of whatever kind, nature or description, including all raw materials, work-in-process, finished goods, and materials to be used or consumed in the Debtor's business; finished goods, timber cut or to be cut, oil, gas, hydrocarbons, and minerals extracted or to be extracted, and all names or marks affixed to or to be affixed thereto for purposes of selling same by the seller, manufacturer, lessor or licensor thereof and all Inventory which may be returned to the Debtor by its customers or repossessed by the Debtor and all of the Debtor's right, title and interest in and to the foregoing (including all of the Debtor's rights as a seller of goods);

(b) All Equipment and fixtures, wherever located, whether now owned or hereafter acquired, including, without limitation, all machinery, furniture and fixtures, and any and all additions, substitutions, replacements (including spare parts), and accessions thereof and thereto (including, but not limited to the Debtor's rights to acquire any of the foregoing, whether by exercise of a purchase option or otherwise);

(iii) Property. All now owned and hereafter acquired right, title and interests of the Debtor in, to and in respect of any other personal property in or upon which the Debtor has or may hereafter have a security interest, lien or right of setoff;

(iv) Books and Records. All present and future books and records relating to any of the above including, without limitation, all computer programs, printed output and computer readable data in the possession or control of the Debtor, any computer service bureau or other third party; and

(v) Products and Proceeds. All products and Proceeds of the foregoing in whatever form and wherever located, including, without limitation, all insurance proceeds and all claims against third parties for loss or destruction of or damage to any of the foregoing.

(B) All now owned and hereafter acquired right, title and interest of the Debtor in, to and in respect of the following:

(i) all additional shares of stock, partnership interests, member interests or other equity interests from time to time acquired by the Debtor, in any subsidiary of the Debtor, the certificates representing such additional shares, and other rights, contractual or otherwise, in respect thereof and all dividends, distributions, cash, instruments, investment property and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such additional shares, interests or equity; and

(ii) all security entitlements of the Debtor in, and all Proceeds of any and all of the foregoing in each case, whether now owned or hereafter acquired by the Debtor and howsoever its interest therein may arise or appear (whether by ownership, security interest, lien, claim or otherwise).

Notwithstanding anything to the contrary set forth in Section 2.2 above, the types or items of Collateral described in such Section shall not include any rights or interests in any contract, lease, permit, license, charter or license agreement covering real or personal property, as such, if under the terms of such contract, lease, permit, license, charter or license agreement, or applicable law with respect thereto, the valid grant of a security interest or lien therein to the Subscribers is prohibited or would result in a breach and such prohibition or breach has not been or is not waived or the consent of the other party to such contract, lease, permit, license, charter or license agreement has not been or is not otherwise obtained or under applicable law such prohibition or breach cannot be waived.

Notwithstanding anything to the contrary set forth in Section 2.2 above, the types or items of Collateral described in such Section shall not include any Equipment which is, or at the time of the Debtor's acquisition thereof shall be, subject to a purchase money mortgage or other purchase money lien or security interest (including capitalized or finance leases) permitted hereunder if: (a) the valid grant of a security interest or lien therein to the Subscribers in such Equipment is prohibited by the terms of the agreement between the Debtor and the holder of such purchase money mortgage or other purchase money lien or security interest or under applicable law and such prohibition has not been or is not waived, or the consent of the holder of the purchase money mortgage or other purchase money lien or security interest has not been or is not otherwise obtained, or under applicable law such prohibition cannot be waived and (b) the purchase money mortgage or other purchase money lien or security interest on such item of Equipment is or shall become valid and perfected. To the extent each of the foregoing conditions is satisfied, the Subscribers shall, through the Collateral Agent, at the request of the Debtor and at the Debtor's expense, execute and deliver a UCC-3 partial release with respect to any such Equipment subject to such a purchase money security interest or lien, provided, that, such partial release shall be in form and substance satisfactory to the Collateral Agent.

"Equipment" shall include all of the Debtor's now owned and hereafter acquired equipment, machinery, laboratory and research equipment and tools, computers and computer hardware and software (whether owned or licensed), vehicles, tools, furniture, fixtures, all attachments, accessions and property now or hereafter affixed thereto or used in connection therewith, and substitutions and replacements thereof, wherever located.

2.3 The Subscribers and the Collateral Agent are hereby specifically authorized, after the Maturity Date (defined in the Note) accelerated or otherwise, and after the occurrence of an Event of Default (as defined herein) and the expiration of any applicable cure period, to transfer any Collateral into the name of the Collateral Agent and to take any and all action deemed advisable to the Subscribers to remove any transfer restrictions affecting the Collateral.

3. Perfection of Security Interest.

3.1 The Debtor shall prepare, execute and deliver to the Collateral Agent UCC-1 Financing Statements or other instruments necessary to perfect a security interest in any item of the Collateral (collectively, the "Lien Documents") in form and substance acceptable to the Collateral Agent. The Collateral Agent is instructed to prepare and file or cause to be filed at the Debtor's cost and expense, the Lien Documents in such United States and foreign jurisdictions deemed advisable to the Collateral Agent, including but not limited to Washington, D.C., and the State of Texas.

3.2 All other certificates and instruments constituting Collateral from time to time required to be pledged to the Subscribers pursuant to the terms hereof (the "Additional Collateral") shall be delivered to the Collateral Agent promptly upon receipt thereof by or on behalf of the Debtor. All such certificates and instruments shall be held by or on behalf of the Subscribers pursuant hereto and shall be delivered in suitable form for transfer by delivery, or shall be accompanied by duly executed instruments of transfer or assignment or undated stock powers executed in blank, all in form and substance satisfactory to the Collateral Agent. If any Collateral consists of uncertificated securities, unless the immediately following sentence is applicable thereto, the Debtor shall cause the Collateral Agent to become the registered holder thereof, or cause each issuer of such securities to agree that it will comply with instructions originated by the Collateral Agent with respect to such securities. If any Collateral consists of security entitlements, the Debtor shall transfer such security entitlements to the Collateral Agent or cause the applicable securities intermediary to agree that it will comply with entitlement orders by the Collateral Agent.

3.3 If the Debtor shall receive, by virtue of the Debtor being or having been an owner of any Collateral, any (i) stock certificate (including, without limitation, any certificate representing a stock dividend or distribution in connection with any increase or reduction of capital, reclassification, merger, consolidation, sale of assets, combination of shares, stock split, spin-off or split-off), promissory note or other instrument, (ii) option or right, whether as an addition to, substitution for, or in exchange for, any Collateral, or otherwise, (iii) dividends payable in cash or in securities or other property or (iv) dividends or other distributions in connection with a partial or total liquidation or dissolution or in connection with a reduction of capital, capital surplus or paid-in surplus, the Debtor shall receive such stock certificate, promissory note, instrument, option, right, payment or distribution in trust for the benefit of the Subscribers, shall segregate it from the Debtor's other property and shall deliver it forthwith to the Subscribers, in the exact form received, with any necessary endorsement and/or appropriate stock powers duly executed in blank, to be held by the Subscribers as Collateral and as further collateral security for the Obligations.

4. Voting Power Relating to Collateral/Dividends and Distributions.

4.1 So long as an Event of Default does not exist, the Debtor shall be entitled to exercise all voting power pertaining to any of the Collateral, provided such exercise is not contrary to the interests of the Subscribers and does not impair the Collateral.

4.2. At any time an Event of Default exists or has occurred and is continuing, all rights of the Debtor, upon notice given by the Collateral Agent, to exercise the voting power shall cease and all such rights shall thereupon become vested in the Collateral Agent for the benefit of the Subscribers, which shall thereupon have the sole right to exercise such voting power and receive such payments.

4.3 All dividends, distributions, interest and other payments which are received by Debtor contrary to the provisions of Section 4.2 shall be received in trust for the benefit of the Subscribers as security and Collateral for payment of the Obligations, shall be segregated from other funds of Debtor, and shall be forthwith paid over to the Collateral Agent as Collateral in the exact form received with any necessary endorsement and/or appropriate stock powers duly executed in blank, to be held by the Collateral Agent as Collateral and as further collateral security for the Obligations.

5. Further Action By Debtors; Covenants and Warranties.

5.1 The Subscribers at all times shall have a perfected security interest in the Collateral. The Debtor represents that other than the security interests described on **Schedule 5.1,** it has and will continue to have full title to the Collateral free from any liens, leases, encumbrances, judgments or other claims, except for "Permitted Liens" (defined below). The Subscribers' security interest in the Collateral constitutes and will continue to constitute a first, prior and indefeasible security interest in favor of the Subscribers, subject only to the security interests described on **Schedule 5.1**. The Debtor will do all acts and things, and will execute and file all instruments (including, but not limited to, security agreements, financing statements, continuation statements, etc.) reasonably requested by the Collateral Agent to establish, maintain and continue the perfected security interest of the Subscribers in the perfected Collateral, and will promptly on demand, pay all costs and expenses of filing and recording, including the costs of any searches reasonably deemed necessary by the Collateral Agent from time to time to establish and determine the validity and the continuing priority of the security interest of the Subscribers, and also pay all other claims and charges that, in the opinion of the Subscribers are reasonably likely to materially prejudice, imperil or otherwise affect the Collateral or the Subscribers' security interests therein. For purposes of this Agreement, "Permitted Liens" shall include:

(a) liens for the payment of taxes which are not yet due and payable;

(b) liens arising by statute in connection with worker's compensation, unemployment insurance, old age benefits, social security obligations, taxes, assessments, statutory obligations or other similar charges (other than Liens arising under ERISA), good faith cash deposits in connection with tenders, contracts or leases to which the the Debtor is a party or other cash deposits required to be made in the ordinary course of business, provided in each case that the obligation is not for borrowed money and that the obligation secured is not overdue or, if overdue, is being contested in good faith by appropriate proceedings which prevent enforcement of the matter under contest and adequate reserves have been established therefor;

(c) mechanics', workmen's, materialmen's, landlords', carriers' or other similar liens arising in the ordinary course of business with respect to obligations which are not due or which are being contested in good faith by appropriate proceedings which prevent enforcement of the matter under contest;

(d) any interest or title of a lessor under any operating lease or capital lease; and

(e) liens on real property of the Debtor or created solely for the purpose of securing indebtedness incurred to finance the purchase price of such real property;

(f) cash deposits to secure performance bonds and other obligations of a like nature (in each case, other than for Indebtedness) incurred in the ordinary course of business for obligations not yet due or which are being contested in good faith by appropriate proceedings which prevent enforcement of the matter under contest and adequate reserves have been established therefor;

(g) easements, rights-of-way, zoning and similar restrictions, building codes, reservations, covenants, conditions, waivers, survey exceptions and other similar encumbrances or title defects and, with respect to any interests in real property held or leased by the Debtor or any of its subsidiaries, mortgages, deeds of trust and other encumbrances incurred, created, assumed or permitted to exist and arising by, through or under a landlord or owner of such property encumbering solely such landlord's or owner's interest in such real property, with or without the consent of the lessee;

(h) liens in existence on the date hereof;

(i) any interest of a licensor under a license entered into in the ordinary course of the Debtor's business; and

(j) any lien existing on any part of any business acquired by the Debtor, prior to the acquisition thereof by the Debtor.

5.2 Except in connection with sales of Collateral in the ordinary course of business, for fair value and in cash, and except for Collateral which is substituted by assets of identical or greater value (subject to the consent of the Collateral Agent) or which is not material to the Debtor's business, the Debtor will not sell, transfer, assign or pledge those items of Collateral (or allow any such items to be sold, transferred, assigned or pledged), without the prior written consent of the Collateral Agent other than a transfer of the Collateral to a wholly-owned United States formed and located subsidiary of the Debtor with prior notice to the Collateral Agent, and provided the Collateral remains subject to the security interest herein described. Although Proceeds of Collateral are covered by this Agreement, this shall not be construed to mean that the Collateral Agent or the Subscribers consent to any sale of the Collateral, except as provided herein. Sales of Collateral in the ordinary course of business as described above shall be free of the security interest of the Subscribers and the Collateral Agent shall promptly execute such documents (including without limitation releases and termination statements) as may be required by the Debtor to evidence or effectuate the same.

5.3 The Debtor will, at all reasonable times during regular business hours and upon reasonable notice, allow Collateral Agent or its representatives free and complete access to the Collateral and all of the Debtor's records that in any way relate to the Collateral, for such inspection and examination as the Collateral Agent reasonably deems necessary.

5.4 The Debtor, at its sole cost and expense, will protect and defend the Collateral against the claims and demands of all persons other than the Subscribers.

5.5 The Debtor will promptly notify the Collateral Agent of any levy, distraint or other seizure by legal process or otherwise of any part of the Collateral, and of any threatened or filed claims or proceedings that are reasonably likely to affect or impair any of the rights of the Subscribers under this Security Agreement in any material respect.

5.6 The Debtor will, at its own expense, make, execute, endorse, acknowledge, file and/or deliver to the Collateral Agent from time to time such vouchers, invoices, schedules, confirmatory assignments, conveyances, financing statements, transfer endorsements, powers of attorney, certificates, reports and other reasonable assurances or instruments and take further steps relating to the Collateral and other property or rights covered by the security interest hereby granted, as the Collateral Agent may reasonably require to perfect the security interest of the Subscribers hereunder.

5.7 The Debtor represents and warrants that it is the true and lawful exclusive owner of the Collateral, free and clear of any liens, encumbrances and claims other than those listed on Schedule 5.1.

6. Power of Attorney.

At any time an Event of Default has occurred, and only after the applicable cure period as set forth in this Agreement and the other Transaction Documents, and is continuing, the Debtor hereby irrevocably constitutes and appoints the Collateral Agent as the true and lawful attorney of the Debtor, with full power of substitution, in the place and stead of Debtor and in the name of the Debtor or otherwise, at any time or times, in the discretion of the Collateral Agent, to take any action and to execute any instrument or document which is reasonably and prudently necessary to protect the Subscribers' rights in the Collateral as set forth in this Agreement. This power of attorney is coupled with an interest and is irrevocable until the Obligations are satisfied.

7. Performance by the Subscribers.

If the Debtor fails to perform any material covenant, agreement, duty or obligation of the Debtor under this Agreement or the Purchase Agreements, the Collateral Agent may, after any applicable cure period and notice required hereunder, at any time or times in its discretion, take action to effect performance of such obligation. All reasonable expenses of the Subscribers incurred in connection with the foregoing authorization shall be payable by the Debtor as provided in Paragraph 10.1 hereof. No discretionary right, remedy or power granted to the Subscribers under any part of this Agreement shall be deemed to impose any obligation whatsoever on the Subscribers with respect thereto, such rights, remedies and powers being solely for the protection of the Subscribers.

8. Event of Default.

An event of default ("Event of Default") shall be deemed to have occurred hereunder upon the occurrence of any event of default as defined and described in this Agreement, in the Note, the Purchase Agreements, Transaction Documents (as defined in the Purchase Agreements), and any other agreement to which the Debtor and the Subscribers are parties. Upon and after any Event of Default, after the applicable cure period, if any, any or all of the Obligations shall become immediately due and payable at the option of the Collateral Agent, and the Collateral Agent may dispose of Collateral as provided herein. A default by the Debtor of any of its material obligations pursuant to this Agreement, the Purchase Agreements and any of the other Transaction Documents shall be an Event of Default hereunder and an "Event of Default" as defined in the Notes, and the Purchase Agreements.

9. Disposition of Collateral.

Upon and after any Event of Default which is then continuing,

9.1 The Collateral Agent may exercise its rights with respect to each and every component of the Collateral, without regard to the existence of any other security or source of payment, in order to satisfy the Obligations. In addition to other rights and remedies provided for herein or otherwise available to it, the Subscribers shall have all of the rights and remedies of a secured party on default under the Uniform Commercial Code then in effect in the State of New York.

9.2 If any notice to the Debtor of the sale or other disposition of Collateral is required by then applicable law, five (5) business days prior written notice (which the Debtor agrees is reasonable notice within the meaning of Section 9.612(a) of the Uniform Commercial Code) shall be given to the Debtor of the time and place of any sale of Collateral which the Debtor hereby agrees may be by private sale. The rights granted in this Section are in addition to any and all rights available to the Subscribers under the Uniform Commercial Code.

9.3 The Collateral Holder is authorized, at any such sale, if the Collateral Holder deems it advisable to do so, in order to comply with any applicable securities laws, to restrict the prospective bidders or purchasers to persons who will represent and agree, among other things, that they are purchasing the Collateral for their own account for investment, and not with a view to the distribution or resale thereof, or otherwise to restrict such sale in such other manner as the Subscribers deem advisable to ensure such compliance. Sales made subject to such restrictions shall be deemed to have been made in a commercially reasonable manner.

9.4 All proceeds received by the Subscribers in respect of any sale, collection or other enforcement or disposition of Collateral, shall be applied (after deduction of any amounts payable to the Subscribers pursuant to Paragraph 10.1 hereof) against the Obligations. Upon payment in full of all Obligations, the Debtor shall be entitled to the return of all Collateral, including cash, which has not been used or applied toward the payment of the Obligations or used or applied to any and all costs or expenses of the Subscribers incurred in connection with the liquidation of the Collateral (unless another person is legally entitled thereto). Any assignment of Collateral by the Collateral Holder to the Debtor shall be without representation or warranty of any nature whatsoever and wholly without recourse. To the extent allowed by law, the Collateral Holder may purchase the Collateral and pay for such purchase by offsetting the purchase price with sums owed to the Subscribers by the Debtor arising under the Obligations or any other source.

9.5 Without limiting, and in addition to, any other rights, options and remedies the Subscribers have under the Transaction Documents, the UCC, at law or in equity, or otherwise, upon the occurrence and continuation of an Event of Default, the Collateral Holder shall have the right to apply for and have a receiver appointed by a court of competent jurisdiction. The Debtor expressly agrees that such a receiver will be able to manage, protect and preserve the Collateral and continue the operation of the business of the Debtor to the extent necessary to collect all revenues and profits thereof and to apply the same to the payment of all expenses and other charges of such receivership, including the compensation of the receiver, until a sale or other disposition of such Collateral shall be finally made and consummated.

9.6 Provided an Event of Default or an event, which with the passage of time or the giving of notice could become an Event of Default is not pending, then from and after the date the Subscriber has exercised its conversion rights with respect to not less than one-half of the Principal Amount of the Subscriber's Note and the Debtor has complied with its obligations with respect to all such conversions, then the Subscriber's security interest granted pursuant to this Agreement shall be automatically released.

10. Miscellaneous.

10.1 Expenses. The Debtor shall pay to the Collateral Agent for the benefit of the Subscribers, on demand, the amount of any and all reasonable expenses, including, without limitation, attorneys' fees, legal expenses and brokers' fees, which the Collateral Agent may incur in connection with (a) exercise or enforcement of any the rights, remedies or powers of the Subscribers hereunder or with respect to any or all of the Obligations upon breach; or (b) failure by the Debtor to perform and observe any agreements of the Debtor contained herein which are performed by Collateral Agent.

10.2 Waivers, Amendment and Remedies. No course of dealing by the Collateral Agent or the Subscribers and no failure by the Collateral Agent or the Subscribers to exercise, or delay by the Collateral Agent or the Subscribers in exercising, any right, remedy or power hereunder shall operate as a waiver thereof, and no single or partial exercise thereof shall preclude any other or further exercise thereof or the exercise of any other right, remedy or power of the Collateral Agent or the Subscribers. No amendment, modification or waiver of any provision of this Agreement and no consent to any departure by the Debtor therefrom shall, in any event, be effective unless contained in a writing signed by the Collateral Agent, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. The rights, remedies and powers of the Collateral Agent, not only hereunder, but also under any instruments and agreements evidencing or securing the Obligations and under applicable law are cumulative, and may be exercised by the Collateral Agent for the benefit of the Subscribers from time to time in such order as the Collateral Agent may elect.

10.3 Notices. All notices or other communications given or made hereunder shall be in writing and shall be personally delivered or deemed delivered the first business day after being faxed (provided that a copy is delivered by first class mail) to the party to receive the same at its address set forth below or to such other address as either party shall hereafter give to the other by notice duly made under this Section:

To Debtors: Ideal Power Converters, Inc.
5004 Bee Creek Rd., Suite 600
Spicewood, Texas 78669
Attention: Chief Executive Officer
Paul.Bundschuh@idealpowerconverters.com

With a copy by facsimile only to: Richardson & Patel LLP
1100 Glendon Avenue, Suite 850
Los Angeles, CA 90024
Fax: (310) 208-1154
Tel: (310) 208-1182
Attention: Erick Richardson

To Holders: To the addresses specified in the Subscription Purchase Agreement for each Holder

To Collateral Agent: Anthony DiGiandomenico
401 Wilshire Boulevard, Suite 1020
Santa Monica, California 90401

With a copy (not constituting notice) to: Law Offices of Aaron A. Grunfeld & Associates
1100 Glendon Avenue, Suite 850
Los Angeles, California 90024
Attention: Aaron A. Grunfeld
Tel: (310) 788-7577
agrunfeld@grunfeldlaw.com

Any party may change its address by written notice in accordance with this paragraph.

10.4 Term; Binding Effect. This Agreement shall (a) remain in full force and effect until payment and satisfaction in full of all of the Obligations; (b) be binding upon the Debtor, and its successors and permitted assigns; and (c) inure to the benefit of the Subscribers and its successors and assigns.

10.5 Captions. The captions of Paragraphs, Articles and Sections in this Agreement have been included for convenience of reference only, and shall not define or limit the provisions of this agreement and have no legal or other significance whatsoever.

10.6 Governing Law; Venue; Severability. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to conflicts of laws principles that would result in the application of the substantive laws of another jurisdiction, except to the extent that the perfection of the security interest granted hereby in respect of any item of Collateral may be governed by the law of another jurisdiction. Any legal action or proceeding against the Debtor with respect to this Agreement must be brought only in the courts in the State of New York or United States federal courts located within the State of New York, and, by execution and delivery of this Agreement, the Debtor hereby irrevocably accepts for itself and in respect of its property, generally and unconditionally, the jurisdiction of the aforesaid courts. The Debtor hereby irrevocably waives any objection which it may now or hereafter have to the laying of venue of any of the aforesaid actions or proceedings arising out of or in connection with this Agreement brought in the aforesaid courts and hereby further irrevocably waives and agrees not to plead or claim in any such court that any such action or proceeding brought in any such court has been brought in an inconvenient forum. If any provision of this Agreement, or the application thereof to any person or circumstance, is held invalid, such invalidity shall not affect any other provisions which can be given effect without the invalid provision or application, and to this end the provisions hereof shall be severable and the remaining, valid provisions shall remain of full force and effect.

10.7 Entire Agreement. This Agreement contains the entire agreement of the parties and supersedes all other agreements and understandings, oral or written, with respect to the matters contained herein.

10.8 Counterparts/Execution. This Agreement may be executed in any number of counterparts and by the different signatories hereto on separate counterparts, each of which, when so executed, shall be deemed an original, but all such counterparts shall constitute but one and the same instrument. This Agreement may be executed by facsimile signature and delivered by electronic transmission.

11. Termination; Release. When the Obligations have been indefeasibly paid and performed in full or all outstanding Notes have been converted to Common Stock pursuant to the terms of the Note and the Purchase Agreements, this Agreement shall terminate, and the Subscribers or the Collateral Agent, as appropriate, at the request and sole expense of the Debtor, will execute and deliver to the Debtor the proper instruments (including UCC termination statements) acknowledging the termination of the Security Agreement, and duly assign, transfer and deliver to the Debtor, without recourse, representation or warranty of any kind whatsoever, such of the Collateral, as may be in the possession of the Collateral Agent or Subscribers.

12. Subscribers' Powers.

12.1 Subscribers' Powers. The powers conferred on the Subscribers hereunder are solely to protect Subscribers' interest in the Collateral and shall not impose any duty on the Subscribers to exercise any such powers.

12.2 Reasonable Care. The Collateral Agent is required to exercise reasonable care in the custody and preservation of any Collateral in its possession.

12.3 Majority in Interest. The rights of the Subscribers hereunder, except as otherwise set forth herein shall be exercised upon the approval of Subscribers (including the Subscribers of the Initial Senior Debt dated August 31, 2012) holding no less than 51% of the outstanding Obligations ("Majority in Interest") at the time such approval is sought or given. Any tangible or physical Collateral shall be delivered to and be held by the Collateral Agent pursuant to this Agreement and on behalf of all Subscribers as to their respective rights.

12.4 Authority of Collateral Agent. By executing this Agreement the Subscribers appoint the Collateral Agent as their agent to exercise all of the rights, benefits and remedies granted to them as secured parties under this Agreement. The Collateral Agent agrees to exercise all of the rights, benefits and remedies conveyed by this Agreement solely for the benefit of the Subscribers and, unless a delay would cause irreparable damage to the Collateral or any part of it, only after consultation with the Majority in Interest. In accordance with its role as the agent for the Subscribers, the Lien Documents will identify the Collateral Agent as the secured party.

12.5 Duties of the Collateral Agent. The Collateral Agent agrees to hold and dispose of the Collateral in accordance with and subject only to the terms of this Agreement.

12.6 Appointment of Attorney-in-Fact. The Debtor hereby irrevocably appoints the Collateral Agent as the Debtor's attorney-in-fact to arrange for the transfer of the Collateral and to do and perform all actions that are necessary or appropriate in order to effect the terms of this Agreement.

12.7 Matters Pertaining to Collateral Agent.

12.7.1 The Collateral Agent shall not be personally liable for any act it may do or omit to do under this Agreement while acting in good faith and in the exercise of its best judgment, and any act done or omitted by the Collateral Agent pursuant to the advice of the Collateral Agent's attorney shall be conclusive evidence of such good faith. Except as expressly provided herein, the Collateral Agent is expressly authorized and directed to disregard any and all notices or warnings given by any of the parties, or by any other person or corporation, excepting only orders or process of court, and is hereby expressly authorized to comply with and obey any and all orders, judgments or decrees of any court. If the Collateral Agent obeys or complies with any such order, judgment or decree of any court, it shall not be liable to the Subscribers or the Debtor or to any other person, firm or corporation by reason of such compliance, notwithstanding that any such order, judgment or decree be subsequently reversed, modified, annulled, set aside or vacated, or found to have been entered without jurisdiction.

12.7.2 The Subscribers and the Debtor expressly agree the Collateral Agent has the absolute right at the Collateral Agent's election, if the Collateral Agent considers it appropriate, to file an action in interpleader in a court of proper jurisdiction requiring the parties to answer and litigate their claims and rights among themselves, and the Collateral Agent is authorized to deposit with the clerk of the court all documents and funds held by him pursuant to this Agreement. In the event such action is filed, the Debtor agrees to pay all costs, expenses and reasonable attorneys' fees that the Collateral Agent incurs in such interpleader action. Upon filing of such action the Collateral Agent shall thereupon be fully released and discharged from all obligations to further perform any duties or obligations otherwise imposed by the terms of this Agreement.

12.7.3 The Collateral Agent shall not be bound in any way by any other agreement between the Subscribers and the Debtor as to which the Collateral Agent is not a party, whether or not the Collateral Agent has knowledge thereof, nor by any notice of a claim or demand with respect to this Agreement or the Collateral. The Collateral Agent shall have no duties or responsibilities except as expressly set forth in this Agreement. The Collateral Agent may rely conclusively on any certificate, statement, request, waiver, receipt, agreement or other instrument that the Collateral Agent believes to be genuine and to have been signed and presented by an appropriate person or persons.

12.7.4 The retention and distribution of the Collateral in accordance with the terms and provisions of this Agreement shall fully and completely release the Collateral Agent from any obligation or liability assumed by the Collateral Agent hereunder as to the Collateral.

12.7.5 The Collateral Agent, while in possession of the Collateral prior to or following the occurrence of an Event of Default, as hereinabove provided, and while acting in accordance with the terms of this Agreement or applicable law, is not responsible for any fluctuations in value or delays in disposing of the Collateral.

12.7.6 The Collateral Agent shall not be liable in any respect for verifying the identity, authority or rights of the parties executing or delivering or purporting to execute and/or deliver this Agreement.

12.7.7 Notwithstanding anything herein to the contrary, the Collateral Agent shall have no duty with respect to the Collateral other than the duty to use reasonable care in the custody and preservation of the Collateral if it is in the Collateral Agent's possession. The Collateral Agent shall be under no obligation to take any steps necessary to preserve rights in the Collateral against any other parties, to sell the Collateral if it threatens to decline in value, or to exercise any rights represented thereby, except as directed by the Majority in Interest pursuant to the terms of this Agreement.

12.7.8 The Debtor and the Subscribers agree to and each does hereby indemnify, defend (with counsel acceptable to the Collateral Agent) and hold the Collateral Agent harmless against any and all losses, damages, claims and expenses, including reasonable attorneys' fees, that may be incurred by the Collateral Agent by reason of it compliance with the terms of this Agreement. If, as a result of any disagreement between the parties and/or adverse demands and claims being made by any or all of them upon the Collateral Agent, the Collateral Agent shall become involved in litigation, including any interpleader brought by the Collateral Agent as provided in this Agreement, the Debtor agrees that it shall be liable to the Collateral Agent on demand for all costs, expenses and attorneys' fees that the Collateral Agent shall incur and/or be compelled to pay by reason of such litigation.

12.8 Replacement of Collateral Agent. In the event the Collateral Agent is or becomes unwilling or unable to act in such capacity for any reason, the Majority in Interest shall appoint a successor. The Majority in Interest (but not Debtor) shall have the right, after delivery of written notice signed by the Majority in Interest to the Collateral Agent, to terminate the Collateral Agent and to name the Collateral Agent's successor.

[THIS SPACE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the undersigned have executed and delivered this Security Agreement, as of the date first written above.

"DEBTOR"

IDEAL POWER CONVERTERS, INC.
a Texas corporation

By:
Paul Bundschuh
Chief Executive Officer

Agreed and Accepted by:

"COLLATERAL AGENT"

Anthony DiGiandomenico

By:/s/ Anthony DiGiandomenico

Name:/s/ Anthony DiGiandomenico

Title:

This Security Agreement may be signed by facsimile signature and delivered by confirmed facsimile transmission.

OMNIBUS SUBSCRIBER SIGNATURE PAGE TO
SECURITY AGREEMENT

The undersigned, in its capacity as a Subscriber, hereby executes and delivers the Security Agreement to which this signature page is attached and agrees to be bound by the Security Agreement on the date set forth on the first page of the Security Agreement. This counterpart signature page, together with all counterparts of the Security Agreement and signature pages of the other parties named therein, shall constitute one and the same instrument in accordance with the terms of the Security Agreement.

_____	_____
[Print Name of Subscriber]	[Name of Co-Subscriber, if applicable]
_____	_____
[Signature]	[Signature]
Name:	Name:_____
Title:_____	Title: _____
Mailing Address:	Telephone No.:_____
	Facsimile No:_____
	Email Address:_____
(City, State and Zip)	

IDEAL POWER CONVERTERS, INC.
SECURITY AGREEMENT EXHIBITS AND SCHEDULES

Schedule 1 – Subscribers

Schedule 2 - Provisions of the New York Uniform Commercial Code

Schedule 3 – Deposit Accounts

Schedule 5.1 – Security Interests

SCHEDULE 1

SUBSCRIBERS

SCHEDULE 2

UNIFORM COMMERCIAL CODE OF NEW YORK

Definitions from § 9.102 of the New York Uniform Commercial Code

(2) "Account", except as used in "account for", means a right to payment of a monetary obligation, whether or not earned by performance, (i) for property that has been or is to be sold, leased, licensed, assigned, or otherwise disposed of, (ii)for services rendered or to be rendered, (iii) for a policy of insurance issued or to be issued, (iv) for a secondary obligation incurred or to be incurred, (v) for energy provided or to be provided, (vi) for the use or hire of a vessel under a charter or other contract, (vii) arising out of the use of a credit or charge card or information contained on or for use with the card, or (viii) as winnings in a lottery or other game of chance operated or sponsored by a state, governmental unit of a State, or person licensed or authorized to operate the game by a State or governmental unit of a State. The term includes health-care-insurance receivables. The term does not include (i) rights to payment evidenced by chattel paper or an instrument, (ii) commercial tort claims, (iii) deposit accounts, (iv) investment property, (v) letter-of-credit rights or letters of credit, or (vi) rights to payment for money or funds advanced or sold, other than rights arising out of the use of a credit or charge card or information contained on or for use with the card.

(11) "Chattel paper" means a record or records that evidence both a monetary obligation and a security interest in specific goods, a security interest in specific goods and software used in the goods, a security interest in specific goods and license of software used in the goods, a lease of specific goods, or a lease of specific goods and license of software used in the goods. In this paragraph, "monetary obligation" means a monetary obligation secured by the goods or owed under a lease of the goods and includes a monetary obligation with respect to software used in the goods. The term does not include (i) charters or other contracts involving the use or hire of a vessel or (ii) records that evidence a right to payment arising out of the use of a credit or charge card or information contained on or for use with the card. If a transaction is evidenced by records that include an instrument or series of instruments, the group of records taken together constitutes chattel paper.

(30) "Document" means a document of title or a receipt of the type described in Section 7--201(2).

7-201(2): Where goods including distilled spirits and agricultural commodities are stored under a statute requiring a bond against withdrawal or a license for the issuance of receipts in the nature of warehouse receipts, a receipt issued for the goods has like effect as a warehouse receipt even though issued by a person who is the owner of the goods and is not a warehouseman.

(33) "Equipment" means goods other than inventory, farm products, or consumer goods.

(42) "General intangible" means any personal property, including things in action, other than accounts, chattel paper, commercial tort claims, deposit accounts, documents, goods, instruments, investment property, letter-of-credit rights, letters of credit, money, and oil, gas, or other minerals before extraction. The term includes payment intangibles and software.

(44) "Goods" means all things that are movable when a security interest attaches. The term includes (i) fixtures, (ii) standing timber that is to be cut and removed under a conveyance or contract for sale, (iii) the unborn young of animals, (iv) crops grown, growing, or to be grown, even if the crops are produced on trees, vines, or bushes, and (v) manufactured homes. The term also includes a computer program embedded in goods and any supporting information provided in connection with a transaction relating to the program if (i) the program is associated with the goods in such a manner that it customarily is considered part of the goods, or (ii) by becoming the owner of the goods, a person acquires a right to use the program in connection with the goods. The term does not include a computer program embedded in goods that consists solely of the medium in which the program is embedded. The term also does not include accounts, chattel paper, commercial tort claims, deposit accounts, documents, general intangibles, instruments, investment property, letter-of-credit rights, letters of credit, money, or oil, gas, or other minerals before extraction.

(47) "Instrument" means a negotiable instrument or any other writing that evidences a right to the payment of a monetary obligation, is not itself a security agreement or lease, and is of a type that in ordinary course of business is transferred by delivery with any necessary indorsement or assignment. The term does not include (i) investment property, (ii) letters of credit, or (iii) writings that evidence a right to payment arising out of the use of a credit or charge card or information contained on or for use with the card.

(48) "Inventory" means goods, other than farm products, which:

(A) are leased by a person as lessor;

(B) are held by a person for sale or lease or to be furnished under a contract of service;

(C) are furnished by a person under a contract of service; or

(D) consist of raw materials, work in process, or materials used or consumed in a business.

(64) "Proceeds", except as used in Section 9--609(b), means the following property:

(A) Whatever is acquired upon the sale, lease, license, exchange, or other disposition of collateral;

(B) whatever is collected on, or distributed on account of, collateral;

(C) rights arising out of collateral;

(D) to the extent of the value of collateral, claims arising out of the loss, nonconformity, or interference with the use of, defects or infringement of rights in, or damage to, the collateral; or

(E) to the extent of the value of collateral and to the extent payable to the debtor or the secured party, insurance payable by reason of the loss or nonconformity of, defects or infringement of rights in, or damage to, the collateral.

SCHEDULE 3

DEPOSIT ACCOUNTS

Bank	Account No.	Bank Address

SCHEDULE 5.1

SECURITY INTERESTS

Not applicable.

The security interests granted to the Subscribers herein are identical to and in pari passu with the security interests granted to the Subscribers of the Initial Senior Debt dated August 31, 2012.

Interest of the Officer of the Governor, Economics Development and Tourism, has been subordinated.

PATENTS AND PATENT APPLICATIONS SUBJECT TO THE IDEAL POWER CONVERTERS INC. SECURITY AGREEMENT DATED NOVEMBER 21, 2012 BETWEEN IDEAL POWER CONVERTERS INC. THE COLLATERAL AGENT AND THE SUBSCRIBERS

U.S. Patent No. 7778045

U.S. Patent No. 7599196

U.S. Patent Application No. 12479207 (issuing as 8,300,426)

U.S. Patent Application No. 13205212

U.S. Patent Application No. 13205225

U.S. Patent Application No. 13205243

U.S. Patent Application No. 13205250

U.S. Patent Application No. 13205263

U.S. Patent Application No. 13214575

U.S. Patent Application No. 13308200

U.S. Patent Application No. 13308356

U.S. Patent Application No. 13400567

U.S. Patent Application No. 13401771

U.S. Patent Application No. 13541902

U.S. Patent Application No. 13541905

U.S. Patent Application No. 13541910

U.S. Patent Application No. 13541914

U.S. Patent Application No. 13542223

U.S. Patent Application No. 13542225 (issuing as 8,295,069)

U.S. Patent Application No. 61/700,131

Brazilian Patent Application No. PI1011551-0

Brazilian Patent Application No. BR112012003612-2

Chinese Patent Application No. 2010800387048

Chinese Patent Application No. 200780029208.4

European Patent Application No. EP7795915.3 (published as EP2025051)

European Patent Application No. 10800310.4

Korean Patent Application No. 2012-7000720

PCT Patent Application No. PCTUS1040504 (published as WO2011008567)

PCT Patent Application No. PCTUS1045819 (published as WO2011022442)

PCT Patent Application No. PCTUS1162689 (published as WO2012075172)

No. B- Issue Date: November 21, 2012

THIS WARRANT AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT TO THE SECURITIES UNDER SUCH ACT AND/OR APPLICABLE STATE SECURITIES LAWS,OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED OR UNLESS SOLD PURSUANT TO RULE 144 OF SUCH ACT.

THE SECURITIES REPRESENTED HEREBY MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE TERMS OF A SECURITIES PURCHASE AGREEMENT BETWEEN THE COMPANY AND THE SECURITY HOLDER DATED NOVEMBER 21, 2012, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

IDEAL POWER CONVERTERS, INC.
STOCK PURCHASE WARRANT

THIS CERTIFIES that _____ (the "***Holder***") is entitled, upon the terms and subject to the conditions hereinafter set forth in this Warrant (this "***Warrant***"), at any time on or after (except as otherwise limited below) the date of the applicable event specified below and on or prior to the Expiration Date, but not thereafter, to subscribe for and to purchase from Ideal Power Converters, Inc., a Texas corporation (the "***Company***"), shares of the Company's common stock, $0.001 par value (the "***Common Stock***").

This Warrant is issued pursuant to a Securities Purchase Agreement and in connection with the issuance to the Holder of a Convertible Promissory Note (the "***Note***") of even date herewith, and is one of the Warrants (collectively, the "***Warrants***") being issued in connection with the issuance of a series of Senior Secured Convertible Promissory Notes of like tenor (collectively, "***Notes***") being issued by the Company to raise interim financing of up to $3,250,000 (the "***Offering***"). Capitalized terms used herein, but not otherwise defined, shall have the meanings ascribed to such terms in the Securities Purchase Agreement.

The following is a statement of the rights of the Holder of this Warrant and the conditions to which this Warrant is subject, to which the Holder, by the acceptance of this Warrant, agrees:

1. **Certain Definitions**.

1.1 "***Calendar Due Date***" shall be a date that is 12 months from the closing date of the Offering.

1.2 "***Change of Control***"meansany liquidation, dissolution or winding up of the Company, either voluntary or involuntary, and shall be deemed to be occasioned by, or to include, (i) the acquisition of the Company by another entity by means of any transaction or series of related transactions (including, without limitation, any stock acquisition, reorganization, merger or consolidation) unless the Company's shareholders of record as constituted immediately prior to such acquisition or sale will, immediately after such acquisition or sale (by virtue of securities issued as consideration for the Company's acquisition or sale or otherwise) hold at least a majority of the voting power of the surviving or acquiring entity, or its direct or indirect parent entity (except that the sale by the Company of shares of its capital stock to investors in bona fide equity financing transactions shall not be deemed a Change of Control for this purpose) or (ii) a sale, exclusive license or other disposition of all or substantially all of the assets of the Company, including a sale, exclusive license or other disposition of all or substantially all of the assets of the Company's subsidiaries, if such assets constitute substantially all of the assets of the Company and such subsidiaries taken as a whole.

1.3 "***Exercise Price***" is defined in Section 2 below.

1.4 "***Expiration Date***" means, unless earlier terminated pursuant to Section 9 hereof, that date that is seven years after the issue date set forth above, provided, however, if the Company closes the IPO after the fifth anniversary date of the issue date but prior to the Expiration Date, then the Expiration Date shall be extended for an additional five years following the close of the IPO.

1.5 "***IPO***" means a firm commitment underwritten initial public offering of the Company's Common Stock pursuant to a registration statement declared effective by the Securities and Exchange Commission which closes before the Calendar Due Date and results in gross proceeds to the Company of at least $10 million.

1.6 "***IPO Price***" means the price per share of the Company's Common Stock offered to public investors in an IPO, without regard to any underwriting discount or expense (as appropriately adjusted to reflect stock dividends, stock splits, combinations, recapitalizations and the like with respect to the Company's capital stock after the date hereof).

1.7 "***Private Equity Financing***" means a privately marketed equity financing resulting in gross proceeds in excess of $250,000 which closes before the Calendar Due Date; provided, however, that none of the following issuances of securities shall constitute a "Private Equity Financing": (i) theOffering and any subsequent offerings of senior secured convertible promissory notes or any other debt offering; (ii) securities issued without consideration in connection with any stock split or stock dividend on, the Company's Common Stock; (iii) securities issued to the Company's employees, officers, directors, consultants, advisors or service providers pursuant to any plan, agreement or similar arrangement unanimously approved by the Company's board of directors; (iv) securities issued to banks or equipment lessors; (v) securities issued in connection with sponsored research, collaboration, technology license, development, original equipment manufacturing (OEM), marketing or other similar agreements or strategic partnerships; (vi) securities issued in connection with a bona fide business acquisition of or by the Company (whether by merger, consolidation, sale of assets, sale or exchange of stock or otherwise); (vii) the Investment Unit dated October 1, 2010, issued by the Company to the Office of the Governor Economic Development and Tourism, and any securities relating to the conversion or exercise thereof; or (viii) any right, option or warrant to acquire any security convertible into or exercisable for the securities listed in clauses (i) through (vii) above.

1.8 "***Private Equity Financing Price***" means the price per share of Common Stock paid by investors in the Private Equity Financing, which shall be determined by dividing (a) the total consideration received or to be received by each investor assuming exercise in full of all warrants or similar securities, divided by (b) the total number of shares of Common Stock acquirable either directly or by conversion or exercise of instruments, by the Holder, on a fully diluted basis.

1.9 "***Shares***" means the shares of Common Stock issuable under this Warrant, computed in accordance with Section 2 below.

2. <u>Number of Shares and Exercise Price</u>

The number of shares of Common Stock (the "***Shares***") covered by this Warrant and the per share Exercise Price shall be determined as follows (subject to appropriate adjustments pursuant to Section 10):

(i) in the event of an IPO that occurs prior to the Calendar Due Date, one-half the principal amount of the Holder's Note divided by the lower of 0.70 of the IPO Price or $1.46 shall determine the number of shares covered by the Warrant while the per-share exercise price shall be equal to the lower of 0.70 times the IPO Price or $1.46; or

(ii) in the event of a Private Equity Financing that occurs prior to the Calendar Due Date, one-half the principal amount of the Holder's Note divided by the lower of 0.70 of the Private Equity Financing Price or $1.46 shall determine the number of shares covered by the Warrant, with a per-share exercise price equal to the lower of 0.70 times the Private Equity Financing Price or $1.46; provided, however, that (A) if the Company undertakes first, a Private Equity Financing and secondly, an IPO prior to the Calendar Due Dateand (B) the Private Equity Financing Price is higher than the IPO Price, then the number of shares of Common Stock covered by the Warrant and the per share exercise price shall be adjusted to equal the number of shares of Common Stock and the exercise price calculated in accordance with subsection (i) above; or

(iii) If the Company does not undertake either a Private Equity Financing or an IPO prior to the Calendar Due Date, then the number of Shares covered by this Warrant shall equal one-half the original principal amount of the Holder's Note divided by $1.46, and the exercise price shall be $1.46 per share.

3. **Exercise of Warrant**

3.1 Unless earlier terminated pursuant to Section 9 hereof, the purchase rights represented by this Warrant are exercisable by the Holder, in whole or in part, by the surrender of this Warrant and the Notice of Exercise annexed hereto duly executed at the Company's principal executive office (or such other office or agency of the Company as it may designate by notice in writing to the Holder at the address of the Holder appearing on the books of the Company), and upon payment of the aggregate Exercise Price of the Shares thereby purchased (by cash or by check or bank draft payable to the order of the Company); whereupon the Holder shall be entitled to receive a certificate for the number of Shares so purchased. The Company agrees that if at the time of the surrender of this Warrant and purchase of the Shares, the Holder shall be entitled to exercise this Warrant, the Shares so purchased shall be issued to the Holder as the record owner of such Shares as of the close of business on the date on which this Warrant shall have been exercised as aforesaidor on such later date requested by the Holder or on such earlier date agreed to by the Holder and the Company.

3.2 In lieu of exercising this Warrant by payment of cash or check or bank draft payable to the order of the Company pursuant to subsection 3.1 above, the Holder may elect to receive Shares equal to the value of this Warrant (or the portion thereof being exercised), at any time after the date hereof and before the close of business on the Expiration Date, by surrender of this Warrant at the principal executive office of the Company, together with the Notice of Cashless Exercise annexed hereto, in which event the Company will issue to the Holder Shares in accordance with the following formula:

$$X = \frac{Y(A-B)}{A}$$

Where,
X = The number of Shares to be issued to Holder;
Y = The number of Shares for which the Warrant is being exercised;
A = The fair market value of one Share; and
B = The Exercise Price.

(a) For purposes of this subsection 3.2, the fair market value of a Share is defined as follows:

(i) if the Holder exercises within three days of the closing of the IPO, then the fair market value shall be the IPO Price;

(ii) if the Holder exercises after receipt of a notice of a Change of Control but before a Change of Control, then the fair market value shall be the value to be received in such Change of Control by the holders of the Company's Common Stock;

(iii) if the exercise occurs more than three days after the closing of the IPO, and:

(1) if the Common Stock is traded on a securities exchange or the Nasdaq Stock Market, the fair market value shall be the last sale price on the trading day immediately prior to the Company's receipt of the Notice of Conversion or, if no sale of the Company's Common Stock took place on the trading day immediately prior to the receipt of the Notice of Conversion, then the fair market value shall be the last sale price on the most recent day prior to the receipt of the Notice of Conversion on which trades were made and reported; or

(2) if the Common Stock is traded over-the-counter, the value shall be deemed to be the last sale price on the trading day immediately prior to the Company's receipt of the Notice of Conversion or, if no sale of the Company's Common Stock took place on the trading day immediately prior to the receipt of the Notice of Conversion, then the fair market value shall be the last sale price on the most recent day prior to the receipt of the Notice of Conversion on which trades were made and reported;

(iv) if there is no active public market for the Common Stock, the fair market value thereof shall be determined in good faith by the Company's Board of Directors.

3.3 The exercise or conversion of this Warrant in connection with a Change of Control may, at the election of the Holder, be conditioned upon the closing of such Change of Control, in which event the Holder shall not be deemed to have exercised or converted thisWarrant until immediately prior to the closing of such Change of Control.

4. **Nonassessable**

The Company covenants that all Shares which may be issued upon the exercise of this Warrant will be validly issued, fully paid and nonassessable and free from all taxes, liens and charges in respect of the issue thereof. Certificates for Shares purchased hereunder shall be delivered to the Holder promptly after the date on which this Warrant shall have been exercised.

5. **Fractional Shares**

No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. With respect to any fraction of a share called for upon the exercise of this Warrant, such fractional share shall be rounded down to the nearest whole share, and the Company shall pay to the Holder the amount of such fractional share multiplied by an amount equal to such fraction multiplied by the then current fair market value (determined in accordance with Section 3.2(a)) of a Share shall be paid in cash to the Holder.

6. **Charges, Taxes and Expenses**

Issuance of certificates for Shares upon the exercise of this Warrant shall be made without charge to the Holder hereof for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the Holder.

7. **No Rights as Shareholders**

. This Warrant does not entitle the Holder to any voting rights or other rights as a shareholder of the Company prior to the exercise hereof.

8. **Saturdays, Sundays, Holidays, etc.**

If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday, a Sunday or a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day that is not a Saturday, Sunday or legal holiday.

9. **Intentionally Omitted**

10. **Adjustments**

The Exercise Price and the number of Shares purchasable hereunder are subject to adjustment from time to time as set forth in this Section 10.

10.1 Reclassification, etc. If the Company, at any time while this Warrant, or any portion hereof, remains outstanding and unexpired by reclassification of securities or otherwise, shall change any of the securities as to which purchase rights under this Warrant exist into the same or a different number of securities or any other class or classes, this Warrant shall thereafter represent the right to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities that were subject to the purchase rights under this Warrant immediately prior to such reclassification or other change and the Exercise Price therefor shall be appropriately adjusted, all subject to further adjustment as provided in this Section10.

10.2 Subdivision or Combination of Shares. In the event that the Company shall at any time subdivide the outstanding securities as to which purchase rights under this Warrant exist, or shall issue a stock dividend on the securities as to which purchase rights under this Warrant exist, the number of securities as to which purchase rights under this Warrant exist immediately prior to such subdivision or to the issuance of such stock dividend shall be proportionately increased, and the Exercise Price shall be proportionately decreased, and in the event that the Company shall at any time combine the outstanding securities as to which purchase rights under this Warrant exist, the number of securities as to which purchase rights under this Warrant exist immediately prior to such combination shall be proportionately decreased, and the Exercise Price shall be proportionately increased, effective at the close of business on the date of such subdivision, stock dividend or combination, as the case may be.

10.3 Cash Distributions. No adjustment on account of cash dividends or interest on the securities as to which purchase rights under this Warrant exist will be made to the Exercise Price under this Warrant.

11. **Notice of Certain Events** The Company will provide notice to the Holder with at least 20 days notice prior to the closing of a Change of Control or an IPO. Such notice shall be in accordance with the notice provision included at Section 12(e) of the Securities Purchase Agreement of even date herewith.

12. **Purchase Rights; Fundamental Transactions.** In addition to any adjustments pursuant to Section 10 above, if at any time the Company grants, issues or sells any options, convertible securities or rights to purchase stock, warrants, securities or other property pro rata to the record holders of Common Stock ("Purchase Rights"), then the Holder will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the Holder could have acquired if the Holder had held the number of shares of Common Stock acquirable upon complete exercise of this Warrant immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights.

13. **Put Right.** In conjunction with the Offering, the Holder has received certain registration rights relating to the Shares pursuant to the terms of a Registration Rights Agreement of even date herewith. If the right to have the Shares registered pursuant to the Registration Rights Agreement terminates in accordance with Section 2(f) of the Registration Rights Agreement (the "Registration Rights Termination"), the Holder will have the right to require the Company to purchase the Warrant from the Holder (the "Put Right") at a price equal to 20% of the principal amount of the Holder's Note (the "Put Price"). The Company shall pay the Holder the Put Price as promptly as practicable but in any event not later than 10 days after the Holder delivers notice to the Company of exercise of the Put Right. The Put Right will expire 12 months from the Registration Rights Termination.

14. **Miscellaneous**

14.1 Loss, Theft, Destruction or Mutilation of Warrant. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, delivery of an indemnity agreement reasonably satisfactory in form and substance to the Company or, in the case of mutilation, on surrender and cancellation of this Warrant, the Company shall execute and deliver, in lieu of this Warrant, a new Warrant executed in the same manner as this Warrant and of like tenor and amount.

14.2 Waivers and Amendments. This Warrant and the obligations of the Company and the rights of the Holder under this Warrant may be amended, waived, discharged or terminated (either generally or in a particular instance, either retroactively or prospectively and either for a specified period of time or indefinitely) with the written consent of the Company (which shall not be required in connection with a waiver of rights in favor of the Company) and the holders of at least a majority of the then-outstanding aggregate principal amount under the Notes; *provided*, *however*, that no such amendment or waiver shall reduce the number of Shares represented by this Warrant without the consent of the Holder hereof; and *provided further, however*, that nothing shall prevent the Holder from individually agreeing to waive the observation of any term of this Warrant. Any amendment, waiver, discharge or termination effected in accordance with this Section14.2 shall be binding upon the Company, the Holder, and except pursuant to a waiver by an individual holder of another Warrant pursuant to the final proviso in the immediately preceding sentence, each other holder of Warrants.

14.3 Notices. Any notice, request or other communication required or permitted hereunder shall be given in accordance with the Purchase Agreement.

14.4 Severability. If one or more provisions of this Warrant are held to be unenforceable under applicable law, such provision(s) shall be excluded from this Warrant and the balance of this Warrant shall be interpreted as if such provision(s) were so excluded and shall be enforceable in accordance with its terms.

14.5 Successors and Assigns. Neither this Warrant nor any rights hereunder are transferable without the prior written consent of the Company. Notwithstanding the foregoing, the Holder shall be permitted to transfer this Warrant to any affiliate (as that term is defined in the Securities Act of 1933) of the Holder. If a transfer is permitted pursuant to this Section, the transfer shall be recorded on the books of the Company upon the surrender of this Warrant, properly endorsed, to the Company at its principal offices, and the payment to the Company of all transfer taxes and other governmental charges imposed on such transfer. In the event of a partial transfer, the Company shall issue to the holders one or more appropriate new warrants. Subject to the foregoing, the provisions of this Warrant shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the Company and the Holder.

14.6 Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to the Holder, upon any breach or default of the Company under this Warrant shall impair any such right, power, or remedy of the Holder nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default therefore or thereafter occurring. Any waiver, permit, consent, or approval of any kind or character on the part of the Holder of any breach or default under this Warrant or any waiver on the part of the Holder of any provisions or conditions of this Warrant must be made in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Warrant or by law or otherwise afforded to the Investors, shall be cumulative and not alternative.

14.7 Titles and Subtitles. The titles of the paragraphs and subparagraphs of this Warrant are for convenience of reference only and are not to be considered in construing this Warrant.

14.8 Construction. The language used in this Warrant will be deemed to be the language chosen by the parties to express their mutual intent and no rules of strict construction will be applied against any party.

14.9 Governing Law. THIS WARRANT SHALL BE GOVERNED IN ALL RESPECTS BY THE LAWS OF THE STATE OF NEW YORK AS SUCH LAWS ARE APPLIED TO AGREEMENTS BETWEEN NEW YORK RESIDENTS ENTERED INTO AND TO BE PERFORMED ENTIRELY WITHIN NEW YORK.

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer thereunto duly authorized.

Ideal Power Converters, Inc.

By:
Paul Bundschuh
Chief Executive Officer

Address: 5004 Bee Creek Road, Suite 600
Spicewood Texas 78669

Attn: Paul Bundschuh

NOTICE OF EXERCISE

TO: Ideal Power Converters, Inc.
5004 Bee Creek Road, Suite 600
Spicewood, Texas 78669
Attn: Secretary

The undersigned hereby elects to purchase _____ shares (the "***Shares***") of the Common Stock of Ideal Power Converters, Inc. pursuant to the terms of the attached Warrant and tenders herewith payment of the purchase price in full.

Please issue a certificate or certificates representing the Shares in the name of the undersigned or in such other name as is specified below:

(Print Name)

Address:

The undersigned confirms that the undersigned is an "accredited investor," and that the Shares are being acquired for the account of the undersigned for investment only and not with a view to, or for resale in connection with, the distribution thereof, and that the undersigned has no present intention of distributing or selling the Shares.

(Date) (Signature)

(Print Name)

NOTICE OF CASHLESS EXERCISE

TO: Ideal Power Converters, Inc.
5004 Bee Creek Road, Suite 600
Spicewood, Texas 78669
Attn: Secretary

The undersigned hereby elects to purchase _____ shares (the "***Shares***") of the Common Stock of Ideal Power Converters, Inc. pursuant to the cashless exercise provision of Section 3 of the attached Warrant.

Please issue a certificate or certificates representing the Shares in the name of the undersigned or in such other name as is specified below:

(Print Name)

Address:

The undersigned represents that the undersigned is an "accredited investor," and that the Shares are being acquired for the account of the undersigned for investment and not with a view to, or for resale in connection with, the distribution thereof, and that the undersigned has no present intention of distributing or reselling such shares.

(Date) (Signature)

(Print Name)

Exhibit 10.24

SUBORDINATION AGREEMENT

THIS SUBORDINATION AGREEMENT(this "Subordination Agreement"), is entered into as of August 30, 2012, by and among the Office of the Governor Economic Development and Tourism of the State of Texas (the "Subordinated Creditor"); Ideal Power Converters, Inc., a Texas corporation("Debtor"); the undersigned senior lenders(collectively, the "Senior Creditors"); and a collateral agent to be appointed pursuant to the Senior Loan Agreements, as defined below ("Collateral Agent"). Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the below-defined Senior Loan Agreements.

RECITALS

A. Debtor and Senior Creditors will or have entered into Securities Purchase Agreement ("SPA"), a Senior Secured Convertible Note, and a Security Agreement, each dated as of the date hereof (collectively as the same may be amended, restated, supplemented or otherwise modified from time to time, the "Senior Loan Agreements"), pursuant to which Senior Creditors have loaned or propose to loan funds to Debtor; it is further contemplated that the Debtor will issue senior, secured convertible promissory notes and warrants (or similar securities) to additional investors (collectively, the "Senior Loans" or the "Senior Debt").

B. Debtor contemplates obtaining Senior Loans of up to $5,000,000 in principal amount ("Maximum Principal Amount"), and that certain of the Senior Loans will have a duration of 12 months from issuance and the balance will have a duration of up to 18 months from issuance.

C. Debtor is indebted to Subordinated Creditor in the principal amount of One Million dollars ($1,000,000) plus accrued interest(the "Subordinated Debt"), as evidenced by (a) the Texas Emerging Technology Fund Award and Security Agreement dated October 1, 2010, and (b) the Investment Unit dated October 1, 2010, each between Debtor and Subordinated Creditor (together, the "Subordinated Debt Instrument").

D. Senior Creditors have requested that Subordinated Creditor and Debtor execute this Agreement as a condition to lending funds to the Debtor constituting Senior Loans.

AGREEMENT

NOW, THEREFORE, in order to induce Senior Creditors to loan funds to the Debtor which shall constitute Senior Loans, and for other good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, the parties hereto hereby agree as follows.

Section 1. Interpretation.

(a) Definitions. Unless otherwise expressly provided in this Subordination Agreement, each term set forth in Schedule I, when used in this Subordination Agreement, shall have the respective meaning given to that term in Schedule I or in the provision of this Subordination Agreement referenced in Schedule I.

(b) Headings. Headings in this Subordination Agreement are for convenience of reference only and are not part of the substance hereof.

(c) Plural Terms. All terms defined in this Subordination Agreement in the singular form shall have comparable meanings when used in the plural form and vice versa.

(d) Other Interpretive Provisions. References in this Subordination Agreement to any document, instrument or agreement (i) shall include all exhibits, schedules and other attachments thereto, (ii) shall include documents, instruments or agreements issued or executed in replacement thereof, and (iii) shall mean such document, instrument or agreement, or replacement or predecessor thereto, as amended, modified and supplemented from time to time and in effect at any given time. The words "include" and "including" and words of similar import when used in this Subordination Agreement shall not be construed to be limiting or exclusive.

Section 2. Subordination.

(a) Priorities. Senior Creditors and Subordinated Creditor hereby agree that, subject to the provisions of paragraph 10(j) below, the Subordinated Debt and any Subordinated Debt Payment (either upon an "event of default" under the Subordinated Debt Instrument, or in connection with a pre-payment) are and shall be subordinate to the Senior Debt and all required payments therein, to the extent and in the manner set forth herein, notwithstanding any applicable law to the contrary and notwithstanding anything to the contrary contained in the Senior Loan Agreement, the Subordinated Debt Instrument or any other agreement to the contrary. All of the Senior Debt shall be deemed to have been made or incurred in reliance upon this Subordination Agreement. Except as herein explicitly set forth, nothing herein shall abridge or restrict any rights which Subordinated Creditor has or may have against Debtor under the Subordinated Debt Instrument, the Investment Unit dated October 1, 2010, or any other agreement or instrument executed by Subordinated Debtor and Debtor with respect to the Subordination Debt.

(b) Restricted Actions. Except as otherwise expressly provided in Section 3, until all Senior Debt is indefeasibly paid in full in cash, (i) Debtor will not make, permit or cause and Subordinated Creditor will not accept, permit or cause any Subordinated Debt Payment; (ii) Subordinated Creditor will not demand payment on, accelerate the maturity of, or bring any action for the payment of the Subordinated Debt; institute or join with others in instituting any Debtor Relief Proceeding against Debtor; interfere with Senior Creditors' Lien on the Collateral or take any other action to collect the Subordinated Debt or enforce its rights in connection therewith (provided that Subordinated Creditor may file a proof of claim in connection with a Debtor Relief Proceeding); and (iii) none of Debtor nor Subordinated Creditor will take any other action prejudicial to or inconsistent with the priorities and other rights granted to Senior Creditors hereunder. Nothing herein set forth shall alter or restrict the rights of Subordinated Creditor to declare that a default has occurred as defined within or as permitted under the Subordinated Debt Instrument (a "Subordinated Debt Default). In the event of a Subordinated Debt Default that Debtor does not cure within the time periods allowed under the Subordinated Debt Instrument, Subordinated Creditor shall notify the Senior Creditors but shall not take further action the Debtor.

(c) Turnover. Except for payments permitted to be made to Subordinated Creditor pursuant to Section 3 hereof, if any cash, cash equivalents, securities or other property should be received by Subordinated Creditor (or by any other Person for the benefit of Subordinated Creditor) as Subordinated Debt Payments, Subordinated Creditor shall immediately deliver (or cause to be delivered) the same to Senior Creditors in the form in which received, together with any endorsement, assignment or other writings necessary for Senior Creditors to realize the value thereof and to apply to the Senior Debt. Until such cash, cash equivalents, securities and other property received by Subordinated Creditor are so delivered to Senior Creditors (except for payments permitted to be made to Subordinated Creditor pursuant to Section 3 hereof), the same shall be held by Subordinated Creditor in trust for the benefit of Senior Creditors and shall not be co-mingled with any other property of Subordinated Creditor.

(d) Acknowledgement of Purchase Rights of Subordinated Creditor. The Debtor and Senior Creditors hereby agree and acknowledge that notwithstanding any provision of this Agreement, nothing set forth herein shall alter or otherwise restrict any rights which the Subordinated Creditor has to acquire securities of the Debtor under the Investment Unit dated October 1, 2010, in accordance with the terms and conditions of that agreement and any related amendments, including any warrant, option or other instrument issued in connection therewith.

(e) Obligations of Debtor Unconditional. Subject to Sections 3 and 5(v), nothing contained in this Subordination Agreement is intended to or shall impair, as between Debtor and Subordinated Creditor, the obligation of Debtor to pay the Subordinated Debt as and when due and payable in accordance with its terms, or is intended or shall affect the relative rights of Subordinated Creditor and creditors of Debtor other than Senior Creditors.

(f) Filing Proof of Claim. Should Debtor become a party to any Debtor Relief Proceeding, then in connection therewith Senior Creditors shall have the right to (i) file on behalf of Subordinated Creditor all claims or proofs of debt in respect of the Subordinated Debt in the form required (provided, however, that if Subordinated Creditor files a claim or proof of claim prior to ten (10) business days before the expiration of the time, as provided by applicable statute, to file such claims or proofs of claim, then Subordinated Creditor shall have the right to file such claims and proofs of claim); (ii) demand, sue for, collect or receive the payments and distributions in respect of any Subordinated Debt (provided, however, that if Subordinated Creditor takes any such action no later than ten (10) business days after Senior Creditors make a written request (which may or may not be through the Collateral Agent), instructing Subordinated Creditor to take such action, then Subordinated Creditor shall have the right to take any such actions); and (iii) file and prove all claims therefor and to take all such other action in the name of Subordinated Creditor or otherwise as Senior Creditors may determine to be necessary or appropriate for the enforcement of the provisions of this Section 2 (provided, however, that if Subordinated Creditor takes any such action no later than ten (10) business days after Senior Creditors make a written request, instructing Subordinated Creditor to take such action, then Subordinated Creditor shall have the right to take any such actions); (iv) vote on behalf of Subordinated Creditor in respect of the Subordinated Debt (provided, however, that if Subordinated Creditor shall vote in respect of its interests in the Subordinated Debt as determined and requested by Senior Creditors prior to ten (10) business days before the expiration of the time to exercise its right to so vote, as provided by applicable statute or by the applicable bankruptcy court, receiver or trustee, then Subordinated Creditor shall have the right to so vote).

(g) Amendments to Subordinated Note Instrument. No provision of the Subordinated Note Instrument shall, without the prior written consent of the Senior Creditors, be amended, supplemented or otherwise modified if the effect of such amendment, supplement or other modification would be to (i) advance the final maturity date of the Subordinated Debt or any other scheduled date for the payment of principal, interest or other sums payable in respect of the Subordinated Debt, (ii) impose on the Debtor rates of interest, prepayment charges, premiums, closing fees or other fees or other amounts that, taken as a whole, are materially greater than the respective amounts thereof in effect immediately prior to such amendment, modification or supplement, or (iii) impose on the Debtor any representations, warranties, covenants, events of default, remedies or other provisions that, taken as a whole, are materially more restrictive or burdensome to the Debtor than the terms and provisions of the Subordinated Debt Instrument as in effect on the date of this Agreement; provided that nothing contained in this Section 2(g) or elsewhere in this Agreement shall be construed to require the consent of the Senior Creditors for (A) any waiver by the Subordinated Creditor of any event of default under the Subordinated Debt Instrument or other term, provision or condition contained in the Subordinated Debt Instrument, (B) any waiver by the Subordinated Creditor of any of the rights and remedies of the Subordinated Creditor thereunder, or (C) any modification of covenants under the Subordinated Debt Instrument by mutual agreement of the Debtor and Subordinated Creditor (including but not limited to the commercialization milestones set forth therein).

(h) Legend. The original Subordinated Debt Instrument, and any other instrument evidencing the Subordinated Debt or any portion thereof, may be inscribed with a legend conspicuously indicating that payment thereon is subordinated to the claims of Senior Creditors pursuant to the terms of this Subordination Agreement, and copies of the Subordinated Debt Instrument will forthwith be delivered to Senior Creditors. Any instrument evidencing any of the Subordinated Debt or any portion thereof which is hereafter executed will, on the date thereof, be inscribed with the aforesaid legend, and copies thereof will be delivered to Senior Creditors on the date of its execution or within five (5) business days thereafter. Notwithstanding the foregoing, Subordinated Creditor may elect in writing to notify the Senior Creditors that Subordinated Creditor has filed this Agreement alongside the Subordinated Debt Instrument and alongside any other transaction documents or instruments related to the Subordinated Debt and in such event, Subordinated Debtor covenants to disclose in writing to any assignee, transferee or successor of Subordinated Debtor of the terms and rights of the Senior Creditors under this Agreement.

Section 3. **Permitted Actions.** Notwithstanding anything to the contrary set forth in the Subordinated Debt Instrument or otherwise Debtor may pay, and Subordinated Creditor may receive, the Entire Subordinated Debt Instrument Balance, upon the earlier of (x) the sale of all or substantially all of the assets of Debtor, or (y) a change in the ownership of more than forty-nine percent (49%) of the issued and outstanding stock of Debtor; provided, however, that, no such amounts may be paid to Subordinated Creditor unless Senior Creditors have been paid in full all of the Senior Debt prior to the payment to Subordinated Creditor of the Entire Subordinated Debt Instrument Balance, or each of the following has occurred:

(a) with respect to the event in clauses (x) or (y) of Section 3 above, Senior Creditors have waived in writing its requirement that the Senior Debt be paid in full as a result of the occurrence of any such event;

(b) a recapitalization of Debtor has occurred in the amount of not less than the Entire Subordinated Debt Instrument Balance and upon terms satisfactory to Senior Creditors;

(c) no Debtor Relief Proceeding or Senior Debt Payment Default shall have commenced and be continuing as of the date of payment of the Entire Subordinated Debt Instrument Balance;

(d) no other Senior Debt Default shall have been declared by Senior Creditors in a written notice to Debtor (which Senior Debt Default shall not have been waived in writing) as of the date of payment of the Entire Subordinated Debt Instrument Balance; and

(e) ten (10) business days prior to such payment of the Entire Subordinated Debt Instrument Balance, Debtor shall have delivered to Senior Creditors financial statements for Debtor as of the last day of the immediately preceding calendar month, in form and substance satisfactory to Senior Creditors, together with a certification of the Chief Financial Officer of Debtor (which certification shall be true and correct as of the date thereof), confirming each of the matters set forth in clauses (a), (b), (c) and (d) above.

Section 4. **Representations and Warranties.** Subordinated Creditor represents and warrants to Senior Creditors that (i) the execution, delivery and performance by Subordinated Creditor of this Subordination Agreement are within the power of Subordinated Creditor and have been duly authorized by all necessary actions on the part of Subordinated Creditor; (ii) this Subordination Agreement has been duly executed and delivered by Subordinated Creditor and constitutes a legal, valid and binding obligation of Subordinated Creditor, enforceable against Subordinated Creditor in accordance with its terms; (iii) the execution, delivery and performance of this Subordination Agreement do not violate any Requirement of Law; (iv) no consent, approval, order or authorization of, or registration, declaration or filing with, any governmental authority or other Person (including the shareholders of any Person) is required in connection with the execution, delivery and performance of this Subordination Agreement by Subordinated Creditor, except such consents, approvals, orders, authorizations, registrations, declarations and filings that are so required and which have been obtained and are in full force and effect; (v) the Subordinated Debt is owned by Subordinated Creditor, free and clear of any Liens, other than inchoate statutory Liens arising under law and not in respect of overdue monetary obligations; (vi) the copy of the Subordinated Debt Instrument attached hereto as Exhibit A is a true and complete copy thereof, and the Subordinated Debt Instrument has not been further amended or supplemented; and (vii) no other Debt for borrowed money is payable by Debtor to Subordinated Creditor, with the exception of the Debt evidenced by the Subordinated Debt Instrument.

Section 5. **Covenants of Subordinated Creditor.** Notwithstanding anything to the contrary herein, in the Subordinated Debt Instrument or in any other agreement, until the Senior Debt is indefeasibly paid in full in cash, Subordinated Creditor hereby agrees (i) to perform all acts that may be reasonably necessary to maintain, preserve and protect its rights in the Subordinated Debt and the value of such rights; (ii) to procure, execute and deliver to Senior Creditors all endorsements, assignments and other writings necessary for Senior Creditors to realize the value of any property to which Senior Creditors are entitled hereunder; (iii) not to surrender or lose possession of (other than to Senior Creditors), sell, encumber, assign, grant or permit any Lien in (other than inchoate statutory Liens arising under law and not in respect of overdue monetary obligations) or otherwise transfer to any Person (other than Senior Creditors) any of Subordinated Creditor's rights in the Subordinated Debt or any evidence thereof, provided however that nothing in this Section 5 shall prohibit the transfer or assignment of Subordinated Creditor’s rights in the Subordinated Debt to a successor of the Subordinated Creditor or to another office or entity owned or controlled by the State of Texas; (iv) to provide written notice to Senior Creditors of any Subordinated Debt Default; (v) to not amend or consent to the amendment of the payment provisions of the Subordinated Debt Instrument, provided however that nothing in this Section 5 shall prohibit the Subordinated Creditor from amending or modifying the Subordinated Debt Instrument in accordance with Section 2(g) above; and (vi) that Subordinated Creditor shall not claim any Lien upon any property or assets of Debtor as security for the Subordinated Debt.

Section 6. **Authorized Actions.** Subordinated Creditor authorizes Senior Creditors and/or the Collateral Agent, in their discretion, with prior written notice to Subordinated Creditor, irrespective of any change (including any change in the financial condition of Debtor, Subordinated Creditor, any guarantor or any other Person) or of any other event or circumstance, and without affecting or impairing in any way the obligations of Subordinated Creditor or the rights of Senior Creditors hereunder, from time to time to (a) compromise, extend, accelerate or otherwise change the time for payment or performance of, or otherwise change the terms of, the Senior Debt or any part thereof, including increase or decrease of the rate of interest thereon; (b) take and hold Collateral or other security for the payment or performance of the Senior Debt and exchange, enforce, waive or release any such Collateral or other security; (c) apply such Collateral or other security and direct the order or manner of sale thereof; (d) purchase such Collateral or other security at public or private sale; (e) otherwise exercise any right or remedy it may have against Debtor, any guarantor, any other Person or any Collateral or other security, including the right to foreclose upon any Collateral by judicial or non-judicial sale; (f) settle, compromise with, release or substitute any one or more makers, endorsers or guarantors of the Senior Debt; or (g) assign any or all of the Senior Debt, this Subordination Agreement, or any related documents, instruments or agreements in whole or in part.

Section 7. **Waiver.** No right of Senior Creditors to enforce the subordination and other terms and conditions provided herein shall at any time in any way be prejudiced or impaired by any act or failure to act by Senior Creditors or by any non-compliance by Debtor with the terms and provisions and covenants herein regardless of any knowledge thereof Senior Creditors may have or otherwise be charged. Senior Creditors shall not be prejudiced in their right to enforce the subordination and other terms and conditions of the Subordinated Debt, by any act or failure to act by Debtor or anyone in custody of its assets or property. Without limiting the generality of the foregoing sentence of this Section 7, Subordinated Creditor waives (a) any right to require Senior Creditors to (i) proceed against Debtor, any guarantor or any other Person, (ii) proceed against or exhaust any Collateral or other security, or (iii) pursue any other remedy in Senior Creditors' power whatsoever; (b) any defense resulting from the absence, impairment or loss of any right of reimbursement, subrogation, contribution or other right or remedy of Subordinated Creditor against Debtor, any guarantor, any other Person or any Collateral or other security, whether resulting from an election by the Senior Creditors to foreclose upon Collateral by non-judicial sale, or otherwise; (c) any setoff or counterclaim of Debtor or any defense which results from any disability or other defense of Debtor or the cessation or stay of enforcement from any cause whatsoever of the liability of Debtor; (d) any right of subrogation, reimbursement or contribution, and right to enforce any remedy which Senior Creditors now have or may hereafter have against Debtor or any other Person, and any benefit of, and any right to participate in, any Collateral or other security now or hereafter received by Senior Creditors; (e) all presentments, demands for performance, notices of nonperformance, protests, notice of dishonor, and notices of acceptance of this Subordination Agreement. Subordinated Creditor has the ability, and assumes the responsibility for keeping informed of the financial condition of Debtor and of other circumstances affecting such nonpayment and nonperformance risks.

Section 8. **[Intentionally Omitted].**

Section 9. **Default.** If any representation or warranty in this Subordination Agreement or in any instrument evidencing or securing the Senior Debt proves to have been false when made, or, in the event of a breach by Debtor or Subordinated Creditor in the performance of any of the terms of this Subordination Agreement or any instrument or agreement evidencing or securing the Senior Debt, all of the Senior Debt shall, at the option of Senior Creditors, become immediately due and payable without presentment, demand, protest, or notice of any kind, notwithstanding any time or credit otherwise allowed. At any time Subordinated Creditor fails to comply with any provision of this Subordination Agreement that is applicable to Subordinated Creditor, Senior Creditors may secure and obtain specific performance of this Subordination Agreement, whether or not Debtor has complied with this Subordination Agreement, and may exercise any other remedy available at law or equity.

Section 10. **Miscellaneous.**

(a) Notices. Except as otherwise set forth herein, all notices, requests and demands required or permitted to be made hereunder shall be in writing and sent by certified or registered mail, return receipt requested, or by express courier or delivery service (provided the same shall provide dated evidence of delivery), or by facsimile, if followed by an original sent by certified mail, registered mail, express courier or delivery service, shall be deemed given or made five (5) business days after mailing if sent by mail, one (1) business day after consignment to an express courier or delivery service, and upon sending thereof if sent by facsimile as provided above, and shall be directed as follows:

If to Subordinated Creditor:

Office of the Governor
Attn: Emerging Technology Fund
P.O. Box 12878
Austin, Texas 78711-2878
E-mail: ETF.Compliance@governor.state.tx.us

With copy to

Office of the Governor
Attn: General Counsel Division
Emerging Technology Fund
P.O. Box 12878
Austin, Texas 78711-2878

If to Debtor:

Ideal Power Converters, Inc.
5004 Bee Creek Road, Suite 600
Spicewood, Texas 78669
Tel: 512-264-1542

If to Senior Creditors:

To the addresses specified on the signature pages hereto.

With a copy (not constituting notice) to:

Law Offices of Aaron A. Grunfeld
1100 Glendon Ave., Suite 850
Los Angeles, California 90024
Attention: Aaron A. Grunfeld
AGrunfeld@grunfeldlaw.com

or, as to any of the foregoing, at such other address as shall be designated by such party in a written notice to the other party hereto.

(b) No waiver. No failure or delay on the part of Senior Creditors or on the part of the Collateral Agent in exercising any right hereunder shall operate as a waiver thereof or of any other right nor shall any single or partial exercise of any such right preclude any other further exercise thereof or of any other right.

(c) Amendments and Waivers. Except as otherwise expressly provided herein, this Subordination Agreement may not be amended or modified, nor may any of its terms be waived, except by written instruments signed by the party or parties against which enforcement thereof is sought. Each waiver or consent under any provision hereof shall be effective only in the specific instances for the purpose for which given.

(d) Assignments. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, that Debtor may not assign its rights or delegate its duties hereunder without the prior written consent of Senior Creditors and Subordinated Creditor. Senior Creditors may assign, through the sale of participation interests or otherwise, all or any part of its interest under this Subordination Agreement or any related documents upon notice to Subordinated Creditor and an agreement stating that such assignee or participant shall abide by the terms of this Subordination Agreement. Senior Creditors may disclose this Subordination Agreement and the related documents to any potential assignee or participant.

(e) Entire Agreement. This Subordination Agreement constitutes and expresses the entire understanding between the parties hereto with respect to the subject matter hereof, and supersedes all prior and contemporaneous agreements and understandings, inducements or conditions, whether express or implied, oral or written.

(f) Counterparts. This Subordination Agreement may be executed in any number of identical counterparts, any set of which signed by all parties hereto shall be deemed to constitute a complete, executed original for all purposes.

(g) Governing Law: Choice of Forum.

(i) Texas Law. This Subordination Agreement shall be interpreted and the rights and liabilities of the parties hereto determined in accordance with the internal laws and not the law of conflicts of the State of Texas.

(ii) Forum. Any legal action or proceeding with respect to this subordination agreement or any other loan document may be brought in the courts within the State of Texas or in any court of the United States within the State of Texas, and by execution and delivery of this Subordination Agreement, Debtor, Subordinated Creditor and Senior Creditors' consent, for itself and in respect of its property, to the non-exclusive jurisdiction of those courts. Each of Debtor, Subordinated Creditor and Senior Creditors irrevocably waive any objection, including any objection to the laying of venue or based on the grounds of *forum non conveniens*, which it may now or hereafter have to the bringing of any action or proceeding in such jurisdiction in respect of this subordination agreement or any document related hereto. Debtor and Subordinated Creditor hereby waive personal service of any and all process upon it and consents that all such service of process may be made by registered mail (return receipt requested) directed to such person at its address set forth in Section 10(a) and service so made shall be deemed to be completed five (5) days after the same shall have been so deposited in the U.S. mails. Nothing contained herein shall affect the right of Senior Creditors to serve legal process by any other manner permitted by law.

(h) Further Assurances. From and after the date hereof, the parties shall, on request, cooperate with one another by furnishing any additional information, executing and delivering any additional documents and instruments, and doing any and all such other things as may be reasonably required by the parties or their counsel to consummate or otherwise implement the transactions contemplated by this Agreement.

(i) No Waiver of Sovereign Immunity of the State of Texas. Nothing in this Agreement shall be construed as waiving any rights of or to Sovereign Immunity inuring to the Subordinated Creditor under the laws of the State of Texas.

(j) Term of Subordination. Notwithstanding anything else herein set forth, this Subordination Agreement shall terminate upon the earlier of (i) payment of the Senior Loans or (ii) the automatic conversion of Senior Loans in accordance with the terms of the Senior Loan Agreements, upon completion of Debtor's initial public offering of securities ("IPO"). Debtor has advised Subordinated Creditor that Debtor will endeavor in good faith to close, but cannot assure that the IPO will be completed by or about to August 30, 2013.

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IN WITNESS WHEREOF, the parties hereto have caused this Subordination Agreement to be executed as of the day and year first above written.

DEBTOR: **IDEAL POWER CONVERTERS, INC.**

By: /s/ Christopher Cobb
Name: Christopher Cobb
Title: Chief Executive Officer

SUBORDINATED
CREDITOR: **THE OFFICE OF THE GOVERNOR ECONOMICDEVELOPMENT AND TOURISM**

By: /s/ Jeffrey A. Boud
Name:
Title:

COLLATERAL AGENT: [_____], a [California _____]

By: /s/ Anthony DiGiandomenico

Name: Anthony DiGiandomenico

Title: _____

SENIOR CREDITORS:

_____
(Print Name of Subscriber)

_____
(Signature)

Name:
Title:_____

Mailing Address:
_____
_____
_____
(City, State and Zip)

_____
(Name of Co-Subscriber, if applicable)

_____
(Signature)

Name:_____
Title: _____

Telephone No.:_____
Facsimile No:_____
Email Address:_____

SCHEDULE I

Definitions

"Collateral" shall mean any assets of any Debtor or any other Person which is subject to a Lien in favor of Senior Creditors.

"Collateral Agent" shall have the meaning set forth in the Preamble.

"Debt" shall mean, with respect to any Person, all loans, advances and indebtedness for borrowed money, howsoever arising, owed by such Person of every kind and description (whether or not evidenced by any note or instrument and whether or not for the payment of money), direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, including all principal, interest, fees, taxes, charges, expenses (including attorneys' fees) and other amounts payable in connection therewith, and all obligations and liabilities under guaranties.

"Debtor" shall have the meaning given to that term in the introductory paragraph hereof.

"Debtor Relief Proceeding" shall mean any suit, action, case or other proceeding commenced by, against or for Debtor or its property seeking the dissolution, liquidation, reorganization or other relief of Debtor or its Debt under any state, federal or foreign bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a receiver, trustee, liquidator, custodian or other similar official for Debtor or its property or any general assignment by Debtor for the benefit of its creditors.

"Entire Subordinated Debt Instrument Balance" shall mean the entire principal amount then payable under the Subordinated Debt Instrument (not to exceed One Million dollars ($1,000,000)), plus interest accrued pursuant to the Investment Unit Agreement.

"Fiscal Quarter" means each three-month period ending on March 31, June 30, September 30, and December 31 during any Fiscal Year.

"Fiscal Year" means, with respect to Debtor, Debtor's fiscal year for financial accounting purposes. Debtor's Fiscal Year ends on December 31.

"Lien" means any interest in property securing an obligation owed to, or a claim by, a Person other than the owner of the property, whether such interest is based on the common law, statute or contract, and, including, without limitation, a security interest, pledge or lien arising from a mortgage, deed of trust, encumbrance, pledge, hypothecation, assignment, deposit arrangement, agreement, security agreement, conditional sale or trust receipt or a lease, consignment or bailment for security purposes.

"Person" shall mean any natural person, corporation, partnership, firm, association, governmental authority or any other entity whether acting in an individual, fiduciary, or other capacity.

"Requirements of Law" shall mean, with respect to any Person, the articles or certificate of incorporation, bylaws, partnership agreement, trust agreement, operating agreement or other organizational or governing documents of such Person, and any material law, treaty, rule or regulation, or a final and binding determination, order, judgment or decree of any arbitrator, court or other governmental authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

"Senior Creditors" shall have the meaning given to such term in the introductory paragraph hereof.

"Senior Debt" shall mean (i) all Debt now or hereafter existing or owed by Debtor to Senior Creditors pursuant to the Senior Loan Agreements with a principal amount up to the Maximum Principal Amount, any Senior Loan Document or any instruments or other documents executed by Debtor with or in favor of Senior Creditors in connection therewith, as such agreements may be amended, supplemented, modified, extended, restated or replaced, and whether for principal, premium, interest (including all interest accruing after the initiation of any Debtor Relief Proceeding, whether or not allowed), fees, expenses, indemnities or otherwise; and (ii) all Debt owed by Debtor to Senior Creditors in connection with any refinancing, refunding, restructuring or replacement of all or any part of the Senior Debt described in clause (i) (including all such Debt arising after the commencement of any Debtor Relief Proceeding).

"Senior Debt Default" shall mean a "Default" or an "Event of Default" under the Senior Loan Agreement.

"Senior Debt Payment Default" shall mean a default in the payment when due of principal or interest under the Senior Loan Documents.

"Senior Loan" shall have the meaning given to such terms in the Recitals hereto.

"Senior Loan Agreement" shall have the meaning given to such term in the Recital hereto.

"Senior Loan Documents" shall have the meaning given to such term in the Senior Loan Agreement.

"Subordinated Creditors" shall have the meaning given to that term in the introductory paragraph hereof.

"Subordinated Debt" shall mean (i) all Debt now or at any time owed by Debtor to Subordinated Creditor pursuant to the Subordinated Debt Instrument (including all such Debt arising after the commencement of any Debtor Relief Proceeding); and (ii) all Debt owed by Debtor in connection with any permitted refinancing, refunding, restructuring or replacement of all or any part of the Debt described in clause (i) (including all such Debt arising after the commencement of any Debtor Relief Proceeding).

"Subordinated Debt Instrument" shall have the meaning given to that term in the Recitals hereto.

"Subordinated Debt Interest Payment" shall mean any Subordinated Debt Payment in respect of the interest payable in respect of the outstanding principal amount of the Subordinated Debt Instrument.

"Subordinated Debt Payment" shall mean any direct or indirect payment, prepayment, reduction or discharge of any of the Subordinated Debt, whether such payment, prepayment, reduction or discharge is effected by Debtor, any guarantor of Subordinated Debt, any trustee or receiver for the estate or property of any of the foregoing or any other Person through direct payment, redemption, purchase, refinancing, setoff, cancellation, issuance of securities, any action on the Subordinated Debt Instrument, transfer of assets or distribution to creditors in any Debtor Relief Proceeding or otherwise.

"Subordinated Debt Principal Payment" shall mean any Subordinated Debt Payment in respect of the principal amount of no more than One Million dollars ($1,000,000) payable to Subordinated Creditor under the terms of the Subordinated Debt Instrument.

EXHIBIT A

Subordinated Debt Instrument

Exhibit 10.26

EMPLOYMENT AGREEMENT

This **EMPLOYMENT AGREEMENT** ("Agreement"), which is dated 5-7-13, 2013 (the "Effective Date"), is made by and between Ideal Power Converters, a Texas corporation, located at 5004 Bee Creek Road, Suite 600, Spicewood, Texas, 78669 and hereinafter referred to as "Company", and William C. Alexander, whose address is _____, hereinafter referred to as "Executive." The purpose of this Agreement is to confirm the terms of the employment relationship between Company and Executive.

RECITALS

WHEREAS, Company wishes to retain the services of Executive, and Executive wishes to render services to Company, as its Chief Technical Officer;

WHEREAS, Company and Executive wish to set forth in this Agreement the duties and responsibilities that Executive has agreed to undertake on behalf of Company, and the responsibilities that Company will owe to Executive.

THEREFORE, in consideration of the foregoing and of the mutual promises contained in this Agreement, Company and Executive (who are sometimes individually referred to as a "Party" and collectively referred to as the "Parties") agree as follows:

AGREEMENT

1. TERM.

Company hereby employs Executive as Company's Chief Technical Officer pursuant to the terms of this Agreement and Executive hereby accepts employment with Company pursuant to the terms of this Agreement. This Agreement is effective on the Effective Date and will continue for a period of two years from the Effective Date (the "Initial Term") unless terminated earlier pursuant to Section 11 or 12 below. This Agreement shall remain in effect and shall be extended for a period of one year commencing on the day following expiration of the Initial Term, and for one year periods thereafter (each an "Extension Period") unless, prior to the expiration of any Extension Period, either Executive or Company delivers to the other written notice of Executive's or Company's intention not to continue this Agreement in effect, in which case this Agreement will terminate at the expiration of the Extension Period. The Initial Term together with any Extension Period will be referred to in this Agreement as the "Term".

2. GENERAL DUTIES.

Executive is responsible for increasing shareholder value through his leadership and management of Company. Executive shall devote his entire productive time, ability, and attention to Company's business during the Term. Executive shall report to Company's Chief Executive Officer and agrees to keep the Company's Board of Directors (the "Board") fully informed with regard to critical issues affecting the value and reputation of Company. Furthermore, in his capacity as Chief Technology Officer, Executive shall be primarily responsible for the vision and implementation of technical solutions for Company. This includes both product as well as intellectual property development. Executive shall do and perform all services, acts, or things necessary or advisable to discharge his duties under this Agreement, and such other duties as are commonly performed by an employee of his rank in a publicly traded corporation or which may, from time to time, be prescribed by the Company through the Board. Furthermore, Executive agrees to cooperate with and work to the best of his ability with Company's management team, which includes the Board and the officers and other employees, to continually improve Company's reputation in its industry for quality products and performance.

3. NONSOLICITATION AND PROPRIETARY PROPERTY AND CONFIDENTIAL INFORMATION PROVISIONS.

As a condition of his employment with Company, Executive has executed a Proprietary Information and Inventions Agreement, the terms of which are included by reference into this Agreement.

4. COMPLIANCE WITH SECURITIES LAWS.

If, in the future, Company registers its securities for sale to the public, then Executive acknowledges that Executive will be subject to the provisions of Sections 10 and 16 of the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder. Executive acknowledges that Sections 10 and 16 and the rules and regulations promulgated thereunder may prohibit Executive from selling or transferring his securities in Company. Executive agrees that, if Company registers its securities for sale to the public, he will comply with Company's policies, as stated from time to time, relating to selling or transferring Company's securities.

5. COMPENSATION.

(a) Annual Salary. During the Term, Company shall pay to Executive an annual base salary in the amount of $223,267.20 dollars. The salary paid during the Term shall be referred to in this Agreement as the "Annual Salary". The Annual Salary shall be subject to any tax withholdings and/or employee deductions that are applicable. The Annual Salary shall be paid to Executive in equal installments in accordance with the periodic payroll practices of the Company for its employees. The Annual Salary will be subject to review and adjustment at the discretion of the Board no less frequently than annually.

(b) Annual Bonus. Following the initial public offering of Company's securities, Executive and the Compensation Committee of the Board of Directors shall meet to establish performance standards and goals to be met by Executive, which standards and goals shall be mutually agreed to by Executive and the Compensation Committee. Based on Executive's achievement of the performance standards and goals, Company shall pay to Executive a cash bonus (the "Annual Bonus") in an amount to be recommended by the Compensation Committee to the Board. The Annual Bonus shall be subject to any applicable tax withholdings and/or employee deductions.

(c) Cost of Living Adjustment. Commencing as of the Effective Date, and on each January 1st thereafter, the then effective Annual Salary shall be increased (but not decreased) by an amount which shall reflect the increase, if any, in the cost of living during the previous 12 months by adding to the Annual Salary an amount computed by multiplying the Annual Salary by the percentage by which the level of the Consumer Price Index for the Austin Metropolitan Area, as reported on January 1st of the new year by the Bureau of Labor Statistics of the United States Department of Labor has increased over its level as of January 1st of the prior year.

(d) Participation In Employee Benefit Plans. Executive shall have the same rights, privileges, benefits and opportunities to participate in any of Company's employee benefit plans which may now or hereafter be in effect on a general basis for executive officers or employees. During the Term Company shall provide, at Company's sole expense, medical and dental benefits for Executive, his spouse and children. At the discretion of the Board, Company may also provide, at its sole expense (i) disability insurance which, in the event of Executive's disability, will replace 60% of the Annual Salary being paid to Executive at the time the disability occurred and (ii) life insurance in an amount to be agreed upon by the Board and Executive. Irrespective of the foregoing, Company may change any benefits contractor, or discontinue any benefit without replacement, in its sole discretion, and any such change or discontinuance will not be a breach of this Agreement. In the event Executive receives payments from the disability insurer, Company shall have the right to offset such payments against the Annual Salary otherwise payable to Executive during the period for which such payments are made.

6. EQUITY COMPENSATION.

Following the initial public offering of Company's securities and at the discretion of the Compensation Committee of the Board, Company may issue to Executive an award of common stock or an option to purchase common stock from Company's 2013 Equity Incentive Plan or any future equity compensation plan adopted by Company (together, the 2013 Equity Incentive Plan or any future equity compensation plan is referred to in this Agreement as the "Plan"). The terms of any such award shall be governed by the Plan and the award agreement.

7. REIMBURSEMENT OF BUSINESS EXPENSES.

Company shall promptly reimburse Executive for all reasonable business expenses incurred by Executive in connection with the business of Company. However, each such expenditure shall be reimbursable only if Executive furnishes to Company adequate records and other documentary evidence required by federal and state statutes and regulations issued by the appropriate taxing authorities for the substantiation of each such expenditure as an income tax deduction.

8. PAID TIME OFF.

Executive shall be entitled to four weeks of paid time off each year; provided, however, failure to use paid time off by the end of the year in which it is earned will prevent the accumulation of additional paid time off in excess of four weeks.

9. INDEMNIFICATION OF LOSSES.

So long as Executive's actions were taken in good faith and in furtherance of Company's business and within the scope of Executive's duties and authority, Company shall indemnify and hold Executive harmless to the full extent of the law from any and all claims, losses and expenses sustained by Executive as a result of any action taken by him to discharge his duties under this Agreement, and Company shall defend Executive, at Company's expense, in connection with any and all claims by stockholders or third parties.

10. PERSONAL CONDUCT.

Executive agrees promptly and faithfully to comply with all present and future policies, requirements, directions, requests and rules and regulations of Company in connection with Company's business. Executive further agrees to conform to all laws and regulations and not at any time to commit any act or become involved in any situation or occurrence tending to bring Company into public scandal, ridicule or which will reflect unfavorably on the reputation of Company.

11. TERMINATION FOR CAUSE.

The Board may terminate Executive for cause immediately, without notice, if Company reasonably concludes that Employee has committed fraud, theft, embezzlement, misappropriation of Company funds or other property, or any felony. The Board may also terminate Executive for cause for any of the following:

(a) Breach by Executive of any material provision of this Agreement;

(b) Violation by Executive of any statutory or common law duty of loyalty to Company; or

(c) A material violation by Executive of Company's employment policies; or

(d) Commission of such acts of dishonesty, gross negligence, or willful misconduct as would prevent the effective performance of Executive's duties or which result in material harm to Company or its business.

The Board may terminate this Agreement for cause by giving written notice of termination to Executive, provided, however, if the Board declares Executive to be in default of this Agreement under subsection (a) above because Executive fails to substantially perform his material duties and responsibilities under this Agreement, the Board shall deliver a written demand for substantial performance of such duties and responsibilities to Executive. Such demand must identify the manner in which the Board believes that Executive has not substantially performed his duties, and Executive shall have a period of 30 days to correct the deficient performance. Upon termination for cause, the obligations of Executive and Company under this Agreement shall immediately cease. Such termination shall be without prejudice to any other remedy to which Company may be entitled either at law, in equity, or under this Agreement. If Executive's employment is terminated pursuant to this paragraph, Company shall pay to Executive (i) Executive's accrued but unpaid Annual Salary and the value of unused paid time off through the effective date of the termination; (ii) Executive's accrued but unpaid Annual Bonus, if any; and (iii) business expenses incurred prior to the effective date of termination. Executive shall not be entitled to continue to participate in any employee benefit plans except to the extent provided in such plans for terminated participants, or as may be required by applicable law.

12. TERMINATION WITHOUT CAUSE.

(a) Death. Executive's employment shall terminate upon the death of Executive. Upon such termination, the obligations of Executive and Company under this Agreement shall immediately cease.

(b) Disability. The Board reserves the right to terminate Executive's employment upon 30 days written notice if, for a period of 90 days, Executive is prevented from discharging his substantial or material duties due to any physical or mental disability.

(c) Election By Executive. Executive's employment may be terminated at any time by Executive upon not less than 30 days written notice by Executive to the Board.

(d) Election By Company. Executive's employment may be terminated at any time by Company upon not less than 30 days written notice by the Board to Executive.

(e) Termination Due to a Change in Control. Executive's employment may be terminated upon a Change in Control. For purposes of this Agreement, the term "Change in Control" shall mean the sale or disposition by Company to an unrelated third party of substantially all of its business or assets, or the sale of the capital stock of Company in connection with the sale or transfer of a Controlling Interest in Company to an unrelated third party, or the merger or consolidation of Company with another corporation as part of a sale or transfer of a Controlling Interest in Company to an unrelated third party. For purposes of this definition, the term "Controlling Interest" means the sale or transfer of Company's securities representing at least 50.1% of the voting power.

If Executive's employment is terminated pursuant to subsections (a), (b), or (c) of this paragraph, Company shall pay to Executive (i) Executive's accrued but unpaid Annual Salary and the value of unused paid time off through the effective date of the termination; (ii) Executive's accrued but unpaid Annual Bonus, if any; and (iii) business expenses incurred prior to the effective date of termination. Executive shall not be entitled to continue to participate in any employee benefit plans except to the extent provided in such plans for terminated participants, or as may be required by applicable law.

If Executive's employment is terminated pursuant to subsection (d) of this paragraph, Company shall pay to Executive (i) Executive's accrued but unpaid Annual Salary and the value of unused paid time off through the effective date of the termination; (ii) Executive's accrued but unpaid Annual Bonus, if any; (iii) business expenses incurred prior to the effective date of termination; and (iv) severance consisting of the greater of (y) the salary that would be due to Executive if the employment had not been terminated, or (z) six (6) months of Annual Salary, less legal deductions. Employer may elect in its sole discretion whether to pay these salary payments in one lump sum or on regular pay days for the six months following termination of Executive's employment. For a termination under subsection (d), Executive shall be entitled to continue to participate in employee benefit plans described in Section 5(d) for six months following termination of Executive's employment.

If Executive's employment is terminated pursuant to subsection (e) of this paragraph, Executive shall be entitled to receive (i) Executive's accrued but unpaid Annual Salary and the value of unused paid time off through the effective date of the termination; (ii) Executive's accrued but unpaid Annual Bonus, if any; (iii) business expenses incurred prior to the effective date of termination; and (iv) an amount equal to the Annual Salary due to Executive for the balance of the Term, in a lump sum and without discount to present value, but in no event shall such payment total less than the Annual Salary.

All other rights Executive has under any benefit or stock option plans and programs shall be determined in accordance with the terms and conditions of such plans and programs.

With the exception of the terms of this paragraph 12, upon termination of Executive's employment the obligations of Executive and Company under this Agreement shall immediately cease.

13. MISCELLANEOUS.

(a) Preparation of Agreement. It is acknowledged by each Party that such Party either had separate and independent advice of counsel or the opportunity to avail itself or himself of same. In light of these facts it is acknowledged that no Party shall be construed to be solely responsible for the drafting hereof, and therefore any ambiguity shall not be construed against any Party as the alleged draftsman of this Agreement.

(b) Cooperation. Each Party agrees, without further consideration, to cooperate and diligently perform any further acts, deeds and things and to execute and deliver any documents that may from time to time be reasonably necessary or otherwise reasonably required to consummate, evidence, confirm and/or carry out the intent and provisions of this Agreement, all without undue delay or expense.

(c) Interpretation.

(i) Entire Agreement/No Collateral Representations. Each Party expressly acknowledges and agrees that this Agreement, including all exhibits attached hereto: (1) is the final, complete and exclusive statement of the agreement of the Parties with respect to the subject matter hereof; (2) supersedes any prior or contemporaneous agreements, promises, assurances, guarantees, representations, understandings, conduct, proposals, conditions, commitments, acts, course of dealing, warranties, interpretations or terms of any kind, oral or written (collectively and severally, the "Prior Agreements"), and that any such prior agreements are of no force or effect except as expressly set forth herein; and (3) may not be varied, supplemented or contradicted by evidence of Prior Agreements, or by evidence of subsequent oral agreements. Any agreement hereafter made shall be ineffective to modify, supplement or discharge the terms of this Agreement, in whole or in part, unless such agreement is in writing and signed by the Party against whom enforcement of the modification or supplement is sought.

(ii) Waiver. No breach of any agreement or provision herein contained, or of any obligation under this Agreement, may be waived, nor shall any extension of time for performance of any obligations or acts be deemed an extension of time for performance of any other obligations or acts contained herein, except by written instrument signed by the Party to be charged or as otherwise expressly authorized herein. No waiver of any breach of any agreement or provision herein contained shall be deemed a waiver of any preceding or succeeding breach thereof, or a waiver or relinquishment of any other agreement or provision or right or power herein contained.

(iii) Remedies Cumulative. The remedies of each Party under this Agreement are cumulative and shall not exclude any other remedies to which such Party may be lawfully entitled.

(iv) Severability. If any term or provision of this Agreement or the application thereof to any person or circumstance shall, to any extent, be determined to be invalid, illegal or unenforceable under present or future laws effective during the term of this Agreement, then and, in that event: (A) the performance of the offending term or provision (but only to the extent its application is invalid, illegal or unenforceable) shall be excused as if it had never been incorporated into this Agreement, and, in lieu of such excused provision, there shall be added a provision as similar in terms and amount to such excused provision as may be possible and be legal, valid and enforceable, and (B) the remaining part of this Agreement (including the application of the offending term or provision to persons or circumstances other than those as to which it is held invalid, illegal or unenforceable) shall not be affected thereby and shall continue in full force and effect to the fullest extent provided by law.

(v) No Third Party Beneficiary. Notwithstanding anything else herein to the contrary, the parties specifically disavow any desire or intention to create any third party beneficiary obligations, and specifically declare that no person or entity, other than as set forth in this Agreement, shall have any rights hereunder or any right of enforcement hereof.

(vi) Headings; References; Incorporation; Gender. The headings used in this Agreement are for convenience and reference purposes only, and shall not be used in construing or interpreting the scope or intent of this Agreement or any provision hereof. References to this Agreement shall include all amendments or renewals thereof. Any exhibit referenced in this Agreement shall be construed to be incorporated in this Agreement. As used in this Agreement, each gender shall be deemed to include the other gender, including neutral genders or genders appropriate for entities, if applicable, and the singular shall be deemed to include the plural, and vice versa, as the context requires.

(d) Enforcement.

(i) Applicable Law. This Agreement and the rights and remedies of each Party arising out of or relating to this Agreement (including, without limitation, equitable remedies) shall be solely governed by, interpreted under, and construed and enforced in accordance with the laws (without regard to the conflicts of law principles thereof) of the State of Texas, as if this agreement were made, and as if its obligations are to be performed, wholly within the State of Texas.

(ii) Consent to Jurisdiction and Venue. Any action or proceeding arising out of or relating to this Agreement shall be filed in and heard and litigated solely before the state courts of Texas within Travis County.

(iii) Attorneys' Fees. If court proceedings are required to enforce any provision of this Agreement, the substantially prevailing or successful Party shall be entitled to an award of the reasonable and necessary expenses of litigation, including reasonable attorneys' fees.

(e) No Assignment of Rights or Delegation of Duties by Executive. Executive's rights and benefits under this Agreement are personal to him and therefore (i) no such right or benefit shall be subject to voluntary or involuntary alienation, assignment or transfer; and (ii) Executive may not delegate his duties or obligations hereunder.

(f) Notices. Unless otherwise specifically provided in this Agreement, all notices, demands, requests, consents, approvals or other communications (collectively and severally called "Notices") required or permitted to be given hereunder, or which are given with respect to this Agreement, shall be in writing, and shall be given by: (A) personal delivery (which form of Notice shall be deemed to have been given upon delivery), (B) by private overnight delivery service (which forms of Notice shall be deemed to have been given upon confirmed delivery by the delivery agency), or (C) by mailing in the United States mail by registered or certified mail, return receipt requested, postage prepaid (which forms of Notice shall be deemed to have been given upon the fifth {5th} business day following the date mailed). Notices shall be addressed to the address hereinabove set forth in the introductory paragraph of this Agreement, or to such other address as the receiving Party shall have specified most recently by like Notice, with a copy to the other Parties hereto. Any Notice given to the estate of a Party shall be sufficient if addressed to the party as provided in this subparagraph.

(g) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument, binding on all parties hereto. Any signature page of this Agreement may be detached from any counterpart of this Agreement and reattached to any other counterpart of this Agreement identical in form hereto by having attached to it one or more additional signature pages.

(h) Execution by All Parties Required to be Binding; Electronically Transmitted Documents. This Agreement shall not be construed to be an offer and shall have no force and effect until this Agreement is fully executed by all Parties hereto. If a copy or counterpart of this Agreement is originally executed and such copy or counterpart is thereafter transmitted electronically by facsimile or similar device, such facsimile document shall for all purposes be treated as if manually signed by the Party whose facsimile signature appears.

IN WITNESS WHEREOF, the parties have executed this Agreement.

Company:
IDEAL POWER CONVERTERS, INC.

By: /s/ Paul Bundschuh

Its: Chief Executive Officer

Executive:

/s/ William C. Alexander
William C. Alexander

Exhibit 10.27

EMPLOYMENT AGREEMENT

This **EMPLOYMENT AGREEMENT** ("Agreement"), which is dated 7 May, 2013 (the "Effective Date"), is made by and between Ideal Power Converters, a Texas corporation, located at 5004 Bee Creek Road, Suite 600, Spicewood, Texas, 78669 and hereinafter referred to as "Company", and Paul A Bundschuh, whose address is _____, hereinafter referred to as "Executive." The purpose of this Agreement is to confirm the terms of the employment relationship between Company and Executive.

RECITALS

WHEREAS, Company wishes to retain the services of Executive, and Executive wishes to render services to Company, as its Chief Executive Officer;

WHEREAS, Company and Executive wish to set forth in this Agreement the duties and responsibilities that Executive has agreed to undertake on behalf of Company, and the responsibilities that Company will owe to Executive.

THEREFORE, in consideration of the foregoing and of the mutual promises contained in this Agreement, Company and Executive (who are sometimes individually referred to as a "Party" and collectively referred to as the "Parties") agree as follows:

AGREEMENT

1. TERM.

Company hereby employs Executive as Company's Chief Technical Officer pursuant to the terms of this Agreement and Executive hereby accepts employment with Company pursuant to the terms of this Agreement. This Agreement is effective on the Effective Date and will continue for a period of two years from the Effective Date (the "Initial Term") unless terminated earlier pursuant to Section 11 or 12 below. This Agreement shall remain in effect and shall be extended for a period of one year commencing on the day following expiration of the Initial Term, and for one year periods thereafter (each an "Extension Period") unless, prior to the expiration of any Extension Period, either Executive or Company delivers to the other written notice of Executive's or Company's intention not to continue this Agreement in effect, in which case this Agreement will terminate at the expiration of the Extension Period. The Initial Term together with any Extension Period will be referred to in this Agreement as the "Term".

2. GENERAL DUTIES.

Executive is responsible for increasing shareholder value through his leadership and management of Company. Executive shall devote his entire productive time, ability, and attention to Company's business during the Term. Executive shall report to Company's Board and agrees to keep the Board fully informed with regard to critical issues affecting the value and reputation of Company. Furthermore, in his capacity as Chief Executive Officer, Executive shall be primarily responsible for the vision and implementation of technical solutions for Company. This includes both product as well as intellectual property development. Executive shall do and perform all services, acts, or things necessary or advisable to discharge his duties under this Agreement, and such other duties as are commonly performed by an employee of his rank in a publicly traded corporation or which may, from time to time, be prescribed by the Company through the Board. Furthermore, Executive agrees to cooperate with and work to the best of his ability with Company's management team, which includes the Board and the officers and other employees, to continually improve Company's reputation in its industry for quality products and performance.

3. NONSOLICITATION AND PROPRIETARY PROPERTY AND CONFIDENTIAL INFORMATION PROVISIONS.

As a condition of his employment with Company, Executive has executed a Proprietary Information and Inventions Agreement, the terms of which are included by reference into this Agreement.

4. COMPLIANCE WITH SECURITIES LAWS.

If, in the future, Company registers its securities for sale to the public, then Executive acknowledges that Executive will be subject to the provisions of Sections 10 and 16 of the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder. Executive acknowledges that Sections 10 and 16 and the rules and regulations promulgated thereunder may prohibit Executive from selling or transferring his securities in Company. Executive agrees that, if Company registers its securities for sale to the public, he will comply with Company's policies, as stated from time to time, relating to selling or transferring Company's securities.

5. COMPENSATION.

(a) Annual Salary. During the Term, Company shall pay to Executive an annual base salary in the amount of $200,000.00 dollars. The salary paid during the Term shall be referred to in this Agreement as the "Annual Salary". The Annual Salary shall be subject to any tax withholdings and/or employee deductions that are applicable. The Annual Salary shall be paid to Executive in equal installments in accordance with the periodic payroll practices of the Company for its employees. The Annual Salary will be subject to review and adjustment at the discretion of the Board no less frequently than annually.

(b) Annual Bonus. Following the initial public offering of Company's securities, Executive and the Compensation Committee of the Board of Directors shall meet to establish performance standards and goals to be met by Executive, which standards and goals shall be mutually agreed to by Executive and the Compensation Committee. Based on Executive's achievement of the performance standards and goals, Company shall pay to Executive a cash bonus (the "Annual Bonus") in an amount to be recommended by the Compensation Committee to the Board. The Annual Bonus shall be subject to any applicable tax withholdings and/or employee deductions.

(c) Cost of Living Adjustment. Commencing as of the Effective Date, and on each January 1st thereafter, the then effective Annual Salary shall be increased (but not decreased) by an amount which shall reflect the increase, if any, in the cost of living during the previous 12 months by adding to the Annual Salary an amount computed by multiplying the Annual Salary by the percentage by which the level of the Consumer Price Index for the Austin Metropolitan Area, as reported on January 1st of the new year by the Bureau of Labor Statistics of the United States Department of Labor has increased over its level as of January 1st of the prior year.

(d) Participation In Employee Benefit Plans. Executive shall have the same rights, privileges, benefits and opportunities to participate in any of Company's employee benefit plans which may now or hereafter be in effect on a general basis for executive officers or employees. During the Term Company shall provide, at Company's sole expense, medical and dental benefits for Executive, his spouse and children. At the discretion of the Board, Company may also provide, at its sole expense (i) disability insurance which, in the event of Executive's disability, will replace 60% of the Annual Salary being paid to Executive at the time the disability occurred and (ii) life insurance in an amount to be agreed upon by the Board and Executive. Irrespective of the foregoing, Company may change any benefits contractor, or discontinue any benefit without replacement, in its sole discretion, and any such change or discontinuance will not be a breach of this Agreement. In the event Executive receives payments from the disability insurer, Company shall have the right to offset such payments against the Annual Salary otherwise payable to Executive during the period for which such payments are made.

6. EQUITY COMPENSATION.

Following the initial public offering of Company's securities and at the discretion of the Compensation Committee of the Board, Company may issue to Executive an award of common stock or an option to purchase common stock from Company's 2013 Equity Incentive Plan or any future equity compensation plan adopted by Company (together, the 2013 Equity Incentive Plan or any future equity compensation plan is referred to in this Agreement as the "Plan"). The terms of any such award shall be governed by the Plan and the award agreement.

7. REIMBURSEMENT OF BUSINESS EXPENSES.

Company shall promptly reimburse Executive for all reasonable business expenses incurred by Executive in connection with the business of Company. However, each such expenditure shall be reimbursable only if Executive furnishes to Company adequate records and other documentary evidence required by federal and state statutes and regulations issued by the appropriate taxing authorities for the substantiation of each such expenditure as an income tax deduction.

8. PAID TIME OFF.

Executive shall be entitled to four weeks of paid time off each year; provided, however, failure to use paid time off by the end of the year in which it is earned will prevent the accumulation of additional paid time off in excess of four weeks.

9. INDEMNIFICATION OF LOSSES.

So long as Executive's actions were taken in good faith and in furtherance of Company's business and within the scope of Executive's duties and authority, Company shall indemnify and hold Executive harmless to the full extent of the law from any and all claims, losses and expenses sustained by Executive as a result of any action taken by him to discharge his duties under this Agreement, and Company shall defend Executive, at Company's expense, in connection with any and all claims by stockholders or third parties.

10. PERSONAL CONDUCT.

Executive agrees promptly and faithfully to comply with all present and future policies, requirements, directions, requests and rules and regulations of Company in connection with Company's business. Executive further agrees to conform to all laws and regulations and not at any time to commit any act or become involved in any situation or occurrence tending to bring Company into public scandal, ridicule or which will reflect unfavorably on the reputation of Company.

11. TERMINATION FOR CAUSE.

The Board may terminate Executive for cause immediately, without notice, if Company reasonably concludes that Employee has committed fraud, theft, embezzlement, misappropriation of Company funds or other property, or any felony. The Board may also terminate Executive for cause for any of the following:

(a) Breach by Executive of any material provision of this Agreement;

(b) Violation by Executive of any statutory or common law duty of loyalty to Company; or

(c) A material violation by Executive of Company's employment policies; or

(d) Commission of such acts of dishonesty, gross negligence, or willful misconduct as would prevent the effective performance of Executive's duties or which result in material harm to Company or its business.

The Board may terminate this Agreement for cause by giving written notice of termination to Executive, provided, however, if the Board declares Executive to be in default of this Agreement under subsection (a) above because Executive fails to substantially perform his material duties and responsibilities under this Agreement, the Board shall deliver a written demand for substantial performance of such duties and responsibilities to Executive. Such demand must identify the manner in which the Board believes that Executive has not substantially performed his duties, and Executive shall have a period of 30 days to correct the deficient performance. Upon termination for cause, the obligations of Executive and Company under this Agreement shall immediately cease. Such termination shall be without prejudice to any other remedy to which Company may be entitled either at law, in equity, or under this Agreement. If Executive's employment is terminated pursuant to this paragraph, Company shall pay to Executive (i) Executive's accrued but unpaid Annual Salary and the value of unused paid time off through the effective date of the termination; (ii) Executive's accrued but unpaid Annual Bonus, if any; and (iii) business expenses incurred prior to the effective date of termination. Executive shall not be entitled to continue to participate in any employee benefit plans except to the extent provided in such plans for terminated participants, or as may be required by applicable law.

12. TERMINATION WITHOUT CAUSE.

(a) Death. Executive's employment shall terminate upon the death of Executive. Upon such termination, the obligations of Executive and Company under this Agreement shall immediately cease.

(b) Disability. The Board reserves the right to terminate Executive's employment upon 30 days written notice if, for a period of 90 days, Executive is prevented from discharging his substantial or material duties due to any physical or mental disability.

(c) Election By Executive. Executive's employment may be terminated at any time by Executive upon not less than 30 days written notice by Executive to the Board.

(d) Election By Company. Executive's employment may be terminated at any time by Company upon not less than 30 days written notice by the Board to Executive.

(e) Termination Due to a Change in Control. Executive's employment may be terminated upon a Change in Control. For purposes of this Agreement, the term "Change in Control" shall mean the sale or disposition by Company to an unrelated third party of substantially all of its business or assets, or the sale of the capital stock of Company in connection with the sale or transfer of a Controlling Interest in Company to an unrelated third party, or the merger or consolidation of Company with another corporation as part of a sale or transfer of a Controlling Interest in Company to an unrelated third party. For purposes of this definition, the term "Controlling Interest" means the sale or transfer of Company's securities representing at least 50.1% of the voting power.

If Executive's employment is terminated pursuant to subsections (a), (b), or (c) of this paragraph, Company shall pay to Executive (i) Executive's accrued but unpaid Annual Salary and the value of unused paid time off through the effective date of the termination; (ii) Executive's accrued but unpaid Annual Bonus, if any; and (iii) business expenses incurred prior to the effective date of termination. Executive shall not be entitled to continue to participate in any employee benefit plans except to the extent provided in such plans for terminated participants, or as may be required by applicable law.

If Executive's employment is terminated pursuant to subsection (d) of this paragraph, Company shall pay to Executive (i) Executive's accrued but unpaid Annual Salary and the value of unused paid time off through the effective date of the termination; (ii) Executive's accrued but unpaid Annual Bonus, if any; (iii) business expenses incurred prior to the effective date of termination; and (iv) severance consisting of the greater of (y) the salary that would be due to Executive if the employment had not been terminated, or (z) six (6) months of Annual Salary, less legal deductions. Employer may elect in its sole discretion whether to pay these salary payments in one lump sum or on regular pay days for the six months following termination of Executive's employment. For a termination under subsection (d), Executive shall be entitled to continue to participate in employee benefit plans described in Section 5(d) for six months following termination of Executive's employment.

If Executive's employment is terminated pursuant to subsection (e) of this paragraph, Executive shall be entitled to receive (i) Executive's accrued but unpaid Annual Salary and the value of unused paid time off through the effective date of the termination; (ii) Executive's accrued but unpaid Annual Bonus, if any; (iii) business expenses incurred prior to the effective date of termination; and (iv) an amount equal to the Annual Salary due to Executive for the balance of the Term, in a lump sum and without discount to present value, but in no event shall such payment total less than the Annual Salary.

All other rights Executive has under any benefit or stock option plans and programs shall be determined in accordance with the terms and conditions of such plans and programs.

With the exception of the terms of this paragraph 12, upon termination of Executive's employment the obligations of Executive and Company under this Agreement shall immediately cease.

13. MISCELLANEOUS.

(a) Preparation of Agreement. It is acknowledged by each Party that such Party either had separate and independent advice of counsel or the opportunity to avail itself or himself of same. In light of these facts it is acknowledged that no Party shall be construed to be solely responsible for the drafting hereof, and therefore any ambiguity shall not be construed against any Party as the alleged draftsman of this Agreement.

(b) Cooperation. Each Party agrees, without further consideration, to cooperate and diligently perform any further acts, deeds and things and to execute and deliver any documents that may from time to time be reasonably necessary or otherwise reasonably required to consummate, evidence, confirm and/or carry out the intent and provisions of this Agreement, all without undue delay or expense.

(c) Interpretation.

(i) Entire Agreement/No Collateral Representations. Each Party expressly acknowledges and agrees that this Agreement, including all exhibits attached hereto: (1) is the final, complete and exclusive statement of the agreement of the Parties with respect to the subject matter hereof; (2) supersedes any prior or contemporaneous agreements, promises, assurances, guarantees, representations, understandings, conduct, proposals, conditions, commitments, acts, course of dealing, warranties, interpretations or terms of any kind, oral or written (collectively and severally, the "Prior Agreements"), and that any such prior agreements are of no force or effect except as expressly set forth herein; and (3) may not be varied, supplemented or contradicted by evidence of Prior Agreements, or by evidence of subsequent oral agreements. Any agreement hereafter made shall be ineffective to modify, supplement or discharge the terms of this Agreement, in whole or in part, unless such agreement is in writing and signed by the Party against whom enforcement of the modification or supplement is sought.

(ii) Waiver. No breach of any agreement or provision herein contained, or of any obligation under this Agreement, may be waived, nor shall any extension of time for performance of any obligations or acts be deemed an extension of time for performance of any other obligations or acts contained herein, except by written instrument signed by the Party to be charged or as otherwise expressly authorized herein. No waiver of any breach of any agreement or provision herein contained shall be deemed a waiver of any preceding or succeeding breach thereof, or a waiver or relinquishment of any other agreement or provision or right or power herein contained.

(iii) Remedies Cumulative. The remedies of each Party under this Agreement are cumulative and shall not exclude any other remedies to which such Party may be lawfully entitled.

(iv) Severability. If any term or provision of this Agreement or the application thereof to any person or circumstance shall, to any extent, be determined to be invalid, illegal or unenforceable under present or future laws effective during the term of this Agreement, then and, in that event: (A) the performance of the offending term or provision (but only to the extent its application is invalid, illegal or unenforceable) shall be excused as if it had never been incorporated into this Agreement, and, in lieu of such excused provision, there shall be added a provision as similar in terms and amount to such excused provision as may be possible and be legal, valid and enforceable, and (B) the remaining part of this Agreement (including the application of the offending term or provision to persons or circumstances other than those as to which it is held invalid, illegal or unenforceable) shall not be affected thereby and shall continue in full force and effect to the fullest extent provided by law.

(v) No Third Party Beneficiary. Notwithstanding anything else herein to the contrary, the parties specifically disavow any desire or intention to create any third party beneficiary obligations, and specifically declare that no person or entity, other than as set forth in this Agreement, shall have any rights hereunder or any right of enforcement hereof.

(vi) Headings; References; Incorporation; Gender. The headings used in this Agreement are for convenience and reference purposes only, and shall not be used in construing or interpreting the scope or intent of this Agreement or any provision hereof. References to this Agreement shall include all amendments or renewals thereof. Any exhibit referenced in this Agreement shall be construed to be incorporated in this Agreement. As used in this Agreement, each gender shall be deemed to include the other gender, including neutral genders or genders appropriate for entities, if applicable, and the singular shall be deemed to include the plural, and vice versa, as the context requires.

(d) Enforcement.

(i) Applicable Law. This Agreement and the rights and remedies of each Party arising out of or relating to this Agreement (including, without limitation, equitable remedies) shall be solely governed by, interpreted under, and construed and enforced in accordance with the laws (without regard to the conflicts of law principles thereof) of the State of Texas, as if this agreement were made, and as if its obligations are to be performed, wholly within the State of Texas.

(ii) Consent to Jurisdiction and Venue. Any action or proceeding arising out of or relating to this Agreement shall be filed in and heard and litigated solely before the state courts of Texas within Travis County.

(iii) Attorneys' Fees. If court proceedings are required to enforce any provision of this Agreement, the substantially prevailing or successful Party shall be entitled to an award of the reasonable and necessary expenses of litigation, including reasonable attorneys' fees.

(e) **No Assignment of Rights or Delegation of Duties by Executive.** Executive's rights and benefits under this Agreement are personal to him and therefore (i) no such right or benefit shall be subject to voluntary or involuntary alienation, assignment or transfer; and (ii) Executive may not delegate his duties or obligations hereunder.

(f) **Notices.** Unless otherwise specifically provided in this Agreement, all notices, demands, requests, consents, approvals or other communications (collectively and severally called "Notices") required or permitted to be given hereunder, or which are given with respect to this Agreement, shall be in writing, and shall be given by: (A) personal delivery (which form of Notice shall be deemed to have been given upon delivery), (B) by private overnight delivery service (which forms of Notice shall be deemed to have been given upon confirmed delivery by the delivery agency), or (C) by mailing in the United States mail by registered or certified mail, return receipt requested, postage prepaid (which forms of Notice shall be deemed to have been given upon the fifth {5th} business day following the date mailed). Notices shall be addressed to the address hereinabove set forth in the introductory paragraph of this Agreement, or to such other address as the receiving Party shall have specified most recently by like Notice, with a copy to the other Parties hereto. Any Notice given to the estate of a Party shall be sufficient if addressed to the party as provided in this subparagraph.

(g) **Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument, binding on all parties hereto. Any signature page of this Agreement may be detached from any counterpart of this Agreement and reattached to any other counterpart of this Agreement identical in form hereto by having attached to it one or more additional signature pages.

(h) **Execution by All Parties Required to be Binding; Electronically Transmitted Documents**. This Agreement shall not be construed to be an offer and shall have no force and effect until this Agreement is fully executed by all Parties hereto. If a copy or counterpart of this Agreement is originally executed and such copy or counterpart is thereafter transmitted electronically by facsimile or similar device, such facsimile document shall for all purposes be treated as if manually signed by the Party whose facsimile signature appears.

IN WITNESS WHEREOF, the parties have executed this Agreement.

Company:
IDEAL POWER CONVERTERS, INC.

By: /s/ Lon E. Bell
Lon E. Bell
Chairman, Compensation Committee

Executive:

/s/ Paul Bundschuh
Paul A. Bundschuh

Exhibit 10.28

EMPLOYMENT AGREEMENT

This **EMPLOYMENT AGREEMENT** ("Agreement"), which is dated May 8, 2013 (the "Effective Date"), is made by and between Ideal Power Converters, a Texas corporation, located at 5004 Bee Creek Road, Suite 600, Spicewood, Texas, 78669 and hereinafter referred to as "Company", and Christopher P Cobb, whose address is _____, hereinafter referred to as "Executive." The purpose of this Agreement is to confirm the terms of the employment relationship between Company and Executive.

RECITALS

WHEREAS, Company wishes to retain the services of Executive, and Executive wishes to render services to Company, as its President;

WHEREAS, Company and Executive wish to set forth in this Agreement the duties and responsibilities that Executive has agreed to undertake on behalf of Company, and the responsibilities that Company will owe to Executive.

THEREFORE, in consideration of the foregoing and of the mutual promises contained in this Agreement, Company and Executive (who are sometimes individually referred to as a "Party" and collectively referred to as the "Parties") agree as follows:

AGREEMENT

1. TERM.

Company hereby employs Executive as Company's Chief Technical Officer pursuant to the terms of this Agreement and Executive hereby accepts employment with Company pursuant to the terms of this Agreement. This Agreement is effective on the Effective Date and will continue for a period of one year from the Effective Date (the "Initial Term") unless terminated earlier pursuant to Section 11 or 12 below. This Agreement shall remain in effect and shall be extended for a period of six months commencing on the day following expiration of the Initial Term, and for six month periods thereafter (each an "Extension Period") unless, prior to the expiration of any Extension Period, either Executive or Company delivers to the other written notice of Executive's or Company's intention not to continue this Agreement in effect, in which case this Agreement will terminate at the expiration of the Extension Period. The Initial Term together with any Extension Period will be referred to in this Agreement as the "Term".

2. GENERAL DUTIES.

Executive is responsible for increasing shareholder value through his leadership and management of Company. Executive shall devote his entire productive time, ability, and attention to Company's business during the Term. Executive shall report to Company's Chief Executive Officer and agrees to keep the Company's Board of Directors (the "Board") fully informed with regard to critical issues affecting the value and reputation of Company. Furthermore, in his capacity as President, Executive shall be primarily responsible for the vision and implementation of technical solutions for Company. This includes both product as well as intellectual property development. Executive shall do and perform all services, acts, or things necessary or advisable to discharge his duties under this Agreement, and such other duties as are commonly performed by an employee of his rank in a publicly traded corporation or which may, from time to time, be prescribed by the Company through the Board. Furthermore, Executive agrees to cooperate with and work to the best of his ability with Company's management team, which includes the Board and the officers and other employees, to continually improve Company's reputation in its industry for quality products and performance.

3. NONSOLICITATION AND PROPRIETARY PROPERTY AND CONFIDENTIAL INFORMATION PROVISIONS.

As a condition of his employment with Company, Executive has executed a Proprietary Information and Inventions Agreement, the terms of which are included by reference into this Agreement.

4. COMPLIANCE WITH SECURITIES LAWS.

If, in the future, Company registers its securities for sale to the public, then Executive acknowledges that Executive will be subject to the provisions of Sections 10 and 16 of the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder. Executive acknowledges that Sections 10 and 16 and the rules and regulations promulgated thereunder may prohibit Executive from selling or transferring his securities in Company. Executive agrees that, if Company registers its securities for sale to the public, he will comply with Company's policies, as stated from time to time, relating to selling or transferring Company's securities.

5. COMPENSATION.

(a) Annual Salary. During the Term, Company shall pay to Executive an annual base salary in the amount of $175,000.00 dollars. The salary paid during the Term shall be referred to in this Agreement as the "Annual Salary". The Annual Salary shall be subject to any tax withholdings and/or employee deductions that are applicable. The Annual Salary shall be paid to Executive in equal installments in accordance with the periodic payroll practices of the Company for its employees. The Annual Salary will be subject to review and adjustment at the discretion of the Board no less frequently than annually.

(b) Annual Bonus. Following the initial public offering of Company's securities, Executive and the Compensation Committee of the Board of Directors shall meet to establish performance standards and goals to be met by Executive, which standards and goals shall be mutually agreed to by Executive and the Compensation Committee. Based on Executive's achievement of the performance standards and goals, Company shall pay to Executive a cash bonus (the "Annual Bonus") in an amount to be recommended by the Compensation Committee to the Board. The Annual Bonus shall be subject to any applicable tax withholdings and/or employee deductions.

(c) Cost of Living Adjustment. Commencing as of the Effective Date, and on each January 1st thereafter, the then effective Annual Salary shall be increased (but not decreased) by an amount which shall reflect the increase, if any, in the cost of living during the previous 12 months by adding to the Annual Salary an amount computed by multiplying the Annual Salary by the percentage by which the level of the Consumer Price Index for the Austin Metropolitan Area, as reported on January 1st of the new year by the Bureau of Labor Statistics of the United States Department of Labor has increased over its level as of January 1st of the prior year.

(d) Participation In Employee Benefit Plans. Executive shall have the same rights, privileges, benefits and opportunities to participate in any of Company's employee benefit plans which may now or hereafter be in effect on a general basis for executive officers or employees. During the Term Company shall provide, at Company's sole expense, medical and dental benefits for Executive, his spouse and children. At the discretion of the Board, Company may also provide, at its sole expense (i) disability insurance which, in the event of Executive's disability, will replace 60% of the Annual Salary being paid to Executive at the time the disability occurred and (ii) life insurance in an amount to be agreed upon by the Board and Executive. Irrespective of the foregoing, Company may change any benefits contractor, or discontinue any benefit without replacement, in its sole discretion, and any such change or discontinuance will not be a breach of this Agreement. In the event Executive receives payments from the disability insurer, Company shall have the right to offset such payments against the Annual Salary otherwise payable to Executive during the period for which such payments are made.

6. EQUITY COMPENSATION.

Following the initial public offering of Company's securities and at the discretion of the Compensation Committee of the Board, Company may issue to Executive an award of common stock or an option to purchase common stock from Company's 2013 Equity Incentive Plan or any future equity compensation plan adopted by Company (together, the 2013 Equity Incentive Plan or any future equity compensation plan is referred to in this Agreement as the "Plan"). The terms of any such award shall be governed by the Plan and the award agreement.

7. REIMBURSEMENT OF BUSINESS EXPENSES.

Company shall promptly reimburse Executive for all reasonable business expenses incurred by Executive in connection with the business of Company. However, each such expenditure shall be reimbursable only if Executive furnishes to Company adequate records and other documentary evidence required by federal and state statutes and regulations issued by the appropriate taxing authorities for the substantiation of each such expenditure as an income tax deduction.

8. PAID TIME OFF.

Executive shall be entitled to four weeks of paid time off each year; provided, however, failure to use paid time off by the end of the year in which it is earned will prevent the accumulation of additional paid time off in excess of four weeks.

9. INDEMNIFICATION OF LOSSES.

So long as Executive's actions were taken in good faith and in furtherance of Company's business and within the scope of Executive's duties and authority, Company shall indemnify and hold Executive harmless to the full extent of the law from any and all claims, losses and expenses sustained by Executive as a result of any action taken by him to discharge his duties under this Agreement, and Company shall defend Executive, at Company's expense, in connection with any and all claims by stockholders or third parties.

10. PERSONAL CONDUCT.

Executive agrees promptly and faithfully to comply with all present and future policies, requirements, directions, requests and rules and regulations of Company in connection with Company's business. Executive further agrees to conform to all laws and regulations and not at any time to commit any act or become involved in any situation or occurrence tending to bring Company into public scandal, ridicule or which will reflect unfavorably on the reputation of Company.

11. TERMINATION FOR CAUSE.

The Board may terminate Executive for cause immediately, without notice, if Company reasonably concludes that Employee has committed fraud, theft, embezzlement, misappropriation of Company funds or other property, or any felony. The Board may also terminate Executive for cause for any of the following:

(a) Breach by Executive of any material provision of this Agreement;

(b) Violation by Executive of any statutory or common law duty of loyalty to Company; or

(c) A material violation by Executive of Company's employment policies; or

(d) Commission of such acts of dishonesty, gross negligence, or willful misconduct as would prevent the effective performance of Executive's duties or which result in material harm to Company or its business.

The Board may terminate this Agreement for cause by giving written notice of termination to Executive, provided, however, if the Board declares Executive to be in default of this Agreement under subsection (a) above because Executive fails to substantially perform his material duties and responsibilities under this Agreement, the Board shall deliver a written demand for substantial performance of such duties and responsibilities to Executive. Such demand must identify the manner in which the Board believes that Executive has not substantially performed his duties, and Executive shall have a period of 30 days to correct the deficient performance. Upon termination for cause, the obligations of Executive and Company under this Agreement shall immediately cease. Such termination shall be without prejudice to any other remedy to which Company may be entitled either at law, in equity, or under this Agreement. If Executive's employment is terminated pursuant to this paragraph, Company shall pay to Executive (i) Executive's accrued but unpaid Annual Salary and the value of unused paid time off through the effective date of the termination; (ii) Executive's accrued but unpaid Annual Bonus, if any; and (iii) business expenses incurred prior to the effective date of termination. Executive shall not be entitled to continue to participate in any employee benefit plans except to the extent provided in such plans for terminated participants, or as may be required by applicable law.

12. TERMINATION WITHOUT CAUSE.

(a) Death. Executive's employment shall terminate upon the death of Executive. Upon such termination, the obligations of Executive and Company under this Agreement shall immediately cease.

(b) Disability. The Board reserves the right to terminate Executive's employment upon 30 days written notice if, for a period of 90 days, Executive is prevented from discharging his substantial or material duties due to any physical or mental disability.

(c) Election By Executive. Executive's employment may be terminated at any time by Executive upon not less than 30 days written notice by Executive to the Board.

(d) Election By Company. Executive's employment may be terminated at any time by Company upon not less than 30 days written notice by the Board to Executive.

(e) Termination Due to a Change in Control. Executive's employment may be terminated upon a Change in Control. For purposes of this Agreement, the term "Change in Control" shall mean the sale or disposition by Company to an unrelated third party of substantially all of its business or assets, or the sale of the capital stock of Company in connection with the sale or transfer of a Controlling Interest in Company to an unrelated third party, or the merger or consolidation of Company with another corporation as part of a sale or transfer of a Controlling Interest in Company to an unrelated third party. For purposes of this definition, the term "Controlling Interest" means the sale or transfer of Company's securities representing at least 50.1% of the voting power.

If Executive's employment is terminated pursuant to subsections (a), (b), or (c) of this paragraph, Company shall pay to Executive (i) Executive's accrued but unpaid Annual Salary and the value of unused paid time off through the effective date of the termination; (ii) Executive's accrued but unpaid Annual Bonus, if any; and (iii) business expenses incurred prior to the effective date of termination. Executive shall not be entitled to continue to participate in any employee benefit plans except to the extent provided in such plans for terminated participants, or as may be required by applicable law.

If Executive's employment is terminated pursuant to subsection (d) of this paragraph, Company shall pay to Executive (i) Executive's accrued but unpaid Annual Salary and the value of unused paid time off through the effective date of the termination; (ii) Executive's accrued but unpaid Annual Bonus, if any; (iii) business expenses incurred prior to the effective date of termination; and (iv) severance consisting of the greater of (y) the salary that would be due to Executive if the employment had not been terminated, or (z) six (6) months of Annual Salary, less legal deductions. Employer may elect in its sole discretion whether to pay these salary payments in one lump sum or on regular pay days for the six months following termination of Executive's employment. For a termination under subsection (d), Executive shall be entitled to continue to participate in employee benefit plans described in Section 5(d) for six months following termination of Executive's employment.

If Executive's employment is terminated pursuant to subsection (e) of this paragraph, Executive shall be entitled to receive (i) Executive's accrued but unpaid Annual Salary and the value of unused paid time off through the effective date of the termination; (ii) Executive's accrued but unpaid Annual Bonus, if any; (iii) business expenses incurred prior to the effective date of termination; and (iv) an amount equal to the Annual Salary due to Executive for the balance of the Term, in a lump sum and without discount to present value, but in no event shall such payment total less than the Annual Salary.

All other rights Executive has under any benefit or stock option plans and programs shall be determined in accordance with the terms and conditions of such plans and programs.

With the exception of the terms of this paragraph 12, upon termination of Executive's employment the obligations of Executive and Company under this Agreement shall immediately cease.

13. MISCELLANEOUS.

(a) Preparation of Agreement. It is acknowledged by each Party that such Party either had separate and independent advice of counsel or the opportunity to avail itself or himself of same. In light of these facts it is acknowledged that no Party shall be construed to be solely responsible for the drafting hereof, and therefore any ambiguity shall not be construed against any Party as the alleged draftsman of this Agreement.

(b) Cooperation. Each Party agrees, without further consideration, to cooperate and diligently perform any further acts, deeds and things and to execute and deliver any documents that may from time to time be reasonably necessary or otherwise reasonably required to consummate, evidence, confirm and/or carry out the intent and provisions of this Agreement, all without undue delay or expense.

(c) Interpretation.

(i) Entire Agreement/No Collateral Representations. Each Party expressly acknowledges and agrees that this Agreement, including all exhibits attached hereto: (1) is the final, complete and exclusive statement of the agreement of the Parties with respect to the subject matter hereof; (2) supersedes any prior or contemporaneous agreements, promises, assurances, guarantees, representations, understandings, conduct, proposals, conditions, commitments, acts, course of dealing, warranties, interpretations or terms of any kind, oral or written (collectively and severally, the "Prior Agreements"), and that any such prior agreements are of no force or effect except as expressly set forth herein; and (3) may not be varied, supplemented or contradicted by evidence of Prior Agreements, or by evidence of subsequent oral agreements. Any agreement hereafter made shall be ineffective to modify, supplement or discharge the terms of this Agreement, in whole or in part, unless such agreement is in writing and signed by the Party against whom enforcement of the modification or supplement is sought.

(ii) Waiver. No breach of any agreement or provision herein contained, or of any obligation under this Agreement, may be waived, nor shall any extension of time for performance of any obligations or acts be deemed an extension of time for performance of any other obligations or acts contained herein, except by written instrument signed by the Party to be charged or as otherwise expressly authorized herein. No waiver of any breach of any agreement or provision herein contained shall be deemed a waiver of any preceding or succeeding breach thereof, or a waiver or relinquishment of any other agreement or provision or right or power herein contained.

(iii) Remedies Cumulative. The remedies of each Party under this Agreement are cumulative and shall not exclude any other remedies to which such Party may be lawfully entitled.

(iv) Severability. If any term or provision of this Agreement or the application thereof to any person or circumstance shall, to any extent, be determined to be invalid, illegal or unenforceable under present or future laws effective during the term of this Agreement, then and, in that event: (A) the performance of the offending term or provision (but only to the extent its application is invalid, illegal or unenforceable) shall be excused as if it had never been incorporated into this Agreement, and, in lieu of such excused provision, there shall be added a provision as similar in terms and amount to such excused provision as may be possible and be legal, valid and enforceable, and (B) the remaining part of this Agreement (including the application of the offending term or provision to persons or circumstances other than those as to which it is held invalid, illegal or unenforceable) shall not be affected thereby and shall continue in full force and effect to the fullest extent provided by law.

(v) No Third Party Beneficiary. Notwithstanding anything else herein to the contrary, the parties specifically disavow any desire or intention to create any third party beneficiary obligations, and specifically declare that no person or entity, other than as set forth in this Agreement, shall have any rights hereunder or any right of enforcement hereof.

(vi) Headings; References; Incorporation; Gender. The headings used in this Agreement are for convenience and reference purposes only, and shall not be used in construing or interpreting the scope or intent of this Agreement or any provision hereof. References to this Agreement shall include all amendments or renewals thereof. Any exhibit referenced in this Agreement shall be construed to be incorporated in this Agreement. As used in this Agreement, each gender shall be deemed to include the other gender, including neutral genders or genders appropriate for entities, if applicable, and the singular shall be deemed to include the plural, and vice versa, as the context requires.

(d) Enforcement.

(i) Applicable Law. This Agreement and the rights and remedies of each Party arising out of or relating to this Agreement (including, without limitation, equitable remedies) shall be solely governed by, interpreted under, and construed and enforced in accordance with the laws (without regard to the conflicts of law principles thereof) of the State of Texas, as if this agreement were made, and as if its obligations are to be performed, wholly within the State of Texas.

(ii) Consent to Jurisdiction and Venue. Any action or proceeding arising out of or relating to this Agreement shall be filed in and heard and litigated solely before the state courts of Texas within Travis County.

(iii) Attorneys' Fees. If court proceedings are required to enforce any provision of this Agreement, the substantially prevailing or successful Party shall be entitled to an award of the reasonable and necessary expenses of litigation, including reasonable attorneys' fees.

(e) **No Assignment of Rights or Delegation of Duties by Executive.** Executive's rights and benefits under this Agreement are personal to him and therefore (i) no such right or benefit shall be subject to voluntary or involuntary alienation, assignment or transfer; and (ii) Executive may not delegate his duties or obligations hereunder.

(f) **Notices.** Unless otherwise specifically provided in this Agreement, all notices, demands, requests, consents, approvals or other communications (collectively and severally called "Notices") required or permitted to be given hereunder, or which are given with respect to this Agreement, shall be in writing, and shall be given by: (A) personal delivery (which form of Notice shall be deemed to have been given upon delivery), (B) by private overnight delivery service (which forms of Notice shall be deemed to have been given upon confirmed delivery by the delivery agency), or (C) by mailing in the United States mail by registered or certified mail, return receipt requested, postage prepaid (which forms of Notice shall be deemed to have been given upon the fifth {5th} business day following the date mailed). Notices shall be addressed to the address hereinabove set forth in the introductory paragraph of this Agreement, or to such other address as the receiving Party shall have specified most recently by like Notice, with a copy to the other Parties hereto. Any Notice given to the estate of a Party shall be sufficient if addressed to the party as provided in this subparagraph.

(g) **Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument, binding on all parties hereto. Any signature page of this Agreement may be detached from any counterpart of this Agreement and reattached to any other counterpart of this Agreement identical in form hereto by having attached to it one or more additional signature pages.

(h) **Execution by All Parties Required to be Binding; Electronically Transmitted Documents**. This Agreement shall not be construed to be an offer and shall have no force and effect until this Agreement is fully executed by all Parties hereto. If a copy or counterpart of this Agreement is originally executed and such copy or counterpart is thereafter transmitted electronically by facsimile or similar device, such facsimile document shall for all purposes be treated as if manually signed by the Party whose facsimile signature appears.

IN WITNESS WHEREOF, the parties have executed this Agreement.

Company:
IDEAL POWER CONVERTERS, INC.

By: /s/ Paul Bundschuh

Its: Chief Executive Officer

Executive:

/s/ Christopher P. Cobb

Exhibit 10.30

SECURITIES PURCHASE AGREEMENT

INVESTOR PACKAGE

July 17, 2013

Ideal Power Inc.
5004 Bee Creek Road, Suite 600
Spicewood, Texas 78669

INSTRUCTIONS FOR INVESTING

If you wish to purchase the offered securities of Ideal Power Inc., please:

(1) Review this Securities Purchase Agreement, Registration Rights Agreement, Senior Secured Convertible Promissory Note, Warrant, Security Agreement, and Escrow Agreement.

(2) Indicate where appropriate, in Section 6(a) of the Securities Purchase Agreement, your status as an Accredited Investor by initialing the appropriate accreditation categories.

(3) Type or print all information required in the blank sections in Section 6(b) of the Securities Purchase Agreement, including your requested subscription amount and your federal taxpayer identification number.

(4) Execute the signature pages to the Securities Purchase Agreement, Registration Rights Agreement, Security Agreement, and Escrow Agreement.

(5) If you are an individual, complete and execute, or cause to be executed, the enclosed Spousal Consent by either (i) having your spouse execute such consent or (ii) if you are not married, by confirming your status as single on such consent.

(6) Along with the full amount of your investment paid by means of a check made payable to U.S. Bank National Association or a wire transfer to the following:

U.S. Bank, N.A.
ABA# 091000022
FBO: U.S. Bank Trust N.A.
Acct: 180121167365
Ref: Ideal Power/MDB
Attn: Georgina Thomas (213-615-6001)

You must send the completed and executed signature pages to this Securities Purchase Agreement, the Registration Rights Agreement, the Security Agreement, the Escrow Agreement, the completed Purchaser Information (Section 6 of this Securities Purchase Agreement) and the Spousal Consent to the following escrow holder, preferably by fax or e-mail:

Georgina Thomas
Assistant Vice President
U.S. Bank Corporate Trust Services
633 West 5th Street, 24th Floor
Los Angeles, CA 90071
Ph. (213) 615-6001
Fax (213) 615-6199
Georgina.thomas@usabank.com

The Company may choose not to accept all or some of any investor's subscription for any reason (regardless of whether any check or wire transfer relating to this subscription is deposited in a bank or trust account). The Company will send to you a fully executed copy of the transaction documents if your subscription is accepted. If you have any questions in completing the transaction documents, please contact Christopher Cobb at Christopher.Cobb@idealpowerconverters.com.

IDEAL POWER INC.

SECURITIES PURCHASE AGREEMENT

This Securities Purchase Agreement (the "Agreement") is entered into by and between IDEAL POWER INC., a Delaware corporation (the "Company"), and the undersigned purchasers (each, a "Purchaser", and collectively, the "Purchasers") as of the latest date set forth on the signature page hereto.

NOW, THEREFORE, in consideration of the mutual covenants and other agreements contained in this Agreement the Company and the Purchasers hereby agree as follows:

1. Purchase of Securities and Matters Related Thereto. (Capitalized terms used below and not otherwise defined are defined in Section 2 of the Agreement.)

(a) Subject to the terms and conditions of this Agreement, the undersigned Purchaser hereby subscribes for (i) a senior secured convertible promissory note in the form attached as Exhibit C ("Note"), and (ii) a warrant for the purchase of shares of the Company's common stock, $0.001 par value (the "Common Stock") in the form attached as Exhibit D ("Warrant") (sometimes the Note and the Warrant are collectively referred to as the "Securities"). The total amount to be paid for the Securities shall be the amount (if any) accepted by the Company in connection with this investment, which may be less than or equal to the amount indicated by the undersigned Purchaser on the signature page hereto (the "Subscription Amount"). The offering, purchase and sale of the Securities is referred to herein as the "Offering."

(b) If, prior to the Calendar Due Date, the Company closes a firm commitment underwritten initial public offering ("IPO") of its Common Stock that raises at least $10 million (the "IPO Financing"), the principal amount of the Note and all accrued but unpaid interest as well as any other amounts payable under the Note will be repaid with shares of the Company's Common Stock in accordance with the terms of the Note. The conversion price will be equal to the lower of 0.70 times the IPO Price or $1.46 per share. Prior to the Calendar Due Date or a conversion in the event of an IPO financing, each Purchaser will also have the right, but not the obligation, in accordance with the terms set forth in the Note, to convert the Note into shares of the Company's Common Stock, including for the purpose of participating in any other financing undertaken by the Company prior to the Calendar Due Date (so long as such financing is for capital-raising purposes) or in the event of a Change of Control, as defined in the Note. In the event of a conversion as a result of a Change of Control, the conversion price will be equal to the lower of 0.70 times the per share consideration paid for the Change of Control transaction or $1.46 per share. In the event of a conversion related to a financing, the Note shall be converted into that number of shares of Common Stock determined by dividing (x) the Principal Amount and all accrued interest by (y) the lower of (i) $1.46 or (ii) 0.70 times the per share consideration paid in the most recent Private Equity Financing to occur prior to the Holder's election (as appropriately adjusted to reflect stock dividends, stock splits, combinations, recapitalizations and the like). With the permission of the Purchaser, the Company may pre-pay the Note prior to an IPO, a Change of Control or the Calendar Due Date with U.S. dollars. In that case, the payment will equal 110% of the principal amount of the Note.

(c) The Purchasers will be granted a first priority senior security interest in and to the assets of the Company, including its intellectual property, pursuant to the terms of a Security Agreement, a form of which is attached hereto as Exhibit E ("Security Agreement"). On August 31, 2012 and again on November 21, 2012 the Company raised a total of $750,000 and $3,250,000, respectively, through the sale of senior secured promissory notes (the "2012 Notes"). The Purchasers will have security interests identical to those of the holders of the 2012 Notes.

(d) The Texas Emerging Technology Fund, which held a senior security interest in the Company's assets, has subordinated its interest to the interests of the Purchasers in accordance with the Subordination Agreement in the form attached hereto as Exhibit F ("Subordination Agreement").

(e) The Warrant has a term that will expire seven years from the Closing Date. The number of shares of Common Stock issuable upon exercise of the Warrant and the exercise price shall be determined as follows: (i) in the event of an IPO, one-half the principal amount of the Note divided by the lower of 0.70 of the IPO Price or $1.46 will determine the number of shares covered by the Warrant while the per-share exercise price will be equal to the lower of 0.70 times the IPO Price or $1.46; or (ii) in the event that, prior to the Calendar Due Date, the Company does not complete an IPO but, instead, completes a Private Equity Financing, one-half the principal amount of the Note divided by the lower of 0.70 of the Private Equity Financing Price or $1.46 will determine the number of shares covered by the Warrant, with a per-share exercise price equal to the lower of 0.70 times the Private Equity Financing Price or $1.46 provided, however, that (A) if the Company undertakes first, a Private Equity Financing and secondly, an IPO prior to the Calendar Due Date and (B) the Private Equity Financing Price is higher than the IPO Price, then the number of shares of Common Stock covered by the Warrant and the per share exercise price will be adjusted to equal the number of shares of Common Stock and the exercise price calculated in accordance with subsection (i) above. If the Company does not complete either a Private Equity Financing or an IPO prior to the Calendar Due Date, then the number of Shares covered by the Warrant will equal one-half the principal amount of the Note divided by $1.46, and the exercise price will be $1.46 per share. The Warrant also includes a cashless exercise provision.

(f) The Purchasers will have certain registration rights relating to the Common Stock underlying the Securities, which rights are set forth in the Registration Rights Agreement, a form of which is attached hereto as Exhibit G ("Registration Rights Agreement").

(g) The Purchasers and their permitted transferees and assignees shall be subject to a 180 day lockup following the IPO as set forth in Section 8 of this Agreement. Officers, directors, employees and owners of 5% or more of the Company's Common Stock will be locked up for the greater of 12 months (i) following the IPO and (ii) 12 months after shares of the Company's Common Stock are listed for trading on NASDAQ or a national securities exchange.

(h) This is the third offering of senior secured convertible promissory notes by the Company. By executing this Purchase Agreement and the other Transaction Documents and by accepting the Note, the Holder acknowledges the sale of the 2012 Notes.

(i) MDB Capital Group, LLC has been retained by the Company as the sole placement agent for the Offering (the "Placement Agent").

The foregoing description of the Note, the Warrant, the Security Agreement and the Subordination Agreement are qualified in their entirety by the terms of those agreements.

2. Certain Definitions. For purposes of this Agreement and the agreements referenced herein, the following terms shall have the respective definitions set forth below:

(a) "Calendar Due Date" shall mean the date that is the first anniversary of the Closing Date.

(b) "Change of Control" means any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, and shall be deemed to be occasioned by, or to include, (i) the acquisition of the Company by another entity by means of any transaction or series of related transactions (including, without limitation, any stock acquisition, reorganization, merger or consolidation) unless the Company's shareholders of record as constituted immediately prior to such acquisition or sale will, immediately after such acquisition or sale (by virtue of securities issued as consideration for the Company's acquisition or sale or otherwise) hold at least a majority of the voting power of the surviving or acquiring entity, or its direct or indirect parent entity (except that any bona fide equity or debt financing transaction for capital raising purposes shall not be deemed a Change of Control for this purpose) or (ii) a sale, exclusive license or other disposition of all or substantially all of the assets of the Company, including a sale, exclusive license or other disposition of all or substantially all of the assets of the Company's subsidiaries, if such assets constitute substantially all of the assets of the Company and such subsidiaries taken as a whole.

(c) "IPO Price" means the price per share of the Company's Common Stock offered to public investors in an IPO, without regard to any underwriting discount or expense (as appropriately adjusted to reflect stock dividends, stock splits, combinations, recapitalizations and the like with respect to the Company's capital stock after the date hereof).

(d) "Private Equity Financing" means a privately marketed equity financing resulting in gross proceeds in excess of $250,000 which closes before the Calendar Due Date; provided, however, that none of the following issuances of securities shall constitute a "Private Equity Financing": (i) this Offering and any subsequent offerings of senior secured convertible promissory notes or any other debt offering; (ii) securities issued without consideration in connection with any stock or unit split of, or stock or unit dividend on, the Company's Common Stock; (iii) securities issued to the Company's employees, officers, directors, consultants, advisors or service providers pursuant to any plan, agreement or similar arrangement unanimously approved by the Company's board of directors; (iv) securities issued to banks or equipment lessors; (v) securities issued in connection with sponsored research, collaboration, technology license, development, original equipment manufacturing (OEM), marketing or other similar agreements or strategic partnerships; (vi) securities issued in connection with a bona fide business acquisition of or by the Company (whether by merger, consolidation, sale of assets, sale or exchange of stock or otherwise); (vii) the Investment Unit dated October 1, 2010, issued by the Company to the Office of the Governor Economic Development and Tourism, and any securities relating to the conversion or exercise thereof; or (viii) any right, option or warrant to acquire any security convertible into or exercisable for the securities listed in clauses (i) through (vii) above.

(e) "Private Equity Financing Price" means the price per share paid by investors in a Private Equity Financing.

3. Closing.

(a) On or prior to the applicable Closing Date (as defined below), the Purchaser shall deliver or cause to be delivered to the Escrow Holder the following in accordance with the subscription procedures described in Section 2(b) below:

(i) a completed and duly executed signature page of this Agreement;

(ii) the completed Purchaser Information included on pages 14 and 15 of this Agreement;

(iii) a spousal consent substantially in the form of Exhibit B, attached hereto (the "Spousal Consent"); and

(iv) duly executed signature pages of the Registration Rights Agreement, the Security Agreement and the Escrow Agreement.

(b) The Purchaser shall deliver or cause to be delivered, preferably by fax or e-mail, the closing deliveries described above to the Escrow Holder at the following address:

Georgina Thomas
Assistant Vice President
U.S. Bank Corporate Trust Services
633 West 5th Street, 24th Floor
Los Angeles, CA 90071
Ph. (213) 615-6001
Fax (213) 615-6199
Georgina.thomas@usabank.com

Immediately following receipt of the deliverables from all of the Purchasers and acceptance by the Company in accordance with subsection (c) below, wire instructions will be forwarded to the Purchaser and the Purchaser shall be obligated to deliver funds no later than three business days thereafter.

(c) This Agreement sets forth various representations, warranties, covenants and agreements of the Company and of the Purchaser, as the case may be, all of which shall be deemed made, and shall be effective without further action by the Company and the Purchaser, immediately upon the Company's acceptance of the Purchaser's subscription and shall thereupon be binding upon the Company and the Purchaser. Acceptance shall be evidenced only by execution of this Agreement by the Company on its signature page attached hereto and the Company shall have no obligation hereunder to the Purchaser until a fully executed copy of this Agreement shall have been delivered to the Purchaser. Upon the Company's acceptance of the Purchaser's subscription and receipt of the Subscription Amount, on the applicable Closing Date the Placement Agent shall deliver to the Purchaser a duly executed copy of each of the Agreement, the Note, the Warrant, the Registration Rights Agreement, the Security Agreement and the Escrow Agreement.

(d) The purchase and sale of the Securities shall be consummated on or before July 31, 2013 (the "Initial Closing Date"); provided, however, that the Company reserves the right to extend the Offering for up to an additional 30 days beyond the Initial Closing Date (the "Final Closing Date" and together with the Initial Closing Date, the "Closing Date" or the "Closing Dates", depending on the context used).

4. Company Representations and Warranties. The Company hereby represents and warrants that, as of the Closing Date applicable to the Purchaser:

(a) Organization and Business. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to carry on its business as now conducted and as proposed to be conducted. The Company intends to move the jurisdiction of its incorporation to Delaware during or as soon as reasonably practicable following the Offering. The Company has no direct or indirect subsidiaries. The Company is duly qualified as a foreign corporation to do business and is in good standing in every jurisdiction in which its ownership or use of property or the nature of the business conducted by it makes such qualification necessary except where the failure to be so qualified or in good standing would not have a Material Adverse Effect. As used in this Agreement, the term "Material Adverse Effect" means any material adverse effect on the business, operations, assets (including intangible assets), liabilities (actual or contingent), financial condition, or prospects of the Company, if any, taken as a whole, or on the transactions contemplated hereby or by the Transaction Documents (as defined below). Information about the Company's business is included on Exhibit A to this Agreement (the "Company Information").

(b) Capitalization.

(i) The Company has two classes of authorized capital stock consisting of 50,000,000 shares of Common Stock and 10,000,000 shares of Preferred Stock, of which 3,524,505 shares of Common Stock are issued and outstanding and no shares of Preferred Stock are issued and outstanding. Schedule 4(b)(i) includes a detailed schedule of the Company's capitalization as of the date of this Agreement.

(ii) Except as set forth on Schedule 4(b)(ii) to this Agreement: (A) there are no outstanding options, warrants, scrip, rights to subscribe for, puts, calls, rights of first refusal, agreements, understandings, claims or other commitments or rights of any character whatsoever relating to, or securities or rights convertible into or exchangeable for, any capital stock of the Company, or arrangements by which the Company is or may become bound to issue additional capital stock, (B) there are no agreements or arrangements under which the Company is obligated to register the sale of any of its or their securities under the Securities Act of 1933, as amended (the "Securities Act") and (C) there are no anti-dilution or price adjustment provisions contained in any security issued by the Company (or in any agreement providing rights to security holders) that will be triggered by the issuance of the Securities.

(iii) No shares of capital stock of the Company are subject to preemptive rights or any other similar rights of anyone or any mortgage, lien, title claim, assignment, encumbrance, security interest, adverse claim, contract of sale, restriction on use or transfer (other than restrictions on transfer under applicable state and federal securities laws or "blue sky" or other similar laws (collectively, the "Securities Laws")) or other defect of title of any kind (each, a "Lien") imposed through the actions or failure to act of the Company.

(c) Authorization; Enforceability. All corporate action on the part of the Company, its officers, directors and shareholders necessary for the authorization, execution and delivery of the Transaction Documents (as defined in subsection (f) below), the performance of all obligations of the Company under the Transaction Documents, and the authorization, issuance, sale and delivery of the Securities has been taken, and each Transaction Document constitutes a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except to the extent limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application affecting enforcement of creditors' rights and general principles of equity that restrict the availability of equitable or legal remedies.

(d) Valid Issuance. The Securities being acquired by the Purchasers hereunder, when issued, sold and delivered in accordance with the terms of this Agreement for the consideration expressed herein, will be duly and validly issued, fully paid, and non-assessable, and will be free of Liens other than restrictions on transfer under this Agreement.

(e) Litigation. There is no action, suit, proceeding or investigation pending or, to the Company's knowledge, currently threatened against the Company. The Company is not a party or subject to the provisions of any order, writ, injunction, judgment or decree of any court or government agency or instrumentality. There is no action, suit, proceeding or investigation by the Company currently pending or that the Company intends to initiate.

(f) No Conflict. The execution, delivery and performance of this Agreement, the Security Agreement, the Note, the Warrant, the Registration Rights Agreement, the Escrow Agreement, and the other agreements entered into by the Company in connection with the Offering, and including the Subordination Agreement entered into in conjunction with the offer of the 2012 Notes (the "Transaction Documents") and the consummation by the Company of the transactions contemplated hereby and thereby will not: (i) conflict with or result in a violation of any provision of the charter or by-laws of the Company or (ii) violate or conflict with, or result in a breach of any provision of, or constitute a default (or an event which with notice or lapse of time or both could become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture, patent, patent license or instrument to which the Company is a party, or (iii) result in a violation of any law, rule, regulation, order, judgment or decree (including federal and state securities laws and regulations and regulations of any self-regulatory organizations to which the Company or its securities are subject) applicable to the Company or by which any property or asset of the Company is bound or affected. The Company is not in violation of its charter, bylaws, or other organizational documents. The business of the Company is not being conducted in violation of any law, rule, ordinance or regulation of any governmental entity, except for possible violations which would not, individually or in the aggregate, have a Material Adverse Effect. Except for filings pursuant to Regulation D of the Securities Act and applicable state securities laws and the consent of a majority in interest of the 2012 Notes, which filings or consents have been made or obtained or will be made or obtained by the Company in the required time thereunder, the Company is not required to obtain any consent, authorization or order of, or make any filing or registration with, any court, governmental agency, regulatory agency, self-regulatory organization or stock market or any third party in order for it to execute, deliver or perform any of its obligations under this Agreement or any Transaction Document in accordance with the terms hereof or thereof or to issue and sell the Securities in accordance with the terms hereof.

(g) Intellectual Property. Other than inventions of the Company whose patent applications have yet to be filed (the "Confidential IP"), Schedule 4(g) to this Agreement sets forth a complete and accurate listing of all of the Company's patents and patent applications ("Patents"). At the Purchaser's request the Company shall make available to the Purchaser prior to the applicable Closing Date a schedule of Confidential IP, provided that the Purchaser execute and deliver a non-disclosure agreement relating to the Confidential IP that is reasonably acceptable to the Company. The Company owns valid title, free and clear of any Liens, or possesses the requisite valid and current licenses or rights, free and clear of any Liens, to use all Patents in connection with the conduct of its business as now operated, and to the best of the Company's knowledge, as presently contemplated to be operated in the future. There is no claim or action by any person pertaining to, or proceeding pending, or to the Company's knowledge threatened, which challenges the right of the Company with respect to any Patents necessary to enable it to conduct its business as now operated, and to the Company's knowledge, as presently contemplated to be operated in the future. To the Company's knowledge, the Company's current and intended products, services and processes do not infringe on any Intellectual Property or other rights held by any person, and the Company is unaware of any facts or circumstances which might give rise to any of the foregoing. The Company has not received any notice of infringement of, or conflict with, the asserted rights of others with respect to the Patents. It will not be necessary to use any inventions of any of its employees or consultants (or persons it currently intends to hire) made prior to their employment by the Company. Each employee and consultant of the Company has assigned to the Company all intellectual property rights he or she owns that are related to the Company's business as now conducted and as presently proposed to be conducted.

(h) Management. As of the date of this Agreement, the Company's Board of Directors consists of five members, namely, Christopher Cobb, Paul Bundschuh, Richard Rutkowski, Mark Baum and Lon E. Bell, and the Company has the following officers:

Paul Bundschuh	Chief Executive Officer
Christopher Cobb	President and Chief Operating Officer
Barry Loder	Chief Financial Officer
Charles De Tarr	Vice President, Finance and Secretary
Bill Alexander	Chief Technology Officer

Prior to an offering of the Common Stock to the public, the Company intends to enter into a formal employment agreement with the Chief Executive Officer.

(i) Financial Statements. Schedule 4(i) to this Agreement includes a true and complete copy of (A) the audited financial statements for 2012 and 2011 and (B) un-audited financial statements for the quarter ended March 31, 2013 (collectively, the "Financial Statements"). The Financial Statements fairly present the financial condition and operating results of the Company as of the dates, and for the periods, indicated therein, subject to normal year-end audit adjustments. Except as set forth in the Financial Statements, the Company has no material liabilities or obligations, contingent or otherwise, other than liabilities incurred in connection with the consummation of the transactions contemplated under the Offering, an estimate of which is set forth on Schedule 4(i), and those incurred in the ordinary course of business subsequent to March 31, 2013. Since March 31, 2013, nothing has occurred which would have a Material Adverse Effect.

(j) Financial Information and Projections. Any financial estimates and projections included herein have been prepared by management of the Company and are the most current financial estimates and projections available by the Company. Although the Company does not warrant that the results contained in such projections will be achieved, to the best of the Company's knowledge and belief, such projections are reasonable estimations of future financial performance of the Company and its expected financial position, results of operations, and cash flows for the projection period (subject to the uncertainty and approximation inherent in any projection). At the time they were made, all of the material assumptions upon which the projections are based were, to the best of the Company's knowledge and belief, reasonable and appropriate. Nothing in this Section 4(j) is intended to modify or amend in any way the representations and warranties of Purchaser in Section 5.

(k) Tax Matters. The Company has made or filed all federal, state and foreign income and all other tax returns, reports and declarations required by any jurisdiction to which it is subject and has paid all taxes and other governmental assessments and charges, shown or determined to be due on such returns, reports and declarations, except those being contested in good faith and has set aside on its books provisions reasonably adequate for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations apply. All such tax returns and reports filed on behalf of the Company were complete and correct and were prepared in good faith without willful misrepresentation. There are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and the officers of the Company know of no basis for any such claim. The Company has not executed a waiver with respect to the statute of limitations relating to the assessment or collection of any foreign, federal, state or local tax. The Company has not received notice that any of its tax returns is presently being audited by any taxing authority.

(l) Certain Transactions. Except as set forth on Schedule 4(l) to this Agreement, there are no loans, leases, royalty agreements or other transactions between: (i) the Company or any of its respective customers or suppliers, and (ii) any officer, employee, consultant or director of the Company or any person owning 5% or more of the ownership interests of the Company or any member of the immediate family of such officer, employee, consultant, director, shareholder or owner or any corporation or other entity controlled by such officer, employee, consultant, director, shareholder or owner, or a member of the immediate family of such officer, employee, consultant, director, shareholder or owner.

(m) Material Agreements. Except as disclosed on Schedule 4(m) to this Agreement (each contract, agreement, commitment or understanding disclosed on Schedule 4(m) being hereinafter referred to as a "Material Agreement") or as contemplated by this Agreement or any Transaction Document, there are no agreements, understandings, commitments, instruments, contracts, employment agreements, proposed transactions or judgments to which the Company is a party or by which it is bound which may involve obligations (contingent or otherwise), or a related series of obligations (contingent or otherwise), of or to, or payments, or a related series of payments, by or to the Company in excess of $10,000 in any one year. All Material Agreements are in full force and effect and constitute legal, valid and binding obligations of the Company, and to the Company's knowledge, the other parties thereto, and are enforceable in accordance with their respective terms. Neither the Company nor any person is in default under the terms of any Material Agreement, and no circumstance exists that would, with the giving of notice or the passage of time, constitute a default under any Material Agreement.

(n) Title to Assets. The Company has good and marketable title to all real and personal property owned by it that is material to the business of the Company, in each case free and clear of all liens and encumbrances, except those, if any, included on Schedule 4(n) or incurred in the ordinary course of business consistent with past practice. Any real property and facilities held under lease by the Company are held by it under valid, subsisting and enforceable leases (subject to laws of general application relating to bankruptcy, insolvency, reorganization, or other similar laws affecting creditors' rights generally and other equitable remedies) with which the Company is in compliance in all material respects.

(o) Subsidiaries; Joint Ventures. Except for the subsidiaries described in Schedule 4(o), the Company has no subsidiaries and (i) does not otherwise own or control, directly or indirectly, any other Person and (ii) does not hold equity interests, directly or indirectly, in any other Person. Except as described in Schedule 4(o), the Company is not a participant in any joint venture, partnership, or similar arrangement material to its business. "Person" means an individual, entity, partnership, limited liability company, corporation, association, trust, joint venture, unincorporated organization, and any government, governmental department or agency or political subdivision thereof.

(p) No General Solicitation. Neither the Company nor any person participating on the Company's behalf in the transactions contemplated hereby has conducted any "general solicitation," as such term is defined in Regulation D promulgated under the Securities Act, with respect to any securities offered in the Offering.

(q) No Integrated Offering. Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf, has directly or indirectly made any offers or sales in any security or solicited any offers to buy any security under circumstances that would require registration under the Securities Act of the issuance of the Securities. The issuance of the Securities will not be integrated (as defined in Rule 502 of the Securities Act) with any other issuance of the Company's securities (past, current or future) that would require registration under the Securities Act of the issuance of the Securities. The offerings of the 2012 Notes may be integrated with this Offering, but such integration would not require registration under the Securities Act.

(r) No Brokers. The Company has taken no action which would give rise to any claim by any person for brokerage commissions, transaction fees or similar payments relating to this Agreement or the transactions contemplated hereby, other than to the Placement Agent, whose fee is described in Section 5(g).

(s) Offering. Subject to the accuracy of the Purchaser's representations and warranties in Section 5 of this Agreement, and the accuracy of other purchasers' representations and warranties in their respective Securities Purchase Agreements, the offer, sale and issuance of the Securities in the Offering, constitute transactions exempt from the registration requirements of Section 5 of the Securities Act and from the registration or qualification requirements of applicable state securities laws, and neither the Company nor any authorized agent acting on its behalf will take any action hereafter that would cause the loss of such exemption.

(t) Risks Related to the Company and the Offering. An investment in the Securities involves a high degree of risk and uncertainty. Schedule 4(t) includes information about the material risks faced by the Company, however, they may not be the only risks. Additional unknown risks or risks that the Company currently considers to be immaterial may also impair the Company's business operations. If any of the events or circumstances described in Schedule 4(t) actually occurs, the Company's business, financial condition or results of operations could suffer.

5. Purchaser Acknowledgements and Representations. In connection with the purchase of the Securities, Purchaser represents and warrants as of the Closing Date applicable to the Purchaser and/or acknowledges, to the Company, the following:

(a) Acceptance. The Company may accept or reject this Agreement and the number of Securities subscribed for hereunder, in whole or in part, in its sole and absolute discretion. The Company has no obligation to issue any of the Securities to any person who is a resident of a jurisdiction in which the issuance of the Securities would constitute a violation of the Securities Laws.

(b) Irrevocability. This Agreement is and shall be irrevocable, except that the Purchaser shall have no obligations hereunder to the extent that this Agreement is rejected by the Company.

(c) Binding. This Agreement and the rights, powers and duties set forth herein shall be binding upon the Purchaser, the Purchaser's heirs, estate, legal representatives, successors and assigns and shall inure to the benefit of the Company, its successors and assigns.

(d) No Governmental Review. No federal or state agency has made any finding or determination as to the fairness of the Offering for investment, or any recommendation or endorsement of the Securities.

(e) No Preemptive or Voting Rights. Unless and until the entire Principal Amount or a portion of it is converted into Common Stock or the Warrant exercised and the Common Stock issued, the Purchaser is not entitled to voting rights. The Securities do not entitle the Purchaser to preemptive rights.

(f) Professional Advice; Investment Experience. The Company has made available to the Purchaser, or to the Purchaser's attorney, accountant or representative, all documents that the Purchaser has requested, and the Purchaser has requested all documents and other information that the Purchaser has deemed necessary to consider respecting an investment in the Company. The Company has provided answers to all questions concerning the Offering and an investment in the Company. The Purchaser has carefully considered and has, to the extent the Purchaser believes necessary, discussed with the Purchaser's professional technical, legal, tax and financial advisers and his/her/its representative (if any) the suitability of an investment in the Company for the Purchaser's particular tax and financial situation. All information the Purchaser has provided to the Company concerning the Purchaser and the Purchaser's financial position is, to Purchaser's knowledge, correct and complete as of the date set forth below, and if there should be any material adverse change in such information prior to the acceptance of this Agreement by the Company, the Purchaser will immediately provide such information to the Company. The Purchaser has such knowledge, skill, and experience in technical, business, financial, and investment matters so that he/she/it is capable of evaluating the merits and risks of an investment in the Securities. To the extent necessary, the Purchaser has retained, at his/her/its own expense, and relied upon, appropriate professional advice regarding the technical, investment, tax, and legal merits and consequences of this Agreement and owning the Securities. The Purchaser acknowledges and understands that the proceeds from the sale of the Securities will be used as described in Section 7(b).

(g) Brokers and Finders; Placement Agent Services. Schedule 5(g) includes information regarding the compensation to be paid to the Placement Agent for various services rendered or to be rendered to the Company.

(h) Investment Purpose. Purchaser is purchasing the Securities for investment for his, her or its own account only and not with a view to, or for resale in connection with, any "distribution" thereof within the meaning of the Securities Act in violation of such act. Purchaser further represents that he/she/it does not presently have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person, with respect to any of the Securities. If the Purchaser is an entity, the Purchaser represents that it has not been formed for the specific purpose of acquiring the Securities. Purchaser acknowledges that an investment in the Securities is a high-risk, speculative investment.

(i) Reliance on Exemptions. Purchaser understands that the Securities are being offered and sold to it in reliance upon specific exemptions from the registration requirements of United States federal and state securities laws and that the Company is relying upon the truth and accuracy of, and the Purchaser's compliance with, the representations, warranties, agreements, acknowledgments and understandings of Purchaser set forth herein in order to determine the availability of such exemptions and the eligibility of the Purchaser to acquire the Securities.

(j) Restricted Securities. Purchaser understands that the Securities are "restricted securities" under applicable Securities Laws and that, pursuant to these laws, Purchaser must hold the Securities indefinitely unless they are registered with the Securities and Exchange Commission and qualified by state authorities, or an exemption from such registration and qualification requirements is available. Purchaser acknowledges that the Company has no obligation to register or qualify the Securities for resale, except as provided in Section 11 herein. Purchaser further acknowledges that if an exemption from registration or qualification is available, it may be conditioned on various requirements including, but not limited to, the time and manner of sale, the holding period for the Securities, and requirements relating to the Company which are outside of the Purchaser's control, and which the Company is under no obligation and may not be able to satisfy.

(k) Professional Advice. The Company has not received from its legal counsel, accountants or professional advisors any independent valuation of the Company or any of its equity securities, or any opinion as to the fairness of the terms of the Offering or the adequacy of disclosure of materials pertaining to the Company or the Offering.

(l) Risk of Loss. The Purchaser has adequate net worth and means of providing for his/her/its current needs and personal contingencies to sustain a complete loss of the investment in the Company at the time of investment, and the Purchaser has no need for liquidity in the investment in the Securities. The Purchaser understands that an investment in the Securities is highly risky and that he/she/it could suffer a complete loss of his/her/its investment.

(m) Information. The Purchaser understands that any plans, estimates and projections, provided by or on behalf of the Company, involve significant elements of subjective judgment and analysis that may or may not be correct; that there can be no assurance that such plans, projections or goals will be attained; and that any such plans, projections and estimates should not be relied upon as a promise or representation of the future performance of the Company. The Purchaser acknowledges that neither the Company, the Placement Agent nor anyone acting on the Company's behalf makes any representation or warranty, express or implied, as to the accuracy or correctness of any such plans, estimates and projections, and there are no assurances that such plans, estimates and projections will be achieved. The Purchaser understands that the Company's technology and products are new, and not all of the technology and/or products may be tested and commercialized, and that there is no guarantee that the technology and products will be commercially successful. The Purchaser understands that all of the risks associated with the technology are not now known. Before investing in the Offering, the Purchaser has been given the opportunity to ask questions of the Company about the technology and the Company's business and the Purchaser has received answers to those questions.

(n) Authorization; Enforcement. Each Transaction Document to which a Purchaser is a party: (i) has been duly and validly authorized, (ii) has been duly executed and delivered on behalf of the Purchaser, and (iii) will constitute, upon execution and delivery by the Purchaser thereof and the Company, the valid and binding agreements of the Purchaser enforceable in accordance with their terms, except to the extent limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application affecting enforcement of creditors' rights and general principles of equity that restrict the availability of equitable or legal remedies.

(o) Residency. If the Purchaser is an individual, then Purchaser resides in the state or province identified in the address of such Purchaser set forth in Section 6; if the Purchaser is a partnership, corporation, limited liability company or other entity, then the office or offices of the Purchaser in which its principal place of business is identified in the address or addresses of the Purchaser set forth in Section 6.

(p) Communication of Offer. The Purchaser was contacted by either the Company or the Placement Agent with respect to a potential investment in the Securities. The Purchaser is not purchasing the Securities as a result of any "general solicitation" or "general advertising," as such terms are defined in Regulation D of the Securities Act, which includes, but is not limited to, any advertisement, article, notice or other communication regarding the Securities published in any newspaper, magazine or similar media or on the internet or broadcast over television, radio or the internet or presented at any seminar or any other general solicitation or general advertisement.

(q) No Conflicts. The execution, delivery and performance by the Purchaser of this Agreement and the consummation by the Purchaser of the transactions contemplated hereby will not (i) result in a violation of the organizational documents of the Purchaser (if the Purchaser is an entity), (ii) conflict with, or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture or instrument to which the Purchaser is a party, or (iii) result in a violation of any law, rule, regulation, order, judgment or decree (including federal and state securities laws) applicable to the Purchaser.

(r) Organization. If the Purchaser is an entity, it is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization with the requisite corporate or partnership power and authority to enter into and to consummate the transactions contemplated by the applicable Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. If the Purchaser is an entity, the execution, delivery and performance by the Purchaser of the transactions contemplated by this Agreement have been duly authorized by all necessary corporate or, if the Purchaser is not a corporation, such partnership, limited liability company or other applicable like action, on the part of the Purchaser.

(s) No Other Representations. Other than the representations and warranties contained herein, the Purchaser has not received and is not relying on any representation, warranties or assurances as to the Company, its business or its prospects from the Company or any other person or entity.

[*Remainder of Page Intentionally Blank; Agreement Continues on Following Page*]

6. Purchaser Information.

(a) Status as an Accredited Investor. By initialing the appropriate space(s) below, the Purchaser represents and warrants that he/she/it is an "Accredited Investor" within the meaning of Regulation D of the Securities Act.

[ ] a.	A director, executive officer or general partner of Company.
[ ] b.	A natural person whose individual net worth or joint net worth with spouse at time of purchase exceeds $1,000,000. (In calculation of net worth, you may include equity in personal property and real estate (excluding your principal residence), cash, short term investments, stocks and securities. Equity in personal property and real estate should be based on the fair market value of such property less debt secured by such property.)
[ ] c.	A natural person who had an individual income in excess of $200,000 in each of two most recent years or joint income with spouse in excess of $300,000 in each of those years and has a reasonable expectation of reaching same level of income in current year.
[ ] d.	A corporation, limited liability company, partnership, tax-exempt organization (under Section 501(c)(3) of Internal Revenue Code of 1986, as amended) or Massachusetts or similar business trust (i) not formed for specific purpose of acquiring Common Stock and (ii) having total assets in excess of $5,000,000.
[ ] e.	An entity which falls within one of following categories of institutional accredited investors, set forth in 501(a) of Regulation D under Securities Act [if you have marked this category, also mark which of following items describes you:]
[ ] 1.	A bank as defined in Section 3(a)(2) of Securities Act, or any savings and loan association or other institution as defined in Section 3(a)(5)(A) of Securities Act whether acting in its individual or a fiduciary capacity.
[ ] 2.	A broker/dealer registered pursuant to Section 15 of Securities Exchange Act of 1934.
[ ] 3.	An insurance company as defined in Section 2(13) of Securities Act.
[ ] 4.	An investment company registered under Investment Company Act of 1940 or a business development company as defined in Section 2(a)(48) of that act.
[ ] 5.	A Small Business Investment Company licensed by U.S. Small Business Administration under Section 301(c) or (d) of Small Business Investment Act of 1958.
[ ] 6.	Any plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions for benefit of its employees, if such plan has total assets in excess of $5,000,000.
[ ] 7.	Any private business development company as defined in Section 202(a)(22) of Investment Advisers Act of 1940.
[ ] 8.	An employee benefit plan within meaning of Employee Retirement Income Security Act of 1974, if investment decision is made by a plan fiduciary, as defined in Section 3(21) of such act, which is either a bank, savings and loan association, insurance company or registered investment adviser, or if employee benefit plan has total assets in excess of $5,000,000 or, if a self-directed plan, with investment decisions made solely by persons that are accredited investors.
[ ] 9.	A trust, with total assets in excess of $5,000,000, not formed for specific purpose of acquiring Class A Common Stock offered, whose purchase is directed by sophisticated person as described in Rule 506(b)(2)(ii) of Regulation D.
[ ] f.	An entity in which all equity owners are accredited investors as described above.

PURCHASER MUST INDICATE THE APPLICABLE CATEGORY OR CATEGORIES BY INITIALING EACH APPLICABLE SPACE ABOVE; IF JOINT INVESTORS, BOTH PARTIES MUST INITIAL.

(b) Subscription Information. Please complete the following information.

Requested Subscription Amount: $_____
(subject to Company acceptance)

Name of Purchaser as it is to appear on the Senior Secured Convertible Promissory Note and Warrant

Indicate ownership as:

____ (a)	Individual	
____ (b)	Community Property	
____ (c)	Joint Tenants with Right of Survivorship	) **All parties**
____ (d)	Tenants in Common	) **must sign**
____ (e)	Corporate	
____ (f)	Partnership	
____ (g)	Trust	

_____	_____
Address of Residence (or Business, if not an individual)	Address for Sending Notices (if different)
_____	_____
City, State and Zip Code	City, State and Zip Code
_____	_____
Telephone	Telephone
_____	_____
State of Residence (or State of Organization, if an entity)	State of Residence (or State of Organization, if an entity)
_____	_____
SSN/TIN	SSN/TIN
_____	_____
E-mail	E-mail

[R*emainder of Page Intentionally Left Blank; Agreement Continues on Following Page*]

7. Covenants.

(a) In addition to the other agreements and covenants set forth herein, as long as a Note (or any 2012 Note) is outstanding, without the consent of a majority in interest of the Purchasers (including the Purchasers of the 2012 Notes), the Company will not, and will not permit any of its subsidiaries to, directly or indirectly, to undertake the following:

(i) The Company will not enter into any equity line of credit or similar agreement, nor issue nor agree to issue any floating or Variable Rate Securities nor any of the foregoing or equity with price reset rights. For purposes hereof, "Equity Line of Credit" shall include any transaction involving a written agreement between the Company and an investor or underwriter whereby the Company has the right to "put" its securities to the investor or underwriter over an agreed period of time and at an agreed price or price formula, and "Variable Rate Securities" shall include: (A) any debt or equity securities which are convertible into, exercisable or exchangeable for, or carry the right to receive additional shares of Common Stock or with a fixed conversion, exercise or exchange price that is subject to being reset at some future date at any time after the initial issuance of such debt or equity security, and (B) any amortizing convertible security which amortizes prior to its maturity date, where the Company is required or has the option to (or any investor in such transaction has the option to require the Company to) make such amortization payments in shares of Common Stock.

(ii) With the exception of (A) convertible promissory notes, and shares of Common Stock upon conversion thereof, issued to Richardson & Patel LLP, the Company's legal counsel, pursuant to that certain retainer agreement for legal services executed on March 19, 2013, (B) awards made pursuant to the Company's 2013 Equity Incentive Plan, which was adopted by the Board of Directors on May 17, 2013 and approved by the Company's shareholders on July 5, 2013, or (C) shares of Common Stock that may be issued as a result of the exercise or conversion of derivative securities issued by the Company prior to this Offering, the Company will not enter into an agreement to issue, nor will the Company issue, any equity, convertible debt or other securities convertible into Common Stock or other equity of the Company nor modify any of the foregoing which may be outstanding.

(iii) The Company will not enter into any transaction that results in a merger, sale of assets or other corporate reorganization or acquisition; results in the distribution of a dividend or the repurchase of outstanding shares of Common Stock (except in accordance with the provisions of the Company's equity incentive plan); causes a liquidation proceeding or bankruptcy proceeding; results in a change to the Company's corporate status; or results in the incurrence of debt outside of normal trade debt.

(b) In addition to the other agreements and covenants set forth herein, the Company agrees to the following:

(i) Until the Notes (including the 2012 Notes) are paid in full, the Company will not engage in any of the following without the consent of the Placement Agent: (i) change the size of the Board of Directors; (ii) sell shares of the Company's Common Stock other than in accordance with the Company's equity incentive plan; (iii) engage in any transactions with affiliates; (iv) increase the number of authorized shares of Common Stock included in the Company's equity incentive plan; (v) make changes in senior management or the compensation of senior management; (vi) approve an annual budget; (vii) engage or dismiss its accountants; (viii) alter any provision of its Certificate of Incorporation, including increasing or decreasing the authorized number of shares of Common Stock or Preferred Stock. For purposes of this subparagraph (i), the term "affiliates" refers to the officers, directors and holders of 10% or more of the Company's common stock.

(ii) The Company currently intends to use the net proceeds from the Offering for the following purposes:

Use of Proceeds	(in thousands)
Patent filing and protection	$25
Research and development of new products	60
Development of existing products (including product and equipment purchases)	285
Equipment and software	25
Fee to Placement Agent	75
Attorney's Fees	75
Working capital and general corporate purposes	205
Total Use of Proceeds	**$750**

The Company expects that the proceeds of the Offering will be sufficient to support its operations through November 2013.

(iii) The Company has retained, and will continue to retain, the services of a PCAOB registered auditor prior to an IPO and such auditor will perform and complete the audits of the financial statements necessary to meet SEC filing and listing requirements of NASDAQ or AMEX exchanges.

(iv) The Company will have a capital structure acceptable to the Placement Agent and, as noted above, will cause the conversion of all promissory notes and preferred shares outstanding prior to this Offering (excluding securities owned by TETF) to Common Stock at the time of an IPO. The promissory notes (with the exception of the 2012 Notes and convertible promissory notes held by Richardson & Patel, LLP, the Company's legal counsel) will convert at the IPO Price according to their terms. All rights attached shall be extinguished. Existing warrant holders will continue to maintain the existing warrants under the terms of the warrant agreement as issued.

(v) The Company and the Placement Agent will agree to an intellectual property strategy, which the Company will implement.

(vi) In addition to the shares of Common Stock that will be locked up in accordance with Section 8 below, the shares of Common Stock or securities convertible into or exercisable for shares of Common Stock which are held by (A) all officers, directors and employees of the Company, (B) 5% or greater holders (with the exception of those individuals who became 5% or greater holders as a result of this Offering or the purchase of the 2012 Notes) as determined pursuant to Rule 13d-3 of the Securities Exchange Act of 1934, as amended, (C) merger participants, if any and (D) the Placement Agent and IP Development Company will be locked up until the later of (x) 12 months following the date of the final prospectus for the IPO and (y) the listing of the Company's Common Stock on an exchange, which may include a listing on any listing level of NASDAQ.

8. Market Stand-Off; Purchaser Distribution.

(a) Lock-Up. In connection with the initial underwritten public offering by the Company of its equity securities pursuant to an effective registration statement filed under the Securities Act, Purchaser shall not, without the prior written consent of the Company's managing underwriter, (i) lend, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock (whether such shares or any such securities are then owned by the Purchaser or are thereafter acquired), or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of stock or such other securities, in cash or otherwise. Such restriction (the "Market Stand-Off") shall be in effect for such period of time following the date of the final

prospectus for the offering as may be requested by the Company or such underwriters. In no event, however, shall such period exceed 180 days or such longer period requested by the underwriters to comply with regulatory restrictions on the publication of research reports (including, without limitation, NASD Rule 2711). In the event of the declaration of a stock dividend, a spin-off, a stock split, an adjustment in conversion ratio, a recapitalization or a similar transaction affecting the Company's outstanding securities without receipt of consideration, any new, substituted or additional securities that are by reason of such transaction distributed with respect to any Company Common Stock subject to the Market Stand-Off, or into which such Company Common Stock thereby becomes convertible, shall immediately be subject to the Market Stand-Off. To enforce the Market Stand-Off, the Company may impose stop-transfer instructions with respect to the Securities until the end of the applicable stand-off period. This Section 8(a) shall not apply to Securities registered in the public offering under the Securities Act, and the Purchaser shall be subject to this Section 8(a) only if the directors and officers of the Company are subject to the lockup arrangements included in Section 7(b)(viii) above.

(b) Securities. As used in this Section 8 and in Section 9, the term "securities" also refers to the purchased Securities, all securities received in conversion, exercise, or replacement thereof, or in connection with the Securities pursuant to stock dividends or splits, all securities received in replacement of the Securities in a recapitalization, merger, reorganization, exchange or the like, and all new, substituted or additional securities or other properties to which Purchaser is entitled by reason of Purchaser's ownership of the Securities.

9. Restrictive Legends and Stop-Transfer Orders.

(a) Legends. The certificate or certificates representing the Securities shall bear the following legends (as well as any legends required by applicable state corporate law and the Securities Laws):

(i) THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH SALE OR DISTRIBUTION MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL (OR OTHER EVIDENCE) IN A FORM SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933.

(ii) THE SECURITIES REPRESENTED HEREBY MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE TERMS OF A SECURITIES PURCHASE AGREEMENT BETWEEN THE COMPANY AND THE SECURITY HOLDER DATED JULY ___, 2013, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

(iii) Any legend required to be placed thereon by any appropriate securities commissioner.

(b) Stop-Transfer Notices. The Purchaser agrees that, to ensure compliance with the restrictions referred to herein, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(c) Refusal to Transfer. The Company shall not be required (i) to transfer on its books any Securities that have been sold or otherwise transferred in violation of any of the provisions of this Agreement or (ii) to treat as owner of such Securities or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Securities shall have been so transferred.

(d) Removal of Legend. The Securities held by Purchaser will no longer be subject to the legend referred to in Section 9(a)(ii) following the expiration or termination of the lock-up provisions of Section 8 (and of any agreement entered pursuant to Section 8). After such time, and upon Purchaser's request, a new certificate or certificates representing the Securities shall be issued without the legend referred to in Section 9(a)(ii), and delivered to Purchaser. The Company will bear any cost or expense related to removing the legend.

10. Conditions to Closing.

(a) Conditions to the Company's Obligation to Sell. The obligation of the Company hereunder to issue and sell the Securities to the Purchaser is subject to the satisfaction, at or before the applicable Closing Date of each of the following conditions, provided that these conditions are for the Company's sole benefit and may be waived by the Company at any time in its sole discretion:

(i) The Purchaser shall have complied with Section 3(a);

(ii) The representations and warranties of the Purchaser shall be true and correct in all material respects; and

(iii) No litigation, statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by or in any court or governmental authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby which prohibits the consummation of any of the transactions contemplated by this Agreement.

(b) Conditions to Each Purchaser's Obligation to Purchase. The obligation of the Purchaser hereunder to purchase the Securities is subject to the satisfaction, at or before the applicable Closing Date of each of the following conditions, provided that these conditions are for the Purchaser's sole benefit and may be waived by the Purchaser at any time in his/her/its sole discretion:

(i) The Company shall have complied with Section 3(c);

(ii) The representations and warranties of the Company shall be true and correct as of the applicable Closing Date, and the Company shall have performed, satisfied and complied with the covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Company at or prior to the applicable Closing Date. The Purchaser shall have received a certificate or certificates, executed by the Chief Executive Officer of the Company, dated as of the applicable Closing Date, to the foregoing effect and as to such other matters as may be reasonably requested by the Purchaser including, but not limited to, certificates with respect to the Company's charter, by-laws and Board of Directors' resolutions relating to the transactions contemplated hereby;

(iii) No litigation, statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by or in any court or governmental authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby which prohibits the consummation of any of the transactions contemplated by this Agreement;

(iv) No event shall have occurred which would reasonably be expected to have a Material Adverse Effect;

(v) The Company shall have caused its legal counsel, Richardson & Patel LLP, to deliver a legal opinion addressed to the Purchasers and to the Placement Agent with respect to the matters set forth on Exhibit H attached hereto; and

(vi) The Company shall have provided such other documents as the Placement Agent may reasonably request, each in form and substance satisfactory to the Placement Agent.

11. Public Company Status; Registration Rights. The Company will use reasonable best efforts to become a publicly traded and publicly reporting company under both the Securities Act and the Securities Exchange Act of 1934 and the Purchaser shall have certain registration rights, all in accordance with the Registration Rights Agreement of even date herewith.

12. Miscellaneous.

(a) Governing Law. This Agreement and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of New York, without giving effect to principles of conflicts of law.

(b) Entire Agreement; Enforcement of Rights. This Agreement together with the exhibits and schedules attached hereto, set forth the entire agreement and understanding of the parties relating to the subject matter herein and supersedes any and all prior agreements or discussions between them, including any term sheet, letter of intent or other document executed by the parties prior to the date hereof relating to such subject matter. No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, shall be effective unless in writing signed by the parties to this Agreement; provided, however, that the Purchaser acknowledges and agrees that the Placement Agent may, in its sole discretion acting by prior written consent on behalf of Purchaser, waive any covenant of the Company described in Section 7. The failure by either party to enforce any rights under this Agreement shall not be construed as a waiver of any rights of such party.

(c) Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, the parties agree to renegotiate such provision in good faith. If the parties cannot reach a mutually agreeable and enforceable replacement for such provision, then (i) such provision shall be excluded from this Agreement, (ii) the balance of the Agreement shall be interpreted as if such provision were so excluded and (iii) the balance of the Agreement shall be enforceable in accordance with its terms.

(d) Construction. This Agreement is the result of negotiations between and has been reviewed by each of the parties hereto and their respective counsel, if any; accordingly, this Agreement shall be deemed to be the product of all of the parties hereto, and no ambiguity shall be construed in favor of or against any one of the parties hereto.

(e) Notices. Any notice required or permitted by this Agreement shall be in writing and shall be deemed sufficient when delivered personally (including two business days after deposit with a reputable overnight courier service, properly addressed to the party to receive the same) or sent by fax or 48 hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the party to be notified at such party's address or fax number as set forth herein or as subsequently modified by written notice.

(f) Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument.

(g) Successors and Assigns. The rights and benefits of this Agreement shall inure to the benefit of, and be enforceable by the Company's successors and assigns. The covenants and obligations of the Company hereunder shall inure to the benefit of, and be enforceable by the Purchaser against the Company, its successors and assigns, including any entity into which the Company is merged. The rights and obligations of Purchasers under this Agreement may only be assigned with the prior written consent of the Company.

(h) Third Party Beneficiary. This Agreement is intended for the benefit of the undersigned parties and their respective permitted successors and assigns, and the Placement Agent, and is not for the benefit of, nor may any provision hereof be enforced by, any other person.

(i) Further Assurances. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

(j) Expenses. The Company shall pay all costs and expenses incurred by the Company and the Placement Agent with respect to the negotiation, execution, delivery and performance of the Agreement, including $25,000 in legal fees and expenses of counsel to the Placement Agent.

(k) Survival. The representations, warranties, covenants and agreements made herein shall survive the closing of the transaction contemplated hereby. All statements as to factual matters contained in any certificate or other instrument delivered by or on behalf of the Company pursuant hereto in connection with the transactions contemplated hereby shall be deemed to be representations and warranties by the Company hereunder solely as of the date of such certificate or instrument. The representations, warranties, covenants and obligations of the Company, and the rights and remedies that may be exercised by the Purchaser, shall not be limited or otherwise affected by or as a result of any information furnished to, or any investigation made by or knowledge of, any of the Purchasers or any of their representatives.

(l) Attorneys' Fees. In the event that any suit or action is instituted under or in relation to this Agreement, including without limitation to enforce any provision in this Agreement, the prevailing party in such dispute shall be entitled to recover from the losing party all fees, costs and expenses of enforcing any right of such prevailing party under or with respect to this Agreement, including without limitation, such reasonable fees and expenses of attorneys and accountants, which shall include, without limitation, all fees, costs and expenses of appeals.

(m) Remedies. All remedies afforded to any party by law or contract, shall be cumulative and not alternative and are in addition to all other rights and remedies a party may have, including any right to equitable relief and any right to sue for damages as a result of a breach of this Agreement. Without limiting the foregoing, no exercise of a remedy shall be deemed an election excluding any other remedy.

(n) Consent of Spouse. If the Purchaser is married on the date of this Agreement, such Purchaser's spouse shall execute and deliver to the Company the Spousal Consent, effective on the date hereof. Notwithstanding the execution and delivery thereof, such consent shall not be deemed to confer or convey to the spouse any rights in such Purchaser's Securities that do not otherwise exist by operation of law or the agreement of the parties. If any Purchaser should marry or remarry subsequent to the date of this Agreement, such Purchaser shall within 30 days thereafter obtain his/her new spouse's acknowledgement of and consent to the existence and binding effect of all restrictions contained in this Agreement by causing such spouse to execute and deliver a Consent of Spouse acknowledging the restrictions and obligations contained in this Agreement and agreeing and consenting to the same.

The Purchaser, by his or her signature below, or by that of its authorized representative, confirms that Purchaser has carefully reviewed and understands this Agreement.

IN WITNESS WHEREOF, the Purchaser has executed this Agreement as of July __, 2013.

PURCHASER (if individual):

Signature

Name (*type or print*)

Signature of Co-Signer (*if any*)

Name of Co-Signer (*type or print*)

PURCHASER (if entity):

Name of Entity

By:

Name:

Its:

AGREED AND ACCEPTED as of _____, 2013.

IDEAL POWER INC.

By: _____
Paul Bundschuh
Chief Executive Officer

Subscription Amount (as accepted by the Company):

$_____

EXHIBIT A

COMPANY INFORMATION

We develop technologies and products that aim to improve key performance characteristics of electronic power converters and inverters including flexibility, efficiency, weight/installation cost, manufacturing cost and reliability. We have developed and patented an entirely new topology for electronic power inverters that uses software switching and 100% indirect power transfer, which we call Power Packet Switching Architecture™. Using our technology, all the power flows into and is temporarily stored in an AC link magnetic storage component. This means that our products provide isolation (grounding), but are significantly smaller and lighter than both transformer-based inverters and transformer-less inverters.

To date, our focus has been on developing our electronic power converter technology platform and validating our technology with early products. We currently manufacture and market two products, the 30kW photovoltaic (PV) inverter and the 30kW battery converter. These products have met the rigorous industry standards and have been purchased by leading commercial and government customers, including Johnson Controls, Sharp Labs of America, the U.S. Navy, the National Renewable Energy Laboratory (NREL) and National Aeronautics and Space Administration (NASA).

We are currently developing multi-port hybrid converters that may be integrated into PV, EV (electric vehicle) charging infrastructure, grid-storage, and micro-grids. These converters can increase the value of intermittent PV generation by providing dispatchable and backup power systems.

Though our plan is to ultimately generate revenues primarily by licensing our technology, we have begun by developing reference products to demonstrate the capabilities of our technologies. We are currently targeting three initial markets with our products: solar photovoltaic, grid storage and electric vehicle charging infrastructure. Once we become established in these markets, we expect to enter other power converter markets such as asynchronous generators for diesel and wind systems and variable frequency drives.

We were incorporated in Texas on May 17, 2007. On July 15, 2013 we moved the jurisdiction of our incorporation to Delaware. The address of our corporate headquarters is 5004 Bee Creek Road, Suite 600, Spicewood, Texas 78669 and our telephone number is (512) 264-1542. Our website can be accessed at www.idealpowerconverters.com. The information contained on or that may be obtained from our website is not, and shall not be deemed to be, a part of this Securities Purchase Agreement.

EXHIBIT B

SPOUSAL CONSENT

I, _____, spouse of _____, have read and hereby approve the foregoing Agreement. In consideration of the Company's granting my spouse the right to purchase the Securities as set forth in the Agreement, I hereby agree to be irrevocably bound by the Agreement and further agree that any community property or similar interest that I may have in the Securities shall be similarly bound by the Agreement. I hereby appoint my spouse as my attorney-in-fact with respect to any amendment or exercise of any rights under the Agreement.

_____

Spouse of _____

OR

I hereby represent and warrant that I am unmarried as of the date of this Agreement.

_____
Signature

EXHIBIT C

FORM OF NOTE

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY OTHER JURISDICTION. BY ACQUIRING THIS NOTE, THE HOLDER REPRESENTS THAT THE HOLDER WILL NOT SELL OR OTHERWISE DISPOSE OF THIS NOTE WITHOUT REGISTRATION OR COMPLIANCE WITH AN EXEMPTION FROM REGISTRATION UNDER THE AFORESAID ACTS AND THE RULES AND REGULATIONS THEREUNDER.

THE SECURITIES REPRESENTED HEREBY MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE TERMS OF A SECURITIES PURCHASE AGREEMENT BETWEEN THE COMPANY AND THE SECURITY HOLDER DATED JULY [___], 2013, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

IDEAL POWER INC.

SENIOR SECURED CONVERTIBLE PROMISSORY NOTE

$[_____] July [____], 2013

FOR VALUE RECEIVED, Ideal Power Inc. (the "Maker") hereby promises to pay to the order of [_____] or his successors or assigns (the "Holder") the principal amount of [_____] Dollars ($[_____]) (the "Principal Amount"). This Senior Secured Convertible Promissory Note shall be referred to herein as the "Note".

1. Purpose. This Note is made and delivered by the Maker to the Holder pursuant to the terms of that certain Securities Purchase Agreement, dated as of July [___], 2013 (the "Original Issue Date"), by and among the Maker, the Escrow Agent, the Holder, and the other Purchasers of the Maker's Notes (the "Purchase Agreement"). This Note is one of a series of substantially identical Notes issued by the Maker under the Purchase Agreement. All capitalized terms used and not defined herein shall have the meanings ascribed to them in the Purchase Agreement.

2. Interest. Interest on the Principal Amount from time-to-time remaining unpaid shall accrue from the date of this Note at the higher of: (i) the rate of one percent (1%) per annum, simple interest; or (ii) at the lowest rate that may accrue without causing the imputation of interest under the Internal Revenue Code. Interest shall be computed on the basis of a 360 day year and a 30 day month.

3. Maturity Date. All amounts payable hereunder shall be due and payable on the earlier to occur of (i) July [___], 2014 (the "Calendar Due Date"), (ii) the occurrence of an Event of Default (as defined below) or (iii) the closing of an IPO Financing (as defined below).

4. Method of Repayment.

4.1 Mandatory Conversion Upon Initial Public Offering. If, prior to the Calendar Due Date, the Maker closes a firm commitment underwritten initial public offering of its common stock that raises gross proceeds of at least $10 million (the "IPO Financing"), the amounts payable hereunder shall be repaid with shares of the Maker's Common Stock in accordance with the terms of paragraph 5.1 of this Note.

4.2 Other Optional Conversions. At any time after March 31, 2014 or sooner in the event that the Maker consummates a Change of Control, at the option of the Holder all amounts payable under this Note may be converted into shares of the Maker's Common Stock in accordance with Section 5.1 below. In the event of a conversion for any reason other than the closing of an IPO Financing or a Change of Control, this Note shall be converted into that number of shares of Common Stock determined by dividing (x) the Principal Amount and accrued interest by (y) the lower of (i) $1.46 or (ii) 0.70 of the per share consideration paid in the most recent Private Equity Financing to occur prior to the Holder's election (as appropriately adjusted to reflect stock dividends, stock splits, combinations, recapitalizations and the like with respect to the Maker's capital stock after the date hereof).

4.3 Repayment Election. If this Note is not repaid prior to the Calendar Due Date in accordance with paragraphs 4.1 or 4.2 above, or if, by the Calendar Due Date this Note is not cancelled and replaced in accordance with the terms of Section 5.8 below, the Holder may elect to be repaid on the Calendar Due Date in one of the following ways: (i) the Holder may elect to receive, and the Maker shall repay, all amounts payable hereunder in a lump sum, in lawful money of the United States, which payment shall be equal to the Principal Amount and all accrued interest or (ii) the Holder may elect to receive the lump sum payment in shares of the Maker's Common Stock in accordance with subparagraph 5.2 below.

4.4 Prepayment Right. The Maker has the right to prepay this Note in lawful money of the United States with the written consent of the Holder. If this Note is prepaid in lawful money of the United States prior to an IPO, the payment amount shall equal 110% of the Principal Amount.

5. Conversion of Note. The following provisions shall govern the conversion of any and all amounts due under this Note.

5.1 Conversion in Conjunction with an IPO Financing or a Change of Control. In the event of an IPO Financing which closes prior to the Calendar Due Date, the Note shall have a conversion price equal to the lower of 0.70 times the IPO Price or $1.46 (the "IPO Conversion Price"). The "IPO Price" means the price per share paid by public investors in the IPO, without regard to any underwriting discount or expense (as appropriately adjusted to reflect stock dividends, stock splits, combinations, recapitalizations and the like with respect to the Maker's capital stock after the date hereof). In the event of a Change of Control which closes prior to the Calendar Due Date, the Note shall have a conversion price equal to the lower of 0.70 times the per share consideration paid in the Change of Control transaction or $1.46 per share (the "Change of Control Price").

5.2 Conversion in Conjunction with an Election. In the event that the Holder elects to receive payment of this Note in shares of the Maker's Common Stock in accordance with subparagraph 4.3(ii) above, the Note shall have a conversion price equal to the lower of 0.70 times the price per share paid by investors in the most recent Private Equity Financing to occur prior to the Calendar Due Date or $1.46, after giving effect to adjustments that reflect stock dividends, stock splits, combinations, recapitalizations and the like with respect to the Maker's capital stock after the date hereof) (the "Private Financing Conversion Price").

5.3 Conversion Rate. The number of shares of Common Stock issuable upon conversion pursuant to subparagraphs 5.1 or 5.2 shall be determined by dividing (x) the Principal Amount and accrued interest (the "Conversion Amount") by (y) the IPO Conversion Price, the Change of Control Price, the Private Financing Conversion Price or $1.46, as applicable.

5.4 No Fractional Shares. The Maker shall not issue any fraction of a share of Common Stock upon any conversion. If the issuance would result in the issuance of a fraction of a share of Common Stock, the Maker shall round up such fraction of a share of Common Stock up to the nearest whole share. The Maker shall pay any and all transfer, stamp and similar taxes that may be payable with respect to the issuance and delivery of Common Stock upon conversion.

5.5 Mechanics of Conversion.

5.5.1 Conversion upon an IPO Financing or Change of Control. The closing of an IPO Financing or a Change of Control prior to the Calendar Due Date will be the "Conversion Date". Within 20 days of the Conversion Date, the Maker shall transmit to the Holder a certificate for the number of shares of Common Stock representing full repayment of the Conversion Amount on the Conversion Date, together with an explanation of the calculation. Upon receipt of such notice, the Holder shall surrender this Note to a common carrier for delivery to the Maker as soon as practicable on or following such date (or an indemnification undertaking with respect to this Note in the case of its loss, theft or destruction). The person or persons entitled to receive the shares of Common Stock issuable upon a conversion of this Note shall be treated for all purposes as the record holder or holders of such shares of Common Stock on the Conversion Date.

5.5.2 Voluntary Conversion. If this Note is voluntarily converted pursuant to paragraphs 4.2 or 4.3, the Holder shall give written notice to the Maker notifying the Maker of its election to convert. Before the Holder shall be entitled to voluntarily convert this Note, the Holder shall surrender this Note at the Maker's principal executive office, or, if this Note has been lost, stolen, destroyed or mutilated, then, in the case of loss, theft or destruction, the Holder shall deliver an indemnity agreement reasonably satisfactory in form and substance to the Maker (without the requirement of a bond) or, in the case of mutilation, the Holder shall surrender and cancel this Note. The Maker shall, as soon as practicable thereafter, issue and deliver to such Holder at such principal executive office a certificate or certificates for the number of shares of Common Stock to which the Holder shall be entitled upon such conversion (bearing such legends as are required by applicable state and federal securities laws in the opinion of counsel to the Maker), together with a replacement Note (if any principal amount or interest is not converted). Such conversion shall be deemed to have been made immediately prior to the close of business on the date of the surrender of this Note or the delivery of an indemnification agreement (or such later date requested by the Holder or such earlier date agreed to by the Maker and the Holder). The person or persons entitled to receive securities issuable upon such conversion shall be treated for all purposes as the record holder or holders of such securities on such date.

5.6 Reservation of Common Stock. Until the Notes are paid in full, the Maker shall at all times keep reserved for issuance under this Note a number of shares of Common Stock as shall be necessary to satisfy the Maker's obligation to issue shares of Common Stock hereunder (without regard to any limitation otherwise contained herein with respect to the number of shares of Common Stock that may be acquirable upon exercise of this Note). If, notwithstanding the foregoing, and not in limitation thereof, at any time while any of the Notes remain outstanding the Maker does not have a sufficient number of authorized and unreserved shares of Common Stock to satisfy its obligation to reserve for issuance upon exercise of the Notes at least a number of shares of Common Stock equal to the number of shares of Common Stock as shall from time to time be necessary to effect the exercise of the Notes then outstanding (the "Required Reserve Amount") (an "Authorized Share Failure"), then the Maker shall immediately take all action necessary to increase the Maker's authorized shares of Common Stock to an amount sufficient to allow the Maker to maintain the Required Reserve Amount for all the Notes then outstanding. Without limiting the generality of the foregoing sentence, as soon as practicable after the date of the occurrence of an Authorized Share Failure, but in no event later than 60 days after the occurrence of such Authorized Share Failure, the Company shall hold a meeting of its shareholders for the approval of an increase in the number of authorized shares of Common Stock. In connection with such meeting, the Maker shall provide each shareholder with a proxy statement and shall use its best efforts to solicit its shareholders' approval of such increase in authorized shares of Common Stock and to cause its board of directors to recommend to the shareholders that they approve such proposal.

5.7 Adjustments. The Conversion Price and number and kind of shares or other securities to be issued upon conversion determined pursuant to Section 5 hereof, shall be subject to adjustment from time to time upon the happening of certain events while this conversion right remains outstanding, as follows:

5.7.1 Merger, Sale of Assets, etc. If the Maker at any time shall consolidate with or merge into or sell or convey all or substantially all its assets to any other corporation, this Note, as to the unpaid Principal Amount thereof and accrued interest thereon, shall thereafter be deemed to evidence the right to purchase such number and kind of shares or other securities and property as would have been issuable or distributable on account of such consolidation, merger, sale or conveyance, upon or with respect to the securities subject to the conversion or purchase right immediately prior to such consolidation, merger, sale or conveyance. The foregoing provision shall similarly apply to successive transactions of a similar nature by any such successor or purchaser. Without limiting the generality of the foregoing, the anti-dilution provisions of this Section shall apply to such securities of such successor or purchaser after any such consolidation, merger, sale or conveyance.

5.7.2 Reclassification, etc. If the Maker at any time shall, by reclassification or otherwise, change the Common Stock into the same or a different number of securities of any class or classes that may be issued or outstanding, this Note, as to the unpaid principal portion thereof and accrued interest thereon, shall thereafter be deemed to evidence the right to purchase an adjusted number of such securities and kind of securities as would have been issuable as the result of such change with respect to the Common Stock immediately prior to such reclassification or other change.

5.7.3 Notice of Adjustment. Whenever the applicable Conversion Price is adjusted pursuant to this Section 5.7, the Maker shall promptly mail to the Holder a notice setting forth the applicable Conversion Price after such adjustment and setting forth a statement of the facts requiring such adjustment.

5.8 Consent Required for Certain Corporate Actions. Without the consent of at least a majority in interest of the Holders of the Notes (including the holders of the senior secured convertible promissory notes sold by the Maker on August 31, 2012 in the total principal amount of $750,000 (the "August 2012 Notes") and holders of the senior secured convertible promissory notes sold by the Maker on November 21, 2012 in the total principal amount of $3,250,000 (the "November 2012 Notes")), the Maker will not enter into any transaction that results in a merger, sale of assets or other corporate reorganization or acquisition; results in the distribution of a dividend or the repurchase of outstanding shares of Common Stock (except in accordance with the provisions of the Company's equity incentive plan); causes a liquidation proceeding or bankruptcy proceeding; results in a change to the Company's corporate status; or results in the incurrence of debt outside of normal trade debt. For purposes of this Section 5.8 only, the term "normal trade debt" will include the payment of legal fees to the law firm of Richardson & Patel LLP with one or more promissory notes.

6. Registration; Book-Entry. The Company shall maintain a register (the "Register") for the recordation of the names and addresses of the holders of each Note and the Principal Amount of the Notes held by such holders (the "Registered Notes"). The entries in the Register shall be conclusive and binding for all purposes absent manifest error. The Maker and the holders of the Notes shall treat each person whose name is recorded in the Register as the owner of a Note for all purposes, including, without limitation, the right to receive payments of the Principal Amount and interest, if any, hereunder, notwithstanding notice to the contrary. A Registered Note may be assigned or sold in whole or in part only in accordance with the terms of paragraph 12.3 of this Note and by registration of such assignment or sale on the Register.

7. Defaults; Remedies.

7.1 Events of Default. The occurrence of any one or more of the following events shall constitute an event of default hereunder (each, an "Event of Default"):

7.1.1 The Maker fails to make any payment when due under this Note;

7.1.2 The Maker fails to observe and perform any of its covenants or agreements on its part to be observed or performed under the Purchase Agreement or any other Transaction Document, and such failure shall continue for more than 20 days after notice of such failure has been delivered to the Maker;

7.1.3 Any representation or warranty made by the Maker in the Purchase Agreement or any other Transaction Document is untrue in any material respect as of the date of such representation or warranty except, in the case of a breach of a covenant which is curable, only if such breach continues for a period of at least 10 consecutive Business Days;

7.1.4 The Maker admits in writing its inability to pay its debts generally as they become due, files a petition in bankruptcy or a petition to take advantage of any insolvency act, makes an assignment for the benefit of its creditors, consents to the appointment of a receiver of itself or of the whole or any substantial part of its property, on a petition in bankruptcy filed against it be adjudicated a bankrupt, or files a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any State thereof;

7.1.5 A court of competent jurisdiction enters an order, judgment, or decree appointing, without the consent of the Maker, a receiver of the Maker or of the whole or any substantial part of its property, or approving a petition filed against the Maker seeking reorganization or arrangement of the Maker under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any State thereof, and such order, judgment, or decree shall not be vacated or set aside or stayed within 60 days from the date of entry thereof;

7.1.6 Any court of competent jurisdiction assumes custody or control of the Maker or of the whole or any substantial part of its property under the provisions of any other law for the relief or aid of debtors, and such custody or control is not be terminated or stayed within 60 days from the date of assumption of such custody or control;

7.1.7. The Notes shall cease to be, or be asserted by the Maker not to be, a legal, valid and binding obligation of the Maker enforceable in accordance with their terms;

7.1.8 A judgment or judgments for the payment of money aggregating in excess of $75,000 are rendered against the Maker which judgments are not, within 60 days after the entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within 60 days after the expiration of such stay; provided, however, that any judgment which is covered by insurance or an indemnity from a credit worthy party shall not be included in calculating the $75,000 amount set forth above so long as the Maker provides the Holder a written statement from such insurer or indemnity provider (which written statement shall be reasonably satisfactory to the Holder) to the effect that such judgment is covered by insurance or an indemnity and the Maker will receive the proceeds of such insurance or indemnity within 30 days of the issuance of such judgment;

7.1.9 Any Event of Default occurs with respect to any of the Notes or with respect to any of the August 2012 Notes or November 2012 Notes;

7.1.10 A default by the Maker under any one or more obligations in an aggregate monetary amount in excess of $50,000 for more than 30 days after the due date, unless the Maker is contesting the validity of such obligation in good faith and has segregated cash funds equal to not less than one-half of the disputed amount;

7.1.11 A default by the Maker under the Texas Emerging Technology Fund Award and Security Agreement dated October 1, 2010 or the Investment Unit dated October 1, 2010, each between the Maker and the Office of the Governor Economic Development and Tourism of the State of Texas, which default continues for more than 30 days after notice of such default has been delivered to the Maker;

7.1.12 The Maker fails to deliver the shares of Common Stock to the Holder pursuant to and in the form required by this Note or, if required, a replacement Note more than five Business Days after the required delivery date of such Common Stock or Note;

7.1.13 The Maker fails to have reserved for issuance upon conversion of the Note the amount of Common Stock as set forth in this Note; or

7.1.14 The security interest created in the Collateral, as defined in the Security Agreement, is not a perfected first lien.

7.2 Notice by the Maker. The Maker shall notify the Holder in writing as soon as reasonably practicable but in no event more five days after the occurrence of any Event of Default of which the Maker acquires knowledge.

7.3 Remedies. Upon the occurrence of any Event of Default, all other sums due and payable to the Holder under this Note shall, at the option of the Holder, become due and payable immediately without presentment, demand, notice of nonpayment, protest, notice of protest, or other notice of dishonor, all of which are hereby expressly waived by the Maker. Any payment under this Note (i) not paid within 10 days following the Calendar Due Date or (ii) due immediately following acceleration by the Holder shall bear interest at the rate of 15% from the date of the Note until paid, subject to paragraph 7.5. To the extent permitted by law, the Maker waives the right to and stay of execution and the benefit of all exemption laws now or hereafter in effect. In addition to the foregoing, upon the occurrence of any Event of Default, the Holder may forthwith exercise singly, concurrently, successively, or otherwise any and all rights and remedies available to the Holder by law, equity, or otherwise.

7.4 Remedies Cumulative, etc. No right or remedy conferred upon or reserved to the Holder under this Note, or now or hereafter existing at law or in equity or by statute or other legislative enactment, is intended to be exclusive of any other right or remedy, and each and every such right or remedy shall be cumulative and concurrent, and shall be in addition to every other such right or remedy, and may be pursued singly, concurrently, successively, or otherwise, at the sole discretion of the Holder, and shall not be exhausted by any one exercise thereof but may be exercised as often as occasion therefor shall occur. No act of the Holder shall be deemed or construed as an election to proceed under any one such right or remedy to the exclusion of any other such right or remedy; furthermore, each such right or remedy of the Holder shall be separate, distinct, and cumulative and none shall be given effect to the exclusion of any other.

7.5 Usury Compliance. All agreements between the Maker and the Holder are expressly limited, so that in no event or contingency whatsoever, whether by reason of the consideration given with respect to this Note, the acceleration of maturity of the unpaid Principal Amount and interest thereon, or otherwise, shall the amount paid or agreed to be paid to the Holder for the use, forbearance, or detention of the indebtedness which is the subject of this Note exceed the highest lawful rate permissible under the applicable usury laws. If, under any circumstances whatsoever, fulfillment of any provision of this Note shall involve transcending the highest interest rate permitted by law which a court of competent jurisdiction deems applicable, then the obligations to be fulfilled shall be reduced to such maximum rate, and if, under any circumstances whatsoever, the Holder shall ever receive as interest an amount that exceeds the highest lawful rate, the amount that would be excessive interest shall be applied to the reduction of the unpaid Principal Amount under this Note and not to the payment of interest, or, if such excessive interest exceeds the unpaid balance of the Principal Amount under this Note, such excess shall be refunded to the Maker. This provision shall control every other provision of all agreements between the Maker and the Holder.

8. Replacement of Note. Upon receipt by the Maker of evidence satisfactory to it of the loss, theft, destruction, or mutilation of this Note and (in case of loss, theft, or destruction) of indemnity satisfactory to it, and upon surrender and cancellation of this Note, if mutilated, the Maker will make and deliver a new Note of like tenor in lieu of this Note.

9. Intentionally omitted.

10. Maker's Covenants.

10.1 Rank. All payments due under this Note (a) shall rank pari passu with all other Notes, including the August 2012 Notes and the November 2012 Notes and (b) shall be senior to all other indebtedness of the Maker.

10.2 Security. This Note and the other Notes are secured to the extent and in the manner set forth in the Security Agreement of even date herewith.

10.3 Existence of Liens. So long as this Note is outstanding, the Maker shall not, and the Maker shall not permit any of its subsidiaries (if any) to, directly or indirectly, allow or suffer to exist any mortgage, lien, pledge, charge, security interest or other encumbrance upon or in any property or assets (including accounts and contract rights) owned by the Maker or any of its subsidiaries (collectively, "Liens") other than Permitted Liens.

10.4 Restricted Payments. The Maker shall not, and the Maker shall not permit any of its subsidiaries (is any) to, directly or indirectly, redeem, defease, repurchase, repay or make any payments in respect of, by the payment of cash or cash equivalents (in whole or in part, whether by way of open market purchases, tender offers, private transactions or otherwise), all or any portion of any indebtedness, whether by way of payment in respect of principal of (or premium, if any) or interest on, such indebtedness if at the time such payment is due or is otherwise made or, after giving effect to such payment, an event constituting, or that with the passage of time and without being cured would constitute, an Event of Default has occurred and is continuing.

10.5 Valid Issuance of Securities. The Maker covenants that the securities issuable upon the conversion of this Note will, upon conversion of this Note, be validly issued, fully paid and nonassessable and free from all taxes, liens and charges in respect of the issue thereof.

10.6 Timely Notice. The Maker shall deliver to the Holder at least 10 days' advance written notice of (i) a proposed financing which would permit the Holder to convert the Principal Amount, accrued interest, and any other amount due under this Note in accordance with paragraph 4.3 or (ii) a proposed Change of Control, provided that the Holder agrees to be bound by any applicable confidentiality agreement or agreements as the Maker reasonably shall deem necessary or appropriate.

11. Certain Definitions.

11.1 "Business Days" shall mean any day that is not a Saturday, Sunday or a federal holiday.

11.2 "Change of Control" means any liquidation, dissolution or winding up of the Maker, either voluntary or involuntary, and shall be deemed to be occasioned by, or to include, (i) the acquisition of the Maker by another entity by means of any transaction or series of related transactions (including, without limitation, any stock acquisition, reorganization, merger or consolidation) unless the Maker's shareholders of record as constituted immediately prior to such acquisition or sale will, immediately after such acquisition or sale (by virtue of securities issued as consideration for the Maker's acquisition or sale or otherwise) hold at least a majority of the voting power of the surviving or acquiring entity, or its direct or indirect parent entity (except that any bona fide equity or debt financing transaction for capital raising purposes shall not be deemed a Change of Control for this purpose) or (ii) a sale, exclusive license or other disposition of all or substantially all of the assets of the Maker, including a sale, exclusive license or other disposition of all or substantially all of the assets of the Maker's subsidiaries, if such assets constitute substantially all of the assets of the Maker and such subsidiaries taken as a whole.

11.3 "Permitted Liens" shall have the meaning included in the Security Agreement of even date herewith.

12. Amendments, Waivers, and Consents.

12.1 Amendment and Waiver by the Holders. The Notes, including this Note, may be amended, modified, or supplemented, and waivers or consents to departures from the provisions of the Notes may be given, if the Maker and holders of an aggregate majority of the Principal Amount of the Notes then outstanding, consent to the amendment; provided, however, that no term of this Note may be amended or waived in such a way as to adversely affect the Holder disproportionately to the holder or holders of any other Notes without the written consent of the Holder and neither the principal balance or interest rate of the Note may be amended or modified without the consent of the Holder. Such consent may not be effected orally, but only by a signed statement in writing. Any such amendment or waiver shall apply to and be binding upon the Holder of this Note, upon each future holder of this Note, and upon the Maker, whether or not this Note shall have been marked to indicate such amendment or waiver. No such amendment or waiver shall extend to or affect any obligation not expressly amended or waived or impair any right consequent thereon.

12.2 Severability. In the event that for any reason one or more of the provisions of this Note or their application to any person or circumstance shall be held to be invalid, illegal, or unenforceable in any respect or to any extent, such provision shall nevertheless remain valid, legal, and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality, or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal, or unenforceable provision had never been contained herein.

12.3 Assignment; Binding Effect. The Maker may not assign this Note without the prior written consent of the Holder. Any attempted assignment in violation of this Section 12.3 shall be null and void. Subject to the foregoing, this Note inures to the benefit of the Holder, its successors and assigns, and binds the Maker, and their respective successors and permitted assigns, and the words "Holder" and "Maker" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

12.4 Notice Generally. All notices required to be given to any of the parties hereunder shall be given as set forth in the Purchase Agreement.

12.5 Governing Law; Jurisdiction; Jury Trial. This Note shall be construed and enforced in accordance with, and all questions concerning the construction, validity, interpretation and performance of this Note shall be governed by, the internal laws of the State of New York, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of New York or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of New York. The Maker hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in The City of New York, Borough of Manhattan, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. The Maker hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address it set forth on the signature page hereto and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. In the event that any provision of this Note is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of this Note. Nothing contained herein shall be deemed or operate to preclude the Holder from bringing suit or taking other legal action against the Maker in any other jurisdiction to collect on the Maker's obligations to the Holder, to realize on any collateral or any other security for such obligations, or to enforce a judgment or other court ruling in favor of the Holder. THE MAKER HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION WITH OR ARISING OUT OF THIS NOTE OR ANY TRANSACTION CONTEMPLATED HEREBY. **This Note shall be deemed an unconditional obligation of Maker for the payment of money and, without limitation to any other remedies of Holder, may be enforced against Maker by summary**

proceeding pursuant to New York Civil Procedure Law and Rules Section 3213 or any similar rule or statute in the jurisdiction where enforcement is sought. For purposes of such rule or statute, any other document or agreement to which Holder and Maker are parties or which Maker delivered to Holder, which may be convenient or necessary to determine Holder's rights hereunder or Maker's obligations to Holder are deemed a part of this Note, whether or not such other document or agreement was delivered together herewith or was executed apart from this Note.

12.6 Section Headings, Construction. The headings of paragraphs in this Note are provided for convenience only and will not affect its construction or interpretation. All words used in this Note will be construed to be of such gender or number as the circumstances require. Unless otherwise expressly provided, the words "hereof" and "hereunder" and similar references refer to this Note in its entirety and not to any specific section or subsection hereof.

12.7 Payment of Collection, Enforcement and Other Costs. If (a) this Note is placed in the hands of an attorney for collection or enforcement or is collected or enforced through any legal proceeding or the Holder otherwise takes action to collect amounts due under this Note or to enforce the provisions of this Note, or (b) there occurs any bankruptcy, reorganization, receivership of the Maker or other proceedings affecting the Maker's creditors' rights and involving a claim under this Note, then the Maker shall pay the costs incurred by the Holder for such collection, enforcement or action or in connection with such bankruptcy, reorganization, receivership or other proceeding, including, but not limited to, attorneys' fees and disbursements.

12.8 Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to the Holder, upon any breach or default of the Maker under this Note shall impair any such right, power, or remedy of the Holder nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default therefore or thereafter occurring. Any waiver, permit, consent, or approval of any kind or character on the part of the Holder of any breach or default under this Note or any waiver on the part of the Holder of any provisions or conditions of this Note must be made in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Note or by law or otherwise afforded to the Holders, shall be cumulative and not alternative.

[EXECUTION PAGE FOLLOWS]

IN WITNESS WHEREOF, Ideal Inc. has caused this Senior Secured Convertible Promissory Note to be executed and delivered on the date set forth above on the cover page of this Note.

IDEAL POWER INC.

By: _____
Paul Bundschuh, Chief Executive Officer

By: _____
Barry Loder, Chief Financial Officer

EXHIBIT D

FORM OF WARRANT

No. D-1 Issue Date: July [___], 2013

THIS WARRANT AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT TO THE SECURITIES UNDER SUCH ACT AND/OR APPLICABLE STATE SECURITIES LAWS,OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED OR UNLESS SOLD PURSUANT TO RULE 144 OF SUCH ACT.

THE SECURITIES REPRESENTED HEREBY MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE TERMS OF A SECURITIES PURCHASE AGREEMENT BETWEEN THE COMPANY AND THE SECURITY HOLDER DATED JULY [___], 2013, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

IDEAL POWER INC.
STOCK PURCHASE WARRANT

THIS CERTIFIES that _____ (the "***Holder***") is entitled, upon the terms and subject to the conditions hereinafter set forth in this Warrant (this "***Warrant***"), at any time on or after (except as otherwise limited below) the date of the applicable event specified in Section 2 below setting forth the Exercise Price and on or prior to the Expiration Date, but not thereafter, to subscribe for and to purchase from Ideal Power Inc., a Delaware corporation (the "***Company***"), shares of the Company's common stock, $0.001 par value (the "***Common Stock***").

This Warrant is issued pursuant to a Securities Purchase Agreement and in connection with the issuance to the Holder of a Convertible Promissory Note (the "***Note***") of even date herewith, and is one of the Warrants (collectively, the "***Warrants***") being issued in connection with the issuance of a series of Senior Secured Convertible Promissory Notes of like tenor (collectively, "***Notes***") being issued by the Company to raise interim financing of up to $750,000 (the "***Offering***"). Capitalized terms used herein, but not otherwise defined, shall have the meanings ascribed to such terms in the Securities Purchase Agreement.

The following is a statement of the rights of the Holder of this Warrant and the conditions to which this Warrant is subject, to which the Holder, by the acceptance of this Warrant, agrees:

1. **Certain Definitions**

1.1 "***Calendar Due Date***" means July ___, 2014.

1.2 "***Change of Control***" means any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, and shall be deemed to be occasioned by, or to include, (i) the acquisition of the Company by another entity by means of any transaction or series of related transactions (including, without limitation, any stock acquisition, reorganization, merger or consolidation) unless the Company's shareholders of record as constituted immediately prior to such acquisition or sale will, immediately after such acquisition or sale (by virtue of securities issued as consideration for the Company's acquisition or sale or otherwise) hold at least a majority of the voting power of the surviving or acquiring entity, or its direct or indirect parent entity (except that the sale by the Company of shares of its capital stock to investors in bona fide equity financing transactions shall not be deemed a Change of Control for this purpose) or (ii) a sale, exclusive license or other disposition of all or substantially all of the assets of the Company, including a sale, exclusive license or other disposition of all or substantially all of the assets of the Company's subsidiaries, if such assets constitute substantially all of the assets of the Company and such subsidiaries taken as a whole.

1.3 "***Exercise Price***" is defined in Section 2 below.

1.4 "***Expiration Date***" means that date that is seven years after the issue date set forth above, provided, however, if the Company closes the IPO after the fifth anniversary date of the deemed issue date but prior to the Expiration Date, then the Expiration Date shall be extended for an additional five years following the close of the IPO.

1.5 "***IPO***" means a firm commitment underwritten initial public offering of the Company's Common Stock pursuant to a registration statement declared effective by the Securities and Exchange Commission which closes before the Calendar Due Date and results in gross proceeds to the Company of at least $10 million.

1.6 "***IPO Price***" means the price per share of the Company's Common Stock offered to public investors in an IPO, without regard to any underwriting discount or expense (as appropriately adjusted to reflect stock dividends, stock splits, combinations, recapitalizations and the like with respect to the Company's capital stock after the date hereof).

1.7 "***Private Equity Financing***" means a privately marketed equity financing resulting in gross proceeds in excess of $250,000 which closes before the Calendar Due Date; provided, however, that none of the following issuances of securities shall constitute a "Private Equity Financing": (i) the Offering and any subsequent offerings of senior secured convertible promissory notes or any other debt offering; (ii) securities issued without consideration in connection with any stock split or stock dividend on, the Company's Common Stock; (iii) securities issued to the Company's employees, officers, directors, consultants, advisors or service providers pursuant to any plan, agreement or similar arrangement unanimously approved by the Company's board of directors; (iv) securities issued to banks or equipment lessors; (v) securities issued in connection with sponsored research, collaboration, technology license, development, original equipment manufacturing (OEM), marketing or other similar agreements or strategic partnerships; (vi) securities issued in connection with a bona fide business acquisition of or by the Company (whether by merger, consolidation, sale of assets, sale or exchange of stock or otherwise); (vii) the Investment Unit dated October 1, 2010, issued by the Company to the Office of the Governor Economic Development and Tourism, and any securities relating to the conversion or exercise thereof; or (viii) any right, option or warrant to acquire any security convertible into or exercisable for the securities listed in clauses (i) through (vii) above.

1.8 "***Private Equity Financing Price***" means the price per share of Common Stock paid by investors in the Private Equity Financing, which shall be determined by dividing (a) the total consideration received or to be received by each investor assuming exercise in full of all warrants or similar securities, divided by (b) the total number of shares of Common Stock acquirable either directly or by conversion or exercise of instruments, by the Holder, on a fully diluted basis.

1.9 "***Shares***" means the shares of Common Stock issuable under this Warrant, computed in accordance with Section 2 below.

2. **Number of Shares and Exercise Price**

The number of shares of Common Stock (the "***Shares***") covered by this Warrant and the per share Exercise Price shall be determined as follows (subject to appropriate adjustments pursuant to Section 10):

(i) in the event of an IPO that occurs prior to the Calendar Due Date, one-half the principal amount of the Holder's Note divided by the lower of 0.70 of the IPO Price or $1.46 shall determine the number of shares covered by the Warrant while the per-share exercise price shall be equal to the lower of 0.70 times the IPO Price or $1.46, in which case this Warrant will become exercisable; or

(ii) in the event of a Private Equity Financing that occurs prior to the Calendar Due Date, one-half of the principal amount of the Holder's Note divided by the lower of 0.70 of the Private Equity Financing Price or $1.46 shall determine the number of shares covered by the Warrant, with a per-share exercise price equal to the lower of 0.70 times the Private Equity Financing Price or $1.46, in which case this Warrant will become exercisable; provided, however, that (A) if the Company undertakes first, a Private Equity Financing and secondly, an IPO prior to the Calendar Due Date and (B) the Private Equity Financing Price is higher than the IPO Price, then the number of shares of Common Stock covered by the Warrant and the per share exercise price shall be adjusted to equal the number of shares of Common Stock and the exercise price calculated in accordance with subsection (i) above; or

(iii) If the Company does not undertake either a Private Equity Financing or an IPO prior to the Calendar Due Date, then the number of Shares covered by this Warrant shall equal one-half the original principal amount of the Holder's Note divided by $1.46, and the exercise price shall be $1.46 per share, in which case this Warrant will become exercisable.

3. **Exercise of Warrant**

3.1 The purchase rights represented by this Warrant are exercisable by the Holder, in whole or in part, by the surrender of this Warrant and the Notice of Exercise annexed hereto duly executed at the Company's principal executive office (or such other office or agency of the Company as it may designate by notice in writing to the Holder at the address of the Holder appearing on the books of the Company), and upon payment of the aggregate Exercise Price of the Shares thereby purchased (by cash or by check or bank draft payable to the order of the Company); whereupon the Holder shall be entitled to receive a certificate for the number of Shares so purchased. The Company agrees that if at the time of the surrender of this Warrant and purchase of the Shares, the Holder shall be entitled to exercise this Warrant, the Shares so purchased shall be issued to the Holder as the record owner of such Shares as of the close of business on the date on which this Warrant shall have been exercised as aforesaid or on such later date requested by the Holder or on such earlier date agreed to by the Holder and the Company.

3.2 In lieu of exercising this Warrant by payment of cash or check or bank draft payable to the order of the Company pursuant to subsection 0 above, the Holder may elect to receive Shares equal to the value of this Warrant (or the portion thereof being exercised), at any time after the date hereof and before the close of business on the Expiration Date, by surrender of this Warrant at the principal executive office of the Company, together with the Notice of Cashless Exercise annexed hereto, in which event the Company will issue to the Holder Shares in accordance with the following formula:

$$X = \frac{Y(A-B)}{A}$$

Where,

X	=	The number of Shares to be issued to Holder;
Y	=	The number of Shares for which the Warrant is being exercised;
A	=	The fair market value of one Share; and
B	=	The Exercise Price.

(a) For purposes of this subsection 0, the fair market value of a Share is defined as follows:

(i) if the Holder exercises within three days of the closing of the IPO, then the fair market value shall be the IPO Price;

(ii) if the Holder exercises after receipt of a notice of a Change of Control but before a Change of Control, then the fair market value shall be the value to be received in such Change of Control by the holders of the Company's Common Stock;

(iii) if the exercise occurs more than three days after the closing of the IPO, and:

(1) if the Common Stock is traded on a securities exchange or the Nasdaq Stock Market, the fair market value shall be the last sale price on the trading day immediately prior to the Company's receipt of the Notice of Conversion or, if no sale of the Company's Common Stock took place on the trading day immediately prior to the receipt of the Notice of Conversion, then the fair market value shall be the last sale price on the most recent day prior to the receipt of the Notice of Conversion on which trades were made and reported; or

(2) if the Common Stock is traded over-the-counter, the value shall be deemed to be the last sale price on the trading day immediately prior to the Company's receipt of the Notice of Conversion or, if no sale of the Company's Common Stock took place on the trading day immediately prior to the receipt of the Notice of Conversion, then the fair market value shall be the last sale price on the most recent day prior to the receipt of the Notice of Conversion on which trades were made and reported;

(iv) if there is no active public market for the Common Stock, the fair market value thereof shall be determined in good faith by the Company's Board of Directors.

3.3 The exercise or conversion of this Warrant in connection with a Change of Control may, at the election of the Holder, be conditioned upon the closing of such Change of Control, in which event the Holder shall not be deemed to have exercised or converted this Warrant until immediately prior to the closing of such Change of Control.

4. **Nonassessable**

The Company covenants that all Shares which may be issued upon the exercise of this Warrant will be validly issued, fully paid and nonassessable and free from all taxes, liens and charges in respect of the issue thereof. Certificates for Shares purchased hereunder shall be delivered to the Holder promptly after the date on which this Warrant shall have been exercised.

5. **Fractional Shares**

No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. With respect to any fraction of a share called for upon the exercise of this Warrant, such fractional share shall be rounded down to the nearest whole share, and the Company shall pay to the Holder the amount of such fractional share multiplied by an amount equal to such fraction multiplied by the then current fair market value (determined in accordance with Section 0) of a Share shall be paid in cash to the Holder.

6. **Charges, Taxes and Expenses**

Issuance of certificates for Shares upon the exercise of this Warrant shall be made without charge to the Holder hereof for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the Holder.

7. **No Rights as Shareholders**

This Warrant does not entitle the Holder to any voting rights or other rights as a shareholder of the Company prior to the exercise hereof.

8 **Saturdays, Sundays, Holidays, Etc.**

If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday, a Sunday or a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day that is not a Saturday, Sunday or legal holiday.

9. **Intentionally Omitted**

10. **Adjustments**

The Exercise Price and the number of Shares purchasable hereunder are subject to adjustment from time to time as set forth in this Section 10.

10.1 Reclassification, etc. If the Company, at any time while this Warrant, or any portion hereof, remains outstanding and unexpired by reclassification of securities or otherwise, shall change any of the securities as to which purchase rights under this Warrant exist into the same or a different number of securities or any other class or classes, this Warrant shall thereafter represent the right to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities that were subject to the purchase rights under this Warrant immediately prior to such reclassification or other change and the Exercise Price therefor shall be appropriately adjusted, all subject to further adjustment as provided in this Section 10.

10.2 Subdivision or Combination of Shares. In the event that the Company shall at any time subdivide the outstanding securities as to which purchase rights under this Warrant exist, or shall issue a stock dividend on the securities as to which purchase rights under this Warrant exist, the number of securities as to which purchase rights under this Warrant exist immediately prior to such subdivision or to the issuance of such stock dividend shall be proportionately increased, and the Exercise Price shall be proportionately decreased, and in the event that the Company shall at any time combine the outstanding securities as to which purchase rights under this Warrant exist, the number of securities as to which purchase rights under this Warrant exist immediately prior to such combination shall be proportionately decreased, and the Exercise Price shall be proportionately increased, effective at the close of business on the date of such subdivision, stock dividend or combination, as the case may be.

10.3 Cash Distributions. No adjustment on account of cash dividends or interest on the securities as to which purchase rights under this Warrant exist will be made to the Exercise Price under this Warrant.

11. **Notice of Certain Events**

The Company will provide notice to the Holder with at least 20 days notice prior to the closing of a Change of Control or an IPO. Such notice shall be in accordance with the notice provision included at Section 12(e) of the Securities Purchase Agreement of even date herewith.

12. **Purchase Rights; Fundamental Transactions**

In addition to any adjustments pursuant to Section 10 above, if at any time the Company grants, issues or sells any options, convertible securities or rights to purchase stock, warrants, securities or other property pro rata to the record holders of Common Stock ("Purchase Rights"), then the Holder will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the Holder could have acquired if the Holder had held the number of shares of Common Stock acquirable upon complete exercise of this Warrant immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights.

13. **Put Right**

In conjunction with the Offering, the Holder has received certain registration rights relating to the Shares pursuant to the terms of a Registration Rights Agreement of even date herewith. If the right to have the Shares registered pursuant to the Registration Rights Agreement terminates in accordance with Section 2(f) of the Registration Rights Agreement (the "Registration Rights Termination"), the Holder will have the right to require the Company to purchase the Warrant from the Holder (the "Put Right") at a price equal to 20% of the principal amount of the Holder's Note (the "Put Price"). The Company shall pay the Holder the Put Price as promptly as practicable but in any event not later than 10 days after the Holder delivers notice to the Company of exercise of the Put Right. The Put Right will expire 12 months from the Registration Rights Termination.

14. **Miscellaneous**

14.1 Loss, Theft, Destruction or Mutilation of Warrant. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, delivery of an indemnity agreement reasonably satisfactory in form and substance to the Company or, in the case of mutilation, on surrender and cancellation of this Warrant, the Company shall execute and deliver, in lieu of this Warrant, a new Warrant executed in the same manner as this Warrant and of like tenor and amount.

14.2 Waivers and Amendments. This Warrant and the obligations of the Company and the rights of the Holder under this Warrant may be amended, waived, discharged or terminated (either generally or in a particular instance, either retroactively or prospectively and either for a specified period of time or indefinitely) with the written consent of the Company (which shall not be required in connection with a waiver of rights in favor of the Company) and the holders of at least a majority of the then-outstanding aggregate principal amount under the Notes; *provided*, *however*, that no such amendment or waiver shall reduce the number of Shares represented by this Warrant without the consent of the Holder hereof; and *provided further, however*, that nothing shall prevent the Holder from individually agreeing to waive the observation of any term of this Warrant. Any amendment, waiver, discharge or termination effected in accordance with this Section14.2 shall be binding upon the Company, the Holder, and except pursuant to a waiver by an individual holder of another Warrant pursuant to the final proviso in the immediately preceding sentence, each other holder of Warrants.

14.3 Notices. Any notice, request or other communication required or permitted hereunder shall be given in accordance with the Purchase Agreement.

14.4 Severability. If one or more provisions of this Warrant are held to be unenforceable under applicable law, such provision(s) shall be excluded from this Warrant and the balance of this Warrant shall be interpreted as if such provision(s) were so excluded and shall be enforceable in accordance with its terms.

14.5 Successors and Assigns. Neither this Warrant nor any rights hereunder are transferable without the prior written consent of the Company. Notwithstanding the foregoing, the Holder shall be permitted to transfer this Warrant to any affiliate (as that term is defined in the Securities Act of 1933) of the Holder. If a transfer is permitted pursuant to this Section, the transfer shall be recorded on the books of the Company upon the surrender of this Warrant, properly endorsed, to the Company at its principal offices, and the payment to the Company of all transfer taxes and other governmental charges imposed on such transfer. In the event of a partial transfer, the Company shall issue to the holders one or more appropriate new warrants. Subject to the foregoing, the provisions of this Warrant shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the Company and the Holder.

14.6 Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to the Holder, upon any breach or default of the Company under this Warrant shall impair any such right, power, or remedy of the Holder nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default therefore or thereafter occurring. Any waiver, permit, consent, or approval of any kind or character on the part of the Holder of any breach or default under this Warrant or any waiver on the part of the Holder of any provisions or conditions of this Warrant must be made in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Warrant or by law or otherwise afforded to the Investors, shall be cumulative and not alternative.

14.7 Titles and Subtitles. The titles of the paragraphs and subparagraphs of this Warrant are for convenience of reference only and are not to be considered in construing this Warrant.

14.8 Construction. The language used in this Warrant will be deemed to be the language chosen by the parties to express their mutual intent and no rules of strict construction will be applied against any party.

14.9 Governing Law. THIS WARRANT SHALL BE GOVERNED IN ALL RESPECTS BY THE LAWS OF THE STATE OF NEW YORK AS SUCH LAWS ARE APPLIED TO AGREEMENTS BETWEEN NEW YORK RESIDENTS ENTERED INTO AND TO BE PERFORMED ENTIRELY WITHIN NEW YORK.

[*Remainder of Page Intentionally Left Blank*]

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer thereunto duly authorized.

Ideal Power Inc.

By: _____
Paul Bundschuh
Chief Executive Officer

Address: 5004 Bee Creek Road, Suite 600
Spicewood Texas 78669
Attn: Paul Bundschuh

NOTICE OF EXERCISE

TO: Ideal Power Inc.
5004 Bee Creek Road, Suite 600
Spicewood, Texas 78669
Attn: Secretary

The undersigned hereby elects to purchase _____ shares (the "***Shares***") of the Common Stock of Ideal Power Inc. pursuant to the terms of the attached Warrant and tenders herewith payment of the purchase price in full.

Please issue a certificate or certificates representing the Shares in the name of the undersigned or in such other name as is specified below:

_____
(Print Name)

Address: _____
_____

The undersigned confirms that the undersigned is an "accredited investor," and that the Shares are being acquired for the account of the undersigned for investment only and not with a view to, or for resale in connection with, the distribution thereof, and that the undersigned has no present intention of distributing or selling the Shares.

_____ _____
(Date) (Signature)

_____
(Print Name)

NOTICE OF CASHLESS EXERCISE

TO: Ideal Power Inc.
5004 Bee Creek Road, Suite 600
Spicewood, Texas 78669
Attn: Secretary

The undersigned hereby elects to purchase _____ shares (the "***Shares***") of the Common Stock of Ideal Power Inc. pursuant to the cashless exercise provision of Section 3 of the attached Warrant.

Please issue a certificate or certificates representing the Shares in the name of the undersigned or in such other name as is specified below:

_____
(Print Name)

Address: _____
_____

The undersigned represents that the undersigned is an "accredited investor," and that the Shares are being acquired for the account of the undersigned for investment and not with a view to, or for resale in connection with, the distribution thereof, and that the undersigned has no present intention of distributing or reselling such shares.

_____ _____
(Date) (Signature)

_____
(Print Name)

EXHIBIT E

SECURITY AGREEMENT

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (the "Agreement"), dated as of July [___], 2013, is entered into by and among IDEAL POWER INC., a Delaware corporation ("Debtor"), the Subscribers identified on **Schedule 1** hereto (the "Subscribers"), who are parties to the Securities Purchase Agreement dated of even date herewith by and among Debtor and such Subscribers, and Anthony DiGiandomenico ("Collateral Agent").

RECITALS

WHEREAS, Subscribers have made senior secured loans in the principal amount of $750,000 to the Debtor (the "July 2013 Loans") and, together with senior secured loans in the amount of $750,000 and $3,250,000 made by the Debtor on August 31, 2012 and November 21, 2012, respectively, (collectively with the July 2013 Loans, the "Loans") are, collectively, intended to be secured by a first-priority senior security interest in all assets of the Debtor.

WHEREAS, the July 2013 Loans are evidenced by one or more senior secured convertible promissory notes (each a "Note" and collectively the "Notes") issued by the Debtor. The Notes have been executed by the Debtor as borrower, in favor of and to document indebtedness to, the Subscribers (each, a "Holder" and collectively the "Holders").

WHEREAS, to assist the Debtor with its capital raising efforts, The Office of the Governor Economic Development and Tourism of the State of Texas ("Subordinated Lender") agreed to subordinate to the holders of the senior secured convertible promissory notes documenting the Loans (including the Holders of the July 2013 Loans) its rights, priority and claims under that certain Texas Emerging Technology Fund Award and Security Agreement dated October 1, 2010.

WHEREAS, in consideration of the July 2013 Loans made by the Subscribers to the Debtor and for other good and valuable consideration, and as security for the performance by the Debtor of its obligations under the Notes, and as security for the repayment of the July 2013 Loans and all other sums due from the Debtor to the Subscribers arising under the Transaction Documents (as defined in the Purchase Agreement, the Notes, and any other agreement between or among them (collectively, the "Obligations")), the Debtor, for good and valuable consideration, receipt of which is acknowledged, has agreed to grant to the Subscribers and to the Collateral Agent on behalf of the Subscribers a security interest in the Collateral (as such term is hereinafter defined), on the terms and conditions hereinafter set forth.

WHEREAS, the following terms which are defined in the Uniform Commercial Code in effect in the State of New York on the date hereof are included on **Schedule 2** and are used herein as so defined: Account, Chattel Paper, Documents, Equipment, General Intangible, Goods, Instrument, Inventory and Proceeds.

AGREEMENT

1. Definitions; Interpretation. All capitalized terms used in this Agreement and not otherwise defined herein shall have the meanings assigned to them in the Note and Purchase Agreement. As used in this Agreement, the following terms shall have the following meanings:

"Agreement" means this Security Agreement, including any amendments hereto.

"Collateral Agent" shall have the meaning as set forth in the Preamble.

"Collateral" shall have the meaning as set forth in Section 2.2.

"Debtor" shall have the meaning as set forth in the Preamble.

"Event of Default" shall have the meaning as set forth in Section 8.

"Holder" or "Holders" shall have the meaning as set forth in the Recitals.

"Majority in Interest" shall have the meaning as set forth in Section 12.3.

"Note" and "Notes" shall have the meanings as set forth in the Recitals.

"Obligations" shall have the meaning as set forth in the Recitals.

"Permitted Liens" shall have the meaning as set forth in Section 5.1.

"Senior Debt" shall mean the senior secured convertible promissory notes issued by the Debtor on August 31, 2012 and November 21, 2012.

"Subscribers" shall have the meaning as set forth in the Preamble.

2. Grant of General Security Interest in Collateral.

2.1 As security for the Obligations of the Debtor, the Debtor hereby grants to each of the Subscribers a security interest in the Collateral, which security interest shall be in pari passu with the security interest granted to the holders of the Senior Debt.

2.2 "Collateral" shall mean all of the following property of the Debtor:

(A) All now owned and hereafter acquired right, title and interest of the Debtor in, to and in respect of all Accounts, Goods, real or personal property, all present and future books and records relating to the foregoing and all products and Proceeds of the foregoing, and as set forth below:

(i) all now owned and hereafter acquired right, title and interest of the Debtor in, to and in respect of all: Accounts, interests in goods represented by Accounts, returned, reclaimed or repossessed goods with respect thereto and rights as an unpaid vendor; contract rights; Chattel Paper; investment property; General Intangibles (including but not limited to, tax and duty claims and refunds, registered and unregistered patents, trademarks, service marks, certificates, copyrights, trade names, applications for the foregoing, trade secrets, goodwill, processes, drawings, blueprints, customer lists, licenses, whether as licensor or licensee, choses in action and other claims, and existing and future leasehold interests and claims in and to equipment, real estate and fixtures); Documents; Instruments; letters of credit, bankers' acceptances or guaranties; cash moneys, deposits including but not limited to the deposit accounts identified on Schedule 3; securities, bank accounts, deposit accounts, credits and other property now or hereafter owned or held in any capacity by Debtors, as well as agreements or property securing or relating to any of the items referred to above;

(ii) Goods. All now owned and hereafter acquired right, title and interest of Debtors in, to and in respect of goods, including, but not limited to:

(a) All Inventory, wherever located, whether now owned or hereafter acquired, of whatever kind, nature or description, including all raw materials, work-in-process, finished goods, and materials to be used or consumed in the Debtor's business; finished goods, timber cut or to be cut, oil, gas, hydrocarbons, and minerals extracted or to be extracted, and all names or marks affixed to or to be affixed thereto for purposes of selling same by the seller, manufacturer, lessor or licensor thereof and all Inventory which may be returned to the Debtor by its customers or repossessed by the Debtor and all of the Debtor's right, title and interest in and to the foregoing (including all of the Debtor's rights as a seller of goods);

(b) All Equipment and fixtures, wherever located, whether now owned or hereafter acquired, including, without limitation, all machinery, furniture and fixtures, and any and all additions, substitutions, replacements (including spare parts), and accessions thereof and thereto (including, but not limited to the Debtor's rights to acquire any of the foregoing, whether by exercise of a purchase option or otherwise);

(iii) Property. All now owned and hereafter acquired right, title and interests of the Debtor in, to and in respect of any other personal property in or upon which the Debtor has or may hereafter have a security interest, lien or right of setoff;

(iv) Books and Records. All present and future books and records relating to any of the above including, without limitation, all computer programs, printed output and computer readable data in the possession or control of the Debtor, any computer service bureau or other third party; and

(v) Products and Proceeds. All products and Proceeds of the foregoing in whatever form and wherever located, including, without limitation, all insurance proceeds and all claims against third parties for loss or destruction of or damage to any of the foregoing.

(B) All now owned and hereafter acquired right, title and interest of the Debtor in, to and in respect of the following:

(i) all additional shares of stock, partnership interests, member interests or other equity interests from time to time acquired by the Debtor, in any subsidiary of the Debtor, the certificates representing such additional shares, and other rights, contractual or otherwise, in respect thereof and all dividends, distributions, cash, instruments, investment property and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such additional shares, interests or equity; and

(ii) all security entitlements of the Debtor in, and all Proceeds of any and all of the foregoing in each case, whether now owned or hereafter acquired by the Debtor and howsoever its interest therein may arise or appear (whether by ownership, security interest, lien, claim or otherwise).

Notwithstanding anything to the contrary set forth in Section 2.2 above, the types or items of Collateral described in such Section shall not include any rights or interests in any contract, lease, permit, license, charter or license agreement covering real or personal property, as such, if under the terms of such contract, lease, permit, license, charter or license agreement, or applicable law with respect thereto, the valid grant of a security interest or lien therein to the Subscribers is prohibited or would result in a breach and such prohibition or breach has not been or is not waived or the consent of the other party to such contract, lease, permit, license, charter or license agreement has not been or is not otherwise obtained or under applicable law such prohibition or breach cannot be waived.

Notwithstanding anything to the contrary set forth in Section 2.2 above, the types or items of Collateral described in such Section shall not include any Equipment which is, or at the time of the Debtor's acquisition thereof shall be, subject to a purchase money mortgage or other purchase money lien or security interest (including capitalized or finance leases) permitted hereunder if: (a) the valid grant of a security interest or lien therein to the Subscribers in such Equipment is prohibited by the terms of the agreement between the Debtor and the holder of such purchase money mortgage or other purchase money lien or security interest or under applicable law and such prohibition has not been or is not waived, or the consent of the holder of the purchase money mortgage or other purchase money lien or security interest has not been or is not otherwise obtained, or under applicable law such prohibition cannot be waived and (b) the purchase money mortgage or other purchase money lien or security interest on such item of Equipment is or shall become valid and perfected. To the extent each of the foregoing conditions is satisfied, the Subscribers shall, through the Collateral Agent, at the request of the Debtor and at the Debtor's expense, execute and deliver a UCC-3 partial release with respect to any such Equipment subject to such a purchase money security interest or lien, provided, that, such partial release shall be in form and substance satisfactory to the Collateral Agent.

"Equipment" shall include all of the Debtor's now owned and hereafter acquired equipment, machinery, laboratory and research equipment and tools, computers and computer hardware and software (whether owned or licensed), vehicles, tools, furniture, fixtures, all attachments, accessions and property now or hereafter affixed thereto or used in connection therewith, and substitutions and replacements thereof, wherever located.

2.3 The Subscribers and the Collateral Agent are hereby specifically authorized, after the Maturity Date (defined in the Note) accelerated or otherwise, and after the occurrence of an Event of Default (as defined herein) and the expiration of any applicable cure period, to transfer any Collateral into the name of the Collateral Agent and to take any and all action deemed advisable to the Subscribers to remove any transfer restrictions affecting the Collateral.

3. Perfection of Security Interest.

3.1 The Debtor shall prepare, execute and deliver to the Collateral Agent UCC-1 Financing Statements or other instruments necessary to perfect a security interest in any item of the Collateral (collectively, the "Lien Documents") in form and substance acceptable to the Collateral Agent. The Collateral Agent is instructed to prepare and file or cause to be filed at the Debtor's cost and expense, the Lien Documents in such United States and foreign jurisdictions deemed advisable to the Collateral Agent, including but not limited to the States of Texas or Delaware, as appropriate.

3.2 All other certificates and instruments constituting Collateral from time to time required to be pledged to the Subscribers pursuant to the terms hereof (the "Additional Collateral") shall be delivered to the Collateral Agent promptly upon receipt thereof by or on behalf of the Debtor. All such certificates and instruments shall be held by or on behalf of the Subscribers pursuant hereto and shall be delivered in suitable form for transfer by delivery, or shall be accompanied by duly executed instruments of transfer or assignment or undated stock powers executed in blank, all in form and substance satisfactory to the Collateral Agent. If any Collateral consists of uncertificated securities, unless the immediately following sentence is applicable thereto, the Debtor shall cause the Collateral Agent to become the registered holder thereof, or cause each issuer of such securities to agree that it will comply with instructions originated by the Collateral Agent with respect to such securities. If any Collateral consists of security entitlements, the Debtor shall transfer such security entitlements to the Collateral Agent or cause the applicable securities intermediary to agree that it will comply with entitlement orders by the Collateral Agent.

3.3 If the Debtor shall receive, by virtue of the Debtor being or having been an owner of any Collateral, any (i) stock certificate (including, without limitation, any certificate representing a stock dividend or distribution in connection with any increase or reduction of capital, reclassification, merger, consolidation, sale of assets, combination of shares, stock split, spin-off or split-off), promissory note or other instrument, (ii) option or right, whether as an addition to, substitution for, or in exchange for, any Collateral, or otherwise, (iii) dividends payable in cash or in securities or other property or (iv) dividends or other distributions in connection with a partial or total liquidation or dissolution or in connection with a reduction of capital, capital surplus or paid-in surplus, the Debtor shall receive such stock certificate, promissory note, instrument, option, right, payment or distribution in trust for the benefit of the Subscribers, shall segregate it from the Debtor's other property and shall deliver it forthwith to the Subscribers, in the exact form received, with any necessary endorsement and/or appropriate stock powers duly executed in blank, to be held by the Subscribers as Collateral and as further collateral security for the Obligations.

4. Voting Power Relating to Collateral/Dividends and Distributions.

4.1 So long as an Event of Default does not exist, the Debtor shall be entitled to exercise all voting power pertaining to any of the Collateral, provided such exercise is not contrary to the interests of the Subscribers and does not impair the Collateral.

4.2. At any time an Event of Default exists or has occurred and is continuing, all rights of the Debtor, upon notice given by the Collateral Agent, to exercise the voting power shall cease and all such rights shall thereupon become vested in the Collateral Agent for the benefit of the Subscribers, which shall thereupon have the sole right to exercise such voting power and receive such payments.

4.3 All dividends, distributions, interest and other payments which are received by Debtor contrary to the provisions of Section 4.2 shall be received in trust for the benefit of the Subscribers as security and Collateral for payment of the Obligations, shall be segregated from other funds of Debtor, and shall be forthwith paid over to the Collateral Agent as Collateral in the exact form received with any necessary endorsement and/or appropriate stock powers duly executed in blank, to be held by the Collateral Agent as Collateral and as further collateral security for the Obligations.

5. Further Action By Debtors; Covenants and Warranties.

5.1 The Subscribers, along with the holders of the senior secured convertible promissory notes evidencing the Senior Debt, at all times shall have a perfected security interest in the Collateral. The Debtor represents that other than the security interests described on Schedule 5.1, it has and will continue to have full title to the Collateral free from any liens, leases, encumbrances, judgments or other claims, except for "Permitted Liens" (defined below). The Subscribers' security interest in the Collateral, together with the security interests of the holders of the senior secured convertible promissory notes evidencing the Senior Debt, constitutes and will continue to constitute a first, prior and indefeasible security interest in favor of the Subscribers, subject only to the security interests described on Schedule 5.1. The Debtor will do all acts and things, and will execute and file all instruments (including, but not limited to, security agreements, financing statements, continuation statements, etc.) reasonably requested by the Collateral Agent to establish, maintain and continue the perfected security interest of the Subscribers and the holders of the senior secured convertible promissory notes evidencing the Senior Debt in the perfected Collateral, and will promptly on demand, pay all costs and expenses of filing and recording, including the costs of any searches reasonably deemed necessary by the Collateral Agent from time to time to establish and determine the validity and the continuing priority of the security interest of the Subscribers and the holders of the senior secured convertible promissory notes evidencing the Senior Debt, and also pay all other claims and charges that, in the opinion of the Subscribers and the holders of the senior secured convertible promissory notes evidencing the Senior Debt are reasonably likely to materially prejudice, imperil or otherwise affect the Collateral or their security interests therein. For purposes of this Agreement, "Permitted Liens" shall include:

(a) liens for the payment of taxes which are not yet due and payable;

(b) liens arising by statute in connection with worker's compensation, unemployment insurance, old age benefits, social security obligations, taxes, assessments, statutory obligations or other similar charges (other than Liens arising under ERISA), good faith cash deposits in connection with tenders, contracts or leases to which the the Debtor is a party or other cash deposits required to be made in the ordinary course of business, provided in each case that the obligation is not for borrowed money and that the obligation secured is not overdue or, if overdue, is being contested in good faith by appropriate proceedings which prevent enforcement of the matter under contest and adequate reserves have been established therefor;

(c) mechanics', workmen's, materialmen's, landlords', carriers' or other similar liens arising in the ordinary course of business with respect to obligations which are not due or which are being contested in good faith by appropriate proceedings which prevent enforcement of the matter under contest;

(d) any interest or title of a lessor under any operating lease or capital lease; and

(e) liens on real property of the Debtor or created solely for the purpose of securing indebtedness incurred to finance the purchase price of such real property;

(f) cash deposits to secure performance bonds and other obligations of a like nature (in each case, other than for Indebtedness) incurred in the ordinary course of business for obligations not yet due or which are being contested in good faith by appropriate proceedings which prevent enforcement of the matter under contest and adequate reserves have been established therefor;

(g) easements, rights-of-way, zoning and similar restrictions, building codes, reservations, covenants, conditions, waivers, survey exceptions and other similar encumbrances or title defects and, with respect to any interests in real property held or leased by the Debtor or any of its subsidiaries, mortgages, deeds of trust and other encumbrances incurred, created, assumed or permitted to exist and arising by, through or under a landlord or owner of such property encumbering solely such landlord's or owner's interest in such real property, with or without the consent of the lessee;

(h) liens in existence on the date hereof;

(i) any interest of a licensor under a license entered into in the ordinary course of the Debtor's business; and

(j) any lien existing on any part of any business acquired by the Debtor, prior to the acquisition thereof by the Debtor.

5.2 Except in connection with sales of Collateral in the ordinary course of business, for fair value and in cash, and except for Collateral which is substituted by assets of identical or greater value (subject to the consent of the Collateral Agent) or which is not material to the Debtor's business, the Debtor will not sell, transfer, assign or pledge those items of Collateral (or allow any such items to be sold, transferred, assigned or pledged), without the prior written consent of the Collateral Agent other than a transfer of the Collateral to a wholly-owned United States formed and located subsidiary of the Debtor with prior notice to the Collateral Agent, and provided the Collateral remains subject to the security interest herein described. Although Proceeds of Collateral are covered by this Agreement, this shall not be construed to mean that the Collateral Agent or the Subscribers consent to any sale of the Collateral, except as provided herein. Sales of Collateral in the ordinary course of business as described above shall be free of the security interest of the Subscribers and the Collateral Agent shall promptly execute such documents (including without limitation releases and termination statements) as may be required by the Debtor to evidence or effectuate the same.

5.3 The Debtor will, at all reasonable times during regular business hours and upon reasonable notice, allow the Collateral Agent or its representatives free and complete access to the Collateral and all of the Debtor's records that in any way relate to the Collateral, for such inspection and examination as the Collateral Agent reasonably deems necessary.

5.4 The Debtor, at its sole cost and expense, will protect and defend the Collateral against the claims and demands of all persons other than the Subscribers and the holders of the senior secured convertible promissory notes evidencing the Senior Debt.

5.5 The Debtor will promptly notify the Collateral Agent of any levy, distraint or other seizure by legal process or otherwise of any part of the Collateral, and of any threatened or filed claims or proceedings that are reasonably likely to affect or impair any of the rights of the Subscribers under this Security Agreement in any material respect.

5.6 The Debtor will, at its own expense, make, execute, endorse, acknowledge, file and/or deliver to the Collateral Agent from time to time such vouchers, invoices, schedules, confirmatory assignments, conveyances, financing statements, transfer endorsements, powers of attorney, certificates, reports and other reasonable assurances or instruments and take further steps relating to the Collateral and other property or rights covered by the security interest hereby granted, as the Collateral Agent may reasonably require to perfect the security interest of the Subscribers hereunder.

5.7 The Debtor represents and warrants that it is the true and lawful exclusive owner of the Collateral, free and clear of any liens, encumbrances and claims other than those listed on Schedule 5.1.

6. Power of Attorney.

At any time an Event of Default has occurred, and only after the applicable cure period as set forth in this Agreement and the other Transaction Documents, and is continuing, the Debtor hereby irrevocably constitutes and appoints the Collateral Agent as the true and lawful attorney of the Debtor, with full power of substitution, in the place and stead of Debtor and in the name of the Debtor or otherwise, at any time or times, in the discretion of the Collateral Agent, to take any action and to execute any instrument or document which is reasonably and prudently necessary to protect the Subscribers' rights in the Collateral as set forth in this Agreement. This power of attorney is coupled with an interest and is irrevocable until the Obligations are satisfied.

7. Performance by the Subscribers.

If the Debtor fails to perform any material covenant, agreement, duty or obligation of the Debtor under this Agreement or the Purchase Agreements, the Collateral Agent may, after any applicable cure period and notice required hereunder, at any time or times in its discretion, take action to effect performance of such obligation. All reasonable expenses of the Subscribers incurred in connection with the foregoing authorization shall be payable by the Debtor as provided in Paragraph 10.1 hereof. No discretionary right, remedy or power granted to the Subscribers under any part of this Agreement shall be deemed to impose any obligation whatsoever on the Subscribers with respect thereto, such rights, remedies and powers being solely for the protection of the Subscribers.

8. Event of Default.

An event of default ("Event of Default") shall be deemed to have occurred hereunder upon the occurrence of any event of default as defined and described in this Agreement, in the Note, the Purchase Agreements, Transaction Documents (as defined in the Purchase Agreements), and any other agreement to which the Debtor and the Subscribers are parties. Upon and after any Event of Default, after the applicable cure period, if any, any or all of the Obligations shall become immediately due and payable at the option of the Collateral Agent, and the Collateral Agent may dispose of Collateral as provided herein. A default by the Debtor of any of its material obligations pursuant to this Agreement, the Purchase Agreements and any of the other Transaction Documents shall be an Event of Default hereunder and an "Event of Default" as defined in the Notes, and the Purchase Agreements.

9. Disposition of Collateral.

Upon and after any Event of Default which is then continuing,

9.1 The Collateral Agent may exercise its rights with respect to each and every component of the Collateral, without regard to the existence of any other security or source of payment, in order to satisfy the Obligations. In addition to other rights and remedies provided for herein or otherwise available to it, the Subscribers shall have all of the rights and remedies of a secured party on default under the Uniform Commercial Code then in effect in the State of New York.

9.2 If any notice to the Debtor of the sale or other disposition of Collateral is required by then applicable law, 5 business days prior written notice (which the Debtor agrees is reasonable notice within the meaning of Section 9.612(a) of the Uniform Commercial Code) shall be given to the Debtor of the time and place of any sale of Collateral which the Debtor hereby agrees may be by private sale. The rights granted in this Section are in addition to any and all rights available to the Subscribers under the Uniform Commercial Code.

9.3 The Collateral Agent is authorized, at any such sale, if the Collateral Agent deems it advisable to do so, in order to comply with any applicable securities laws, to restrict the prospective bidders or purchasers to persons who will represent and agree, among other things, that they are purchasing the Collateral for their own account for investment, and not with a view to the distribution or resale thereof, or otherwise to restrict such sale in such other manner as the Subscribers deem advisable to ensure such compliance. Sales made subject to such restrictions shall be deemed to have been made in a commercially reasonable manner.

9.4 All proceeds received by the Subscribers in respect of any sale, collection or other enforcement or disposition of Collateral, shall be applied (after deduction of any amounts payable to the Subscribers pursuant to Paragraph 10.1 hereof) against the Obligations. Upon payment in full of all Obligations, the Debtor shall be entitled to the return of all Collateral, including cash, which has not been used or applied toward the payment of the Obligations or used or applied to any and all costs or expenses of the Subscribers incurred in connection with the liquidation of the Collateral (unless another person is legally entitled thereto). Any assignment of Collateral by the Collateral Agent to the Debtor shall be without representation or warranty of any nature whatsoever and wholly without recourse. To the extent allowed by law, the Collateral Agent may purchase the Collateral and pay for such purchase by offsetting the purchase price with sums owed to the Subscribers by the Debtor arising under the Obligations or any other source.

9.5 Without limiting, and in addition to, any other rights, options and remedies the Subscribers have under the Transaction Documents, the UCC, at law or in equity, or otherwise, upon the occurrence and continuation of an Event of Default, the Collateral Agent shall have the right to apply for and have a receiver appointed by a court of competent jurisdiction. The Debtor expressly agrees that such a receiver will be able to manage, protect and preserve the Collateral and continue the operation of the business of the Debtor to the extent necessary to collect all revenues and profits thereof and to apply the same to the payment of all expenses and other charges of such receivership, including the compensation of the receiver, until a sale or other disposition of such Collateral shall be finally made and consummated.

9.6 Provided an Event of Default or an event, which with the passage of time or the giving of notice could become an Event of Default is not pending, then from and after the date the Subscriber has exercised its conversion rights with respect to not less than one-half of the Principal Amount of the Subscriber's Note and the Debtor has complied with its obligations with respect to all such conversions, then the Subscriber's security interest granted pursuant to this Agreement shall be automatically released.

10. Miscellaneous.

10.1 Expenses. The Debtor shall pay to the Collateral Agent for the benefit of the Subscribers, on demand, the amount of any and all reasonable expenses, including, without limitation, attorneys' fees, legal expenses and brokers' fees, which the Collateral Agent may incur in connection with (a) exercise or enforcement of any the rights, remedies or powers of the Subscribers hereunder or with respect to any or all of the Obligations upon breach; or (b) failure by the Debtor to perform and observe any agreements of the Debtor contained herein which are performed by Collateral Agent.

10.2 Waivers, Amendment and Remedies. No course of dealing by the Collateral Agent or the Subscribers and no failure by the Collateral Agent or the Subscribers to exercise, or delay by the Collateral Agent or the Subscribers in exercising, any right, remedy or power hereunder shall operate as a waiver thereof, and no single or partial exercise thereof shall preclude any other or further exercise thereof or the exercise of any other right, remedy or power of the Collateral Agent or the Subscribers. No amendment, modification or waiver of any provision of this Agreement and no consent to any departure by the Debtor therefrom shall, in any event, be effective unless contained in a writing signed by the Collateral Agent, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. The rights, remedies and powers of the Collateral Agent, not only hereunder, but also under any instruments and agreements evidencing or securing the Obligations and under applicable law are cumulative, and may be exercised by the Collateral Agent for the benefit of the Subscribers from time to time in such order as the Collateral Agent may elect.

10.3 Notices. All notices or other communications given or made hereunder shall be in writing and shall be personally delivered or deemed delivered the first business day after being faxed (provided that a copy is delivered by first class mail) to the party to receive the same at its address set forth below or to such other address as either party shall hereafter give to the other by notice duly made under this Section:

To Debtors:	Ideal Power Inc. 5004 Bee Creek Rd., Suite 600 Spicewood, Texas 78669 Attention: Chief Executive Officer Paul.Bundschuh@idealpowerconverters.com
With a copy by facsimile only to:	Richardson & Patel LLP 1100 Glendon Avenue, Suite 850 Los Angeles, CA 90024 Fax: (310) 208-1154 Tel: (310) 208-1182 Attention: Erick Richardson
To Holders:	To the addresses specified in the Subscription Purchase Agreement for each Holder
To Collateral Agent:	Anthony DiGiandomenico 401 Wilshire Boulevard, Suite 1020 Santa Monica, California 90401
With a copy (not constituting notice) to:	Scott Bartel, Esq. Eric Stiff, Esq. Locke Lord LLP 500 Capitol Mall, Suite 1800 Sacramento, California 95814 Telephone: (916) 930-2500 sbartel@lockelord.com estiff@lockelord.com

Any party may change its address by written notice in accordance with this paragraph.

10.4 Term; Binding Effect. This Agreement shall (a) remain in full force and effect until payment and satisfaction in full of all of the Obligations; (b) be binding upon the Debtor, and its successors and permitted assigns; and (c) inure to the benefit of the Subscribers and its successors and assigns.

10.5 Captions. The captions of Paragraphs, Articles and Sections in this Agreement have been included for convenience of reference only, and shall not define or limit the provisions of this agreement and have no legal or other significance whatsoever.

10.6 Governing Law; Venue; Severability. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to conflicts of laws principles that would result in the application of the substantive laws of another jurisdiction, except to the extent that the perfection of the security interest granted hereby in respect of any item of Collateral may be governed by the law of another jurisdiction. Any legal action or proceeding against the Debtor with respect to this Agreement must be brought only in the courts in the State of New York or United States federal courts located within the State of New York, and, by execution and delivery of this Agreement, the Debtor hereby irrevocably accepts for itself and in respect of its property, generally and unconditionally, the jurisdiction of the aforesaid courts. The Debtor hereby irrevocably waives any objection which it may now or hereafter have to the laying of venue of any of the aforesaid actions or proceedings arising out of or in connection with this Agreement brought in the aforesaid courts and hereby further irrevocably waives and agrees not to plead or claim in any such court that any such action or proceeding brought in any such court has been brought in an inconvenient forum. If any provision of this Agreement, or the application thereof to any person or circumstance, is held invalid, such invalidity shall not affect any other provisions which can be given effect without the invalid provision or application, and to this end the provisions hereof shall be severable and the remaining, valid provisions shall remain of full force and effect.

10.7 Entire Agreement. This Agreement contains the entire agreement of the parties and supersedes all other agreements and understandings, oral or written, with respect to the matters contained herein.

10.8 Counterparts/Execution. This Agreement may be executed in any number of counterparts and by the different signatories hereto on separate counterparts, each of which, when so executed, shall be deemed an original, but all such counterparts shall constitute but one and the same instrument. This Agreement may be executed by facsimile signature and delivered by electronic transmission.

11. Termination; Release. When the Obligations have been indefeasibly paid and performed in full or all outstanding Notes have been converted to Common Stock pursuant to the terms of the Note and the Purchase Agreements, this Agreement shall terminate, and the Subscribers or the Collateral Agent, as appropriate, at the request and sole expense of the Debtor, will execute and deliver to the Debtor the proper instruments (including UCC termination statements) acknowledging the termination of the Security Agreement, and duly assign, transfer and deliver to the Debtor, without recourse, representation or warranty of any kind whatsoever, such of the Collateral, as may be in the possession of the Collateral Agent or Subscribers.

12. Subscribers' Powers.

12.1 Subscribers' Powers. The powers conferred on the Subscribers hereunder are solely to protect Subscribers' interest in the Collateral and shall not impose any duty on the Subscribers to exercise any such powers.

12.2 Reasonable Care. The Collateral Agent is required to exercise reasonable care in the custody and preservation of any Collateral in its possession.

12.3 Majority in Interest. The rights of the Subscribers hereunder, except as otherwise set forth herein shall be exercised upon the approval of Subscribers (including the holders of the senior secured convertible promissory notes evidencing the Senior Debt) holding no less than 51% of the outstanding principal amount of the Loans ("Majority in Interest") at the time such approval is sought or given. Any tangible or physical Collateral shall be delivered to and be held by the Collateral Agent pursuant to this Agreement and on behalf of all Subscribers as to their respective rights.

12.4 Authority of Collateral Agent. By executing this Agreement the Subscribers appoint the Collateral Agent as their agent to exercise all of the rights, benefits and remedies granted to them as secured parties under this Agreement. The Collateral Agent agrees to exercise all of the rights, benefits and remedies conveyed by this Agreement solely for the benefit of the Subscribers and, unless a delay would cause irreparable damage to the Collateral or any part of it, only after consultation with the Majority in Interest. In accordance with its role as the agent for the Subscribers, the Lien Documents will identify the Collateral Agent as the secured party.

12.5 Duties of the Collateral Agent. The Collateral Agent agrees to hold and dispose of the Collateral in accordance with and subject only to the terms of this Agreement.

12.6 Appointment of Attorney-in-Fact. The Debtor hereby irrevocably appoints the Collateral Agent as the Debtor's attorney-in-fact to arrange for the transfer of the Collateral and to do and perform all actions that are necessary or appropriate in order to effect the terms of this Agreement.

12.7 Matters Pertaining to Collateral Agent.

12.7.1 The Collateral Agent shall not be personally liable for any act it may do or omit to do under this Agreement while acting in good faith and in the exercise of its best judgment, and any act done or omitted by the Collateral Agent pursuant to the advice of the Collateral Agent's attorney shall be conclusive evidence of such good faith. Except as expressly provided herein, the Collateral Agent is expressly authorized and directed to disregard any and all notices or warnings given by any of the parties, or by any other person or corporation, excepting only orders or process of court, and is hereby expressly authorized to comply with and obey any and all orders, judgments or decrees of any court. If the Collateral Agent obeys or complies with any such order, judgment or decree of any court, the Collateral Agent shall not be liable to the Subscribers or the Debtor or to any other person, firm or corporation by reason of such compliance, notwithstanding that any such order, judgment or decree be subsequently reversed, modified, annulled, set aside or vacated, or found to have been entered without jurisdiction.

12.7.2 The Subscribers and the Debtor expressly agree the Collateral Agent has the absolute right at the Collateral Agent's election, if the Collateral Agent considers it appropriate, to file an action in interpleader in a court of proper jurisdiction requiring the parties to answer and litigate their claims and rights among themselves, and the Collateral Agent is authorized to deposit with the clerk of the court all documents and funds held by him pursuant to this Agreement. In the event such action is filed, the Debtor agrees to pay all costs, expenses and reasonable attorneys' fees that the Collateral Agent incurs in such interpleader action. Upon filing of such action the Collateral Agent shall thereupon be fully released and discharged from all obligations to further perform any duties or obligations otherwise imposed by the terms of this Agreement.

12.7.3 The Collateral Agent shall not be bound in any way by any other agreement between the Subscribers and the Debtor as to which the Collateral Agent is not a party, whether or not the Collateral Agent has knowledge thereof, nor by any notice of a claim or demand with respect to this Agreement or the Collateral. The Collateral Agent shall have no duties or responsibilities except as expressly set forth in this Agreement. The Collateral Agent may rely conclusively on any certificate, statement, request, waiver, receipt, agreement or other instrument that the Collateral Agent believes to be genuine and to have been signed and presented by an appropriate person or persons.

12.7.4 The retention and distribution of the Collateral in accordance with the terms and provisions of this Agreement shall fully and completely release the Collateral Agent from any obligation or liability assumed by the Collateral Agent hereunder as to the Collateral.

12.7.5 The Collateral Agent, while in possession of the Collateral prior to or following the occurrence of an Event of Default, as hereinabove provided, and while acting in accordance with the terms of this Agreement or applicable law, is not responsible for any fluctuations in value or delays in disposing of the Collateral.

12.7.6 The Collateral Agent shall not be liable in any respect for verifying the identity, authority or rights of the parties executing or delivering or purporting to execute and/or deliver this Agreement.

12.7.7 Notwithstanding anything herein to the contrary, the Collateral Agent shall have no duty with respect to the Collateral other than the duty to use reasonable care in the custody and preservation of the Collateral if it is in the Collateral Agent's possession. The Collateral Agent shall be under no obligation to take any steps necessary to preserve rights in the Collateral against any other parties, to sell the Collateral if it threatens to decline in value, or to exercise any rights represented thereby, except as directed by the Majority in Interest pursuant to the terms of this Agreement.

12.7.8 The Debtor and the Subscribers agree to and each does hereby indemnify, defend (with counsel acceptable to the Collateral Agent) and hold the Collateral Agent harmless against any and all losses, damages, claims and expenses, including reasonable attorneys' fees, that may be incurred by the Collateral Agent by reason of it compliance with the terms of this Agreement. If, as a result of any disagreement between the parties and/or adverse demands and claims being made by any or all of them upon the Collateral Agent, the Collateral Agent shall become involved in litigation, including any interpleader brought by the Collateral Agent as provided in this Agreement, the Debtor agrees that it shall be liable to the Collateral Agent on demand for all costs, expenses and attorneys' fees that the Collateral Agent shall incur and/or be compelled to pay by reason of such litigation.

12.8 Replacement of Collateral Agent. In the event the Collateral Agent is or becomes unwilling or unable to act in such capacity for any reason, the Majority in Interest shall appoint a successor. The Majority in Interest (but not the Debtor) shall have the right, after delivery of written notice signed by the Majority in Interest to the Collateral Agent, to terminate the Collateral Agent and to name the Collateral Agent's successor.

[THIS SPACE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the undersigned have executed and delivered this Security Agreement, as of the date first written above.

"DEBTOR"

IDEAL POWER INC.
a Delaware corporation

By: _____
Paul Bundschuh
Chief Executive Officer

Agreed and Accepted by:

"COLLATERAL AGENT"

Anthony DiGiandomenico

By:/s/ Anthony DiGiandomenico

Name:/s/ Anthony DiGiandomenico

Title: _____

This Security Agreement may be signed by facsimile signature and delivered by confirmed facsimile transmission.

OMNIBUS SUBSCRIBER SIGNATURE PAGE TO
SECURITY AGREEMENT

The undersigned, in its capacity as a Subscriber, hereby executes and delivers the Security Agreement to which this signature page is attached and agrees to be bound by the Security Agreement on the date set forth on the first page of the Security Agreement. This counterpart signature page, together with all counterparts of the Security Agreement and signature pages of the other parties named therein, shall constitute one and the same instrument in accordance with the terms of the Security Agreement.

_____	_____
[Print Name of Subscriber]	[Name of Co-Subscriber, if applicable]
_____	_____
[Signature]	[Signature]
Name:	Name:_____
Title:_____	Title: _____
Mailing Address:	Telephone No.:_____
_____	Facsimile No:_____
_____	Email Address:_____
_____	
(City, State and Zip)	

IDEAL POWER INC.
SECURITY AGREEMENT EXHIBITS AND SCHEDULES

Schedule 1 – Subscribers

Schedule 2 - Provisions of the New York Uniform Commercial Code

Schedule 3 – Deposit Accounts

Schedule 5.1 – Security Interests

SCHEDULE 1

SUBSCRIBERS

SCHEDULE 2

UNIFORM COMMERCIAL CODE OF NEW YORK

Definitions from § 9.102 of the New York Uniform Commercial Code

(2) "Account", except as used in "account for", means a right to payment of a monetary obligation, whether or not earned by performance, (i) for property that has been or is to be sold, leased, licensed, assigned, or otherwise disposed of, (ii)for services rendered or to be rendered, (iii) for a policy of insurance issued or to be issued, (iv) for a secondary obligation incurred or to be incurred, (v) for energy provided or to be provided, (vi) for the use or hire of a vessel under a charter or other contract, (vii) arising out of the use of a credit or charge card or information contained on or for use with the card, or (viii) as winnings in a lottery or other game of chance operated or sponsored by a state, governmental unit of a State, or person licensed or authorized to operate the game by a State or governmental unit of a State. The term includes health-care-insurance receivables. The term does not include (i) rights to payment evidenced by chattel paper or an instrument, (ii) commercial tort claims, (iii) deposit accounts, (iv) investment property, (v) letter-of-credit rights or letters of credit, or (vi) rights to payment for money or funds advanced or sold, other than rights arising out of the use of a credit or charge card or information contained on or for use with the card.

(11) "Chattel paper" means a record or records that evidence both a monetary obligation and a security interest in specific goods, a security interest in specific goods and software used in the goods, a security interest in specific goods and license of software used in the goods, a lease of specific goods, or a lease of specific goods and license of software used in the goods. In this paragraph, "monetary obligation" means a monetary obligation secured by the goods or owed under a lease of the goods and includes a monetary obligation with respect to software used in the goods. The term does not include (i) charters or other contracts involving the use or hire of a vessel or (ii) records that evidence a right to payment arising out of the use of a credit or charge card or information contained on or for use with the card. If a transaction is evidenced by records that include an instrument or series of instruments, the group of records taken together constitutes chattel paper.

(30) "Document" means a document of title or a receipt of the type described in Section 7--201(2).

7-201(2): Where goods including distilled spirits and agricultural commodities are stored under a statute requiring a bond against withdrawal or a license for the issuance of receipts in the nature of warehouse receipts, a receipt issued for the goods has like effect as a warehouse receipt even though issued by a person who is the owner of the goods and is not a warehouseman.

(33) "Equipment" means goods other than inventory, farm products, or consumer goods.

(42) "General intangible" means any personal property, including things in action, other than accounts, chattel paper, commercial tort claims, deposit accounts, documents, goods, instruments, investment property, letter-of-credit rights, letters of credit, money, and oil, gas, or other minerals before extraction. The term includes payment intangibles and software.

(44) "Goods" means all things that are movable when a security interest attaches. The term includes (i) fixtures, (ii) standing timber that is to be cut and removed under a conveyance or contract for sale, (iii) the unborn young of animals, (iv) crops grown, growing, or to be grown, even if the crops are produced on trees, vines, or bushes, and (v) manufactured homes. The term also includes a computer program embedded in goods and any supporting information provided in connection with a transaction relating to the program if (i) the program is associated with the goods in such a manner that it customarily is considered part of the goods, or (ii) by becoming the owner of the goods, a person acquires a right to use the program in connection with the goods. The term does not include a computer program embedded in goods that consists solely of the medium in which the program is embedded. The term also does not include accounts, chattel paper, commercial tort claims, deposit accounts, documents, general intangibles, instruments, investment property, letter-of-credit rights, letters of credit, money, or oil, gas, or other minerals before extraction.

(47) “Instrument” means a negotiable instrument or any other writing that evidences a right to the payment of a monetary obligation, is not itself a security agreement or lease, and is of a type that in ordinary course of business is transferred by delivery with any necessary indorsement or assignment. The term does not include (i) investment property, (ii) letters of credit, or (iii) writings that evidence a right to payment arising out of the use of a credit or charge card or information contained on or for use with the card.

(48) “Inventory” means goods, other than farm products, which:

(A) are leased by a person as lessor;

(B) are held by a person for sale or lease or to be furnished under a contract of service;

(C) are furnished by a person under a contract of service; or

(D) consist of raw materials, work in process, or materials used or consumed in a business.

(64) “Proceeds”, except as used in Section 9--609(b), means the following property:

(A) Whatever is acquired upon the sale, lease, license, exchange, or other disposition of collateral;

(B) whatever is collected on, or distributed on account of, collateral;

(C) rights arising out of collateral;

(D) to the extent of the value of collateral, claims arising out of the loss, nonconformity, or interference with the use of, defects or infringement of rights in, or damage to, the collateral; or

(E) to the extent of the value of collateral and to the extent payable to the debtor or the secured party, insurance payable by reason of the loss or nonconformity of, defects or infringement of rights in, or damage to, the collateral.

SCHEDULE 3

DEPOSIT ACCOUNTS

Bank	Account No.	Bank Address
BBVA Compass Bank (main acct)	0034253943	5800 North Mopac, Austin TX
BBVA Compass Bank (exp acct)	2529218454	5800 North Mopac, Austin TX
BBVA Compass Bank	2532425878	5800 North Mopac, Austin TX

SCHEDULE 5.1

SECURITY INTERESTS

Not applicable.

The security interests granted to the Subscribers herein are identical to and in pari passu with the security interests granted to the holders of the senior secured convertible promissory notes evidencing the Senior Debt.

Interest of the Officer of the Governor, Economics Development and Tourism, has been subordinated.

Dkt#	Status	where?	A pp No	Filed	Priority	Pat No?	Issue/*est.*
IPC-011.P	expired	USpr	6 0/81 1 ,1 9 1	6-Jun-06	6-Jun-06		
IPC-011~CN	pending	CN	2 007 8002 9 2 08.4	6-Feb-09	**6-Jun-06**		
IPC-011~EP	pending	EP	7 7 9 59 1 5.3		6-Jun-06		
IPC-012	issued	US	1 1 /7 59 ,006	6-Jun-07	6-Jun-06	7,599,196	**6-Oct-09**
IPC-012A	issued	US	1 2 /4 7 9 ,2 07	5-Jun-09	6-Jun-06	8,300,426	**30-Oct-12**
IPC-012E	issued	US	1 3 /2 05,2 4 3	8-Aug-11	6-Jun-06	8,400,800	**19-Mar-13**
IPC-012F	issued	US	1 3 /2 05,2 50	8-Aug-11	6-Jun-06	8,395,910	**12-Mar-13**
IPC-012G	issued	US	1 3 /2 05,2 6 3	8-Aug-11	6-Jun-06	8,345,452	**1-Jan-13**
IPC-013	issued	US	1 1 /7 58,9 7 0	6-Jun-07	6-Jun-06	7,778,045	**17-Aug-10**
IPC-013C	pending	US	1 3 /859 ,2 6 5	9-Apr-13	6-Jun-06		
IPC-020~BR	pending	BR	PI1 01 1 551 -0	28-Dec-11	29-Jun-09		
IPC-020~CN	pending	CN	2 01 08003 87 04 8	29-Feb-12	29-Jun-09		
IPC-020~EP	pending	EP	1 08003 1 0.4	13-Jan-12	29-Jun-09		
IPC-020~KR	pending	KR	2 01 2 -7 0007 2 0	10-Jan-12	29-Jun-09		
IPC-020A	issued	US	1 3 /2 05,2 1 2	8-Aug-11	29-Jun-09	8,391,033	**5-Mar-13**
IPC-020B	issued	US	1 3 /54 1 ,9 02	5-Jul-12	29-Jun-09	8,441,819	**14-May-13**
IPC-020C	issued	US	1 3 /54 1 ,9 05	5-Jul-12	29-Jun-09	8,432,711	**30-Apr-13**
IPC-020D	issued	US	1 3 /54 1 ,9 1 0	5-Jul-12	29-Jun-09	8,446,705	**21-May-13**
IPC-020E	issued	US	1 3 /54 1 ,9 1 4	5-Jul-12	29-Jun-09	8,451,637	**28-May-13**
IPC-020F	pending	US	1 3 /84 7 ,7 03	20-Mar-13	29-Jun-09		
IPC-021~BR	pending	BR	BR1 1 2 01 2 003 6 1 2 -2	16-Feb-12	17-Aug-09		
IPC-021~CA	pending	CA	2 8084 9 0				
IPC-021A	issued	US	1 3 /2 05,2 2 5	8-Aug-11	17-Aug-09	8,295,069	**23-Oct-12**
IPC-021B	issuing	US	1 3 /54 2 ,2 2 3	5-Jul-12	17-Aug-09		*13-Aug-13*
IPC-021C	issued	US	1 3 /54 2 ,2 2 5	5-Jul-12	17-Aug-09	8,406,025	**26-Mar-13**
IPC-021D	auth	US			17-Aug-09		
IPC-022	issued	US	1 3 /3 08,2 00	30-Nov-11	30-Nov-10	8,446,042	**21-May-13**
IPC-022A	issued	US	1 3 /7 05,2 3 0	5-Dec-12	30-Nov-10	8,446,043	**21-May-13**
IPC-022A	pending	US	1 3 /87 2 ,9 7 3	29-Apr-13	30-Nov-10		
IPC-022WO	*expiring*	PCT	PCT/US1 1 /6 2 6 89	30-Nov-11	30-Nov-10		
IPC-023	pending	US	1 3 /4 01 ,7 7 1	21-Feb-12	18-Feb-11		
IPC-024	pending	US	1 3 /4 00,56 7	20-Feb-12	18-Feb-11		*27-Aug-13*
IPC-028	issued	US	1 3 /3 08,3 56	30-Nov-11	30-Nov-10	8,461,718	**11-Jun-13**
IPC-028~IN	pending	IN	4 9 55/DELNPi2 01 3				
IPC-028~MY	pending	MY					
IPC-028~PH	pending	PH					
IPC-028~SG	pending	SG	2 01 3 04 01 9 -1	21-May-13			
IPC-028A	issued	US	1 3 /7 05,2 4 0	5-Dec-12	30-Nov-10	8,471,408	**25-Jun-13**
IPC-028B	pending	US	1 3 /87 2 ,9 7 9	29-Apr-13	30-Nov-10		
IPC-029.P	expiring	USpr	6 1 /7 00,1 3 1	12-Sep-12	12-Sep-12		
IPC-029.P2	expiring	USpr	6 1 /7 84 ,001	14-Mar-13	12-Sep-12		
IPC-030.P	pending	USpr	6 1 /81 4 ,9 9 3	23-Apr-13	23-Apr-13		
IPC-036.P	pending	USpr	6 1 /83 8,7 58	24-Jun-13	24-Jun-13		
IPC-037.P	pending	USpr	6 1 /84 1 ,6 1 8	1-Jul-13	1-Jul-13		
IPC-038.P	pending	USpr	6 1 /84 1 ,6 2 1	1-Jul-13	1-Jul-13		

Dkt#	Status	where?	A pp No	Filed	Priority	Pat No?	Issue/*est.*
IPC-039.P	pending	USpr	6 1 /84 1 ,6 2 4	1-Jul-13	1-Jul-13		
IPC-PCCS-001	proposed						
IPC-PCCS-002	proposed						
IPC-PCCS-003	pending	USpr	6 1 /7 6 5,09 8	15-Feb-13	15-Feb-13		
IPC-PCCS-004	pending	USpr	6 1 /7 6 5,1 2 9	15-Feb-13	15-Feb-13		
IPC-PCCS-005	proposed						
IPC-PCCS-006	proposed						
IPC-PCCS-007	pending	USpr	6 1 /7 6 5,09 9	15-Feb-13	15-Feb-13		
IPC-PCCS-008	proposed						
IPC-PCCS-009	proposed						
IPC-PCCS-011	pending	USpr	6 1 /7 6 5,1 00	15-Feb-13	15-Feb-13		
IPC-PCCS-012	pending	USpr	6 1 /7 6 5,1 3 1	15-Feb-13	15-Feb-13		
IPC-PCCS-013	pending	USpr	6 1 /7 6 5,1 02	15-Feb-13	15-Feb-13		
IPC-PCCS-014	proposed						
IPC-PCCS-015	pending	USpr	6 1 /7 6 5,1 04	15-Feb-13	15-Feb-13		
IPC-PCCS-018	proposed						
IPC-PCCS-019	proposed						
IPC-PCCS-021	pending	USpr	6 1 /7 6 5,1 07	15-Feb-13	15-Feb-13		
IPC-PCCS-022	proposed						
IPC-PCCS-025	proposed						
IPC-PCCS-026	pending	USpr	6 1 /7 6 5,1 3 2	15-Feb-13	15-Feb-13		
IPC-PCCS-029	pending	USpr	6 1 /7 7 8,6 4 8	13-Mar-13	13-Mar-13		
IPC-PCCS-030	proposed						
IPC-PCCS-031	proposed						
IPC-PCCS-032	pending	USpr	6 1 /7 6 5,1 1 0	15-Feb-13	15-Feb-13		
IPC-PCCS-034	proposed						
IPC-PCCS-035	pending	USpr	6 1 /7 6 5,1 1 2	15-Feb-13	15-Feb-13		
IPC-PCCS-036	pending	USpr	6 1 /7 6 5,1 1 4	15-Feb-13	15-Feb-13		
IPC-PCCS-037	pending	USpr	6 1 /7 7 8,6 6 1	13-Mar-13			
IPC-PCCS-038	proposed						
IPC-PCCS-040	pending	USpr	6 1 /7 6 5,1 1 6	15-Feb-13	15-Feb-13		
IPC-PCCS-041	pending	USpr	6 1 /7 6 5,1 1 8	15-Feb-13	15-Feb-13		
IPC-PCCS-043	pending	USpr	6 1 /7 6 5,1 1 9	15-Feb-13	15-Feb-13		
IPC-PCCS-044	pending	USpr	6 1 /7 6 5,1 2 2	15-Feb-13	15-Feb-13		
IPC-PCCS-045	proposed						
IPC-PCCS-046	pending	USpr	6 1 /7 6 5,1 3 7	15-Feb-13	15-Feb-13		
IPC-PCCS-046	proposed		6 1 /7 6 5,1 3 7	15-Feb-13			
IPC-PCCS-047	proposed						
IPC-PCCS-051	proposed						
IPC-PCCS-052	proposed						
IPC-PCCS-053	pending	USpr	6 1 /7 6 5,1 2 3	15-Feb-13	15-Feb-13		
IPC-PCCS-054	pending	USpr	6 1 /7 6 5,1 2 6	15-Feb-13	15-Feb-13		
IPC-PCCS-055	proposed						
IPC-PCCS-057	pending	USpr	6 1 /7 6 5,1 3 9	15-Feb-13	15-Feb-13		
IPC-PCCS-059	pending	USpr	6 1 /7 6 5,1 4 4	15-Feb-13	15-Feb-13		
IPC-PCCS-060	pending	USpr	6 1 /7 6 5,1 4 6	15-Feb-13	15-Feb-13		
IPC-PCCS-061	pending	USpr	6 1 /7 7 8,6 80	13-Mar-13	13-Mar-13		
IPC-PCCS-062	pending	USpr	6 1 /81 7 ,09 2	29-Apr-13	29-Apr-13		
IPC-PCCS-063	pending	USpr	6 1 /81 7 ,01 2	29-Apr-13	29-Apr-13		
IPC-PCCS-064	pending	USpr	6 1 /81 7 ,01 9	29-Apr-13	29-Apr-13		
IPC-PCCS-065	proposed						
IPC-PCCS-066	proposed						
IPC-PCCS-067	proposed						

EXHIBIT F

SUBORDINATION AGREEMENT

[*see attached*]

SUBORDINATION AGREEMENT

THIS SUBORDINATION AGREEMENT(this "Subordination Agreement"), is entered into as of August 30, 2012, by and among the Office of the Governor Economic Development and Tourism of the State of Texas (the "Subordinated Creditor"); Ideal Power Converters, Inc., a Texas corporation("Debtor"); the undersigned senior lenders(collectively, the "Senior Creditors"); and a collateral agent to be appointed pursuant to the Senior Loan Agreements, as defined below ("Collateral Agent"). Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the below-defined Senior Loan Agreements.

RECITALS

A. Debtor and Senior Creditors will or have entered into Securities Purchase Agreement ("SPA"), a Senior Secured Convertible Note, and a Security Agreement, each dated as of the date hereof (collectively as the same may be amended, restated, supplemented or otherwise modified from time to time, the "Senior Loan Agreements"), pursuant to which Senior Creditors have loaned or propose to loan funds to Debtor; it is further contemplated that the Debtor will issue senior, secured convertible promissory notes and warrants (or similar securities) to additional investors (collectively, the "Senior Loans" or the "Senior Debt").

B. Debtor contemplates obtaining Senior Loans of up to $5,000,000 in principal amount ("Maximum Principal Amount"), and that certain of the Senior Loans will have a duration of 12 months from issuance and the balance will have a duration of up to 18 months from issuance.

C. Debtor is indebted to Subordinated Creditor in the principal amount of One Million dollars ($1,000,000) plus accrued interest(the "Subordinated Debt"), as evidenced by (a) the Texas Emerging Technology Fund Award and Security Agreement dated October 1, 2010, and (b) the Investment Unit dated October 1, 2010, each between Debtor and Subordinated Creditor (together, the "Subordinated Debt Instrument").

D. Senior Creditors have requested that Subordinated Creditor and Debtor execute this Agreement as a condition to lending funds to the Debtor constituting Senior Loans.

AGREEMENT

NOW, THEREFORE, in order to induce Senior Creditors to loan funds to the Debtor which shall constitute Senior Loans, and for other good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, the parties hereto hereby agree as follows.

Section 1. Interpretation.

(a)Definitions. Unless otherwise expressly provided in this Subordination Agreement, each term set forth in Schedule I, when used in this Subordination Agreement, shall have the respective meaning given to that term in Schedule I or in the provision of this Subordination Agreement referenced in Schedule I.

(b) Headings. Headings in this Subordination Agreement are for convenience of reference only and are not part of the substance hereof.

(c) Plural Terms. All terms defined in this Subordination Agreement in the singular form shall have comparable meanings when used in the plural form and vice versa.

(d) Other Interpretive Provisions. References in this Subordination Agreement to any document, instrument or agreement (i) shall include all exhibits, schedules and other attachments thereto, (ii) shall include documents, instruments or agreements issued or executed in replacement thereof, and (iii) shall mean such document, instrument or agreement, or replacement or predecessor thereto, as amended, modified and supplemented from time to time and in effect at any given time. The words "include" and "including" and words of similar import when used in this Subordination Agreement shall not be construed to be limiting or exclusive.

Section 2. Subordination.

(a) Priorities. Senior Creditors and Subordinated Creditor hereby agree that, subject to the provisions of paragraph 10(j) below, the Subordinated Debt and any Subordinated Debt Payment (either upon an "event of default" under the Subordinated Debt Instrument, or in connection with a pre-payment) are and shall be subordinate to the Senior Debt and all required payments therein, to the extent and in the manner set forth herein, notwithstanding any applicable law to the contrary and notwithstanding anything to the contrary contained in the Senior Loan Agreement, the Subordinated Debt Instrument or any other agreement to the contrary. All of the Senior Debt shall be deemed to have been made or incurred in reliance upon this Subordination Agreement. Except as herein explicitly set forth, nothing herein shall abridge or restrict any rights which Subordinated Creditor has or may have against Debtor under the Subordinated Debt Instrument, the Investment Unit dated October 1, 2010, or any other agreement or instrument executed by Subordinated Debtor and Debtor with respect to the Subordination Debt.

(b) Restricted Actions. Except as otherwise expressly provided in Section 3, until all Senior Debt is indefeasibly paid in full in cash, (i) Debtor will not make, permit or cause and Subordinated Creditor will not accept, permit or cause any Subordinated Debt Payment; (ii) Subordinated Creditor will not demand payment on, accelerate the maturity of, or bring any action for the payment of the Subordinated Debt; institute or join with others in instituting any Debtor Relief Proceeding against Debtor; interfere with Senior Creditors' Lien on the Collateral or take any other action to collect the Subordinated Debt or enforce its rights in connection therewith (provided that Subordinated Creditor may file a proof of claim in connection with a Debtor Relief Proceeding); and (iii) none of Debtor nor Subordinated Creditor will take any other action prejudicial to or inconsistent with the priorities and other rights granted to Senior Creditors hereunder. Nothing herein set forth shall alter or restrict the rights of Subordinated Creditor to declare that a default has occurred as defined within or as permitted under the Subordinated Debt Instrument (a "Subordinated Debt Default). In the event of a Subordinated Debt Default that Debtor does not cure within the time periods allowed under the Subordinated Debt Instrument, Subordinated Creditor shall notify the Senior Creditors but shall not take further action the Debtor.

(c) Turnover. Except for payments permitted to be made to Subordinated Creditor pursuant to Section 3 hereof, if any cash, cash equivalents, securities or other property should be received by Subordinated Creditor (or by any other Person for the benefit of Subordinated Creditor) as Subordinated Debt Payments, Subordinated Creditor shall immediately deliver (or cause to be delivered) the same to Senior Creditors in the form in which received, together with any endorsement, assignment or other writings necessary for Senior Creditors to realize the value thereof and to apply to the Senior Debt. Until such cash, cash equivalents, securities and other property received by Subordinated Creditor are so delivered to Senior Creditors (except for payments permitted to be made to Subordinated Creditor pursuant to Section 3 hereof), the same shall be held by Subordinated Creditor in trust for the benefit of Senior Creditors and shall not be co-mingled with any other property of Subordinated Creditor.

(d) Acknowledgement of Purchase Rights of Subordinated Creditor. The Debtor and Senior Creditors hereby agree and acknowledge that notwithstanding any provision of this Agreement, nothing set forth herein shall alter or otherwise restrict any rights which the Subordinated Creditor has to acquire securities of the Debtor under the Investment Unit dated October 1, 2010, in accordance with the terms and conditions of that agreement and any related amendments, including any warrant, option or other instrument issued in connection therewith.

(e) Obligations of Debtor Unconditional. Subject to Sections 3 and 5(v), nothing contained in this Subordination Agreement is intended to or shall impair, as between Debtor and Subordinated Creditor, the obligation of Debtor to pay the Subordinated Debt as and when due and payable in accordance with its terms, or is intended or shall affect the relative rights of Subordinated Creditor and creditors of Debtor other than Senior Creditors.

(f) Filing Proof of Claim. Should Debtor become a party to any Debtor Relief Proceeding, then in connection therewith Senior Creditors shall have the right to (i) file on behalf of Subordinated Creditor all claims or proofs of debt in respect of the Subordinated Debt in the form required (provided, however, that if Subordinated Creditor files a claim or proof of claim prior to ten (10) business days before the expiration of the time, as provided by applicable statute, to file such claims or proofs of claim, then Subordinated Creditor shall have the right to file such claims and proofs of claim); (ii) demand, sue for, collect or receive the payments and distributions in respect of any Subordinated Debt (provided, however, that if Subordinated Creditor takes any such action no later than ten (10) business days after Senior Creditors make a written request (which may or may not be through the Collateral Agent), instructing Subordinated Creditor to take such action, then Subordinated Creditor shall have the right to take any such actions); and (iii) file and prove all claims therefor and to take all such other action in the name of Subordinated Creditor or otherwise as Senior Creditors may determine to be necessary or appropriate for the enforcement of the provisions of this Section 2 (provided, however, that if Subordinated Creditor takes any such action no later than ten (10) business days after Senior Creditors make a written request, instructing Subordinated Creditor to take such action, then Subordinated Creditor shall have the right to take any such actions); (iv) vote on behalf of Subordinated Creditor in respect of the Subordinated Debt (provided, however, that if Subordinated Creditor shall vote in respect of its interests in the Subordinated Debt as determined and requested by Senior Creditors prior to ten (10) business days before the expiration of the time to exercise its right to so vote, as provided by applicable statute or by the applicable bankruptcy court, receiver or trustee, then Subordinated Creditor shall have the right to so vote).

(g) Amendments to Subordinated Note Instrument. No provision of the Subordinated Note Instrument shall, without the prior written consent of the Senior Creditors, be amended, supplemented or otherwise modified if the effect of such amendment, supplement or other modification would be to (i) advance the final maturity date of the Subordinated Debt or any other scheduled date for the payment of principal, interest or other sums payable in respect of the Subordinated Debt, (ii) impose on the Debtor rates of interest, prepayment charges, premiums, closing fees or other fees or other amounts that, taken as a whole, are materially greater than the respective amounts thereof in effect immediately prior to such amendment, modification or supplement, or (iii) impose on the Debtor any representations, warranties, covenants, events of default, remedies or other provisions that, taken as a whole, are materially more restrictive or burdensome to the Debtor than the terms and provisions of the Subordinated Debt Instrument as in effect on the date of this Agreement; provided that nothing contained in this Section 2(g) or elsewhere in this Agreement shall be construed to require the consent of the Senior Creditors for (A) any waiver by the Subordinated Creditor of any event of default under the Subordinated Debt Instrument or other term, provision or condition contained in the Subordinated Debt Instrument, (B) any waiver by the Subordinated Creditor of any of the rights and remedies of the Subordinated Creditor thereunder, or (C) any modification of covenants under the Subordinated Debt Instrument by mutual agreement of the Debtor and Subordinated Creditor (including but not limited to the commercialization milestones set forth therein).

(h) Legend. The original Subordinated Debt Instrument, and any other instrument evidencing the Subordinated Debt or any portion thereof, may be inscribed with a legend conspicuously indicating that payment thereon is subordinated to the claims of Senior Creditors pursuant to the terms of this Subordination Agreement, and copies of the Subordinated Debt Instrument will forthwith be delivered to Senior Creditors. Any instrument evidencing any of the Subordinated Debt or any portion thereof which is hereafter executed will, on the date thereof, be inscribed with the aforesaid legend, and copies thereof will be delivered to Senior Creditors on the date of its execution or within five (5) business days thereafter. Notwithstanding the foregoing, Subordinated Creditor may elect in writing to notify the Senior Creditors that Subordinated Creditor has filed this Agreement alongside the Subordinated Debt Instrument and alongside any other transaction documents or instruments related to the Subordinated Debt and in such event, Subordinated Debtor covenants to disclose in writing to any assignee, transferee or successor of Subordinated Debtor of the terms and rights of the Senior Creditors under this Agreement.

Section 3. Permitted Actions. Notwithstanding anything to the contrary set forth in the Subordinated Debt Instrument or otherwise Debtor may pay, and Subordinated Creditor may receive, the Entire Subordinated Debt Instrument Balance, upon the earlier of (x) the sale of all or substantially all of the assets of Debtor, or (y) a change in the ownership of more than forty-nine percent (49%) of the issued and outstanding stock of Debtor; provided, however, that, no such amounts may be paid to Subordinated Creditor unless Senior Creditors have been paid in full all of the Senior Debt prior to the payment to Subordinated Creditor of the Entire Subordinated Debt Instrument Balance, or each of the following has occurred:

(a) with respect to the event in clauses (x) or (y) of Section 3 above, Senior Creditors have waived in writing its requirement that the Senior Debt be paid in full as a result of the occurrence of any such event;

(b) a recapitalization of Debtor has occurred in the amount of not less than the Entire Subordinated Debt Instrument Balance and upon terms satisfactory to Senior Creditors;

(c) no Debtor Relief Proceeding or Senior Debt Payment Default shall have commenced and be continuing as of the date of payment of the Entire Subordinated Debt Instrument Balance;

(d) no other Senior Debt Default shall have been declared by Senior Creditors in a written notice to Debtor (which Senior Debt Default shall not have been waived in writing) as of the date of payment of the Entire Subordinated Debt Instrument Balance; and

(e) ten (10) business days prior to such payment of the Entire Subordinated Debt Instrument Balance, Debtor shall have delivered to Senior Creditors financial statements for Debtor as of the last day of the immediately preceding calendar month, in form and substance satisfactory to Senior Creditors, together with a certification of the Chief Financial Officer of Debtor (which certification shall be true and correct as of the date thereof), confirming each of the matters set forth in clauses (a), (b), (c) and (d) above.

Section 4.Representations and Warranties. Subordinated Creditor represents and warrants to Senior Creditors that (i) the execution, delivery and performance by Subordinated Creditor of this Subordination Agreement are within the power of Subordinated Creditor and have been duly authorized by all necessary actions on the part of Subordinated Creditor; (ii) this Subordination Agreement has been duly executed and delivered by Subordinated Creditor and constitutes a legal, valid and binding obligation of Subordinated Creditor, enforceable against Subordinated Creditor in accordance with its terms; (iii) the execution, delivery and performance of this Subordination Agreement do not violate any Requirement of Law; (iv) no consent, approval, order or authorization of, or registration, declaration or filing with, any governmental authority or other Person (including the shareholders of any Person) is required in connection with the execution, delivery and performance of this Subordination Agreement by Subordinated Creditor, except such consents, approvals, orders, authorizations, registrations, declarations and filings that are so required and which have been obtained and are in full force and effect; (v) the Subordinated Debt is owned by Subordinated Creditor, free and clear of any Liens, other than inchoate statutory Liens arising under law and not in respect of overdue monetary obligations; (vi) the copy of the Subordinated Debt Instrument attached hereto as Exhibit A is a true and complete copy thereof, and the Subordinated Debt Instrument has not been further amended or supplemented; and (vii) no other Debt for borrowed money is payable by Debtor to Subordinated Creditor, with the exception of the Debt evidenced by the Subordinated Debt Instrument.

Section 5.Covenants of Subordinated Creditor. Notwithstanding anything to the contrary herein, in the Subordinated Debt Instrument or in any other agreement, until the Senior Debt is indefeasibly paid in full in cash, Subordinated Creditor hereby agrees (i) to perform all acts that may be reasonably necessary to maintain, preserve and protect its rights in the Subordinated Debt and the value of such rights; (ii) to procure, execute and deliver to Senior Creditors all endorsements, assignments and other writings necessary for Senior Creditors to realize the value of any property to which Senior Creditors are entitled hereunder; (iii) not to surrender or lose possession of (other than to Senior Creditors), sell, encumber, assign, grant or permit any Lien in (other than inchoate statutory Liens arising under law and not in respect of overdue monetary obligations) or otherwise transfer to any Person (other than Senior Creditors) any of Subordinated Creditor's rights in the Subordinated Debt or any evidence thereof, provided however that nothing in this Section 5 shall prohibit the transfer or assignment of Subordinated Creditor's rights in the Subordinated Debt to a successor of the Subordinated Creditor or to another office or entity owned or controlled by the State of Texas; (iv) to provide written notice to Senior Creditors of any Subordinated Debt Default; (v) to not amend or consent to the amendment of the payment provisions of the Subordinated Debt Instrument, provided however that nothing in this Section 5 shall prohibit the Subordinated Creditor from amending or modifying the Subordinated Debt Instrument in accordance with Section 2(g) above; and (vi) that Subordinated Creditor shall not claim any Lien upon any property or assets of Debtor as security for the Subordinated Debt.

Section 6.Authorized Actions. Subordinated Creditor authorizes Senior Creditors and/or the Collateral Agent, in their discretion, with prior written notice to Subordinated Creditor, irrespective of any change (including any change in the financial condition of Debtor, Subordinated Creditor, any guarantor or any other Person) or of any other event or circumstance, and without affecting or impairing in any way the obligations of Subordinated Creditor or the rights of Senior Creditors hereunder, from time to time to (a) compromise, extend, accelerate or otherwise change the time for payment or performance of, or otherwise change the terms of, the Senior Debt or any part thereof, including increase or decrease of the rate of interest thereon; (b) take and hold Collateral or other security for the payment or performance of the Senior Debt and exchange, enforce, waive or release any such Collateral or other security; (c) apply such Collateral or other security and direct the order or manner of sale thereof; (d) purchase such Collateral or other security at public or private sale; (e) otherwise exercise any right or remedy it may have against Debtor, any guarantor, any other Person or any Collateral or other security, including the right to foreclose upon any Collateral by judicial or non-judicial sale; (f) settle, compromise with, release or substitute any one or more makers, endorsers or guarantors of the Senior Debt; or (g) assign any or all of the Senior Debt, this Subordination Agreement, or any related documents, instruments or agreements in whole or in part.

Section 7. Waiver. No right of Senior Creditors to enforce the subordination and other terms and conditions provided herein shall at any time in any way be prejudiced or impaired by any act or failure to act by Senior Creditors or by any non-compliance by Debtor with the terms and provisions and covenants herein regardless of any knowledge thereof Senior Creditors may have or otherwise be charged. Senior Creditors shall not be prejudiced in their right to enforce the subordination and other terms and conditions of the Subordinated Debt, by any act or failure to act by Debtor or anyone in custody of its assets or property. Without limiting the generality of the foregoing sentence of this Section 7, Subordinated Creditor waives (a) any right to require Senior Creditors to (i) proceed against Debtor, any guarantor or any other Person, (ii) proceed against or exhaust any Collateral or other security, or (iii) pursue any other remedy in Senior Creditors' power whatsoever; (b) any defense resulting from the absence, impairment or loss of any right of reimbursement, subrogation, contribution or other right or remedy of Subordinated Creditor against Debtor, any guarantor, any other Person or any Collateral or other security, whether resulting from an election by the Senior Creditors to foreclose upon Collateral by non-judicial sale, or otherwise; (c) any setoff or counterclaim of Debtor or any defense which results from any disability or other defense of Debtor or the cessation or stay of enforcement from any cause whatsoever of the liability of Debtor; (d) any right of subrogation, reimbursement or contribution, and right to enforce any remedy which Senior Creditors now have or may hereafter have against Debtor or any other Person, and any benefit of, and any right to participate in, any Collateral or other security now or hereafter received by Senior Creditors; (e) all presentments, demands for performance, notices of nonperformance, protests, notice of dishonor, and notices of acceptance of this Subordination Agreement. Subordinated Creditor has the ability, and assumes the responsibility for keeping informed of the financial condition of Debtor and of other circumstances affecting such nonpayment and nonperformance risks.

Section 8. **[Intentionally Omitted].**

Section 9. **Default.** If any representation or warranty in this Subordination Agreement or in any instrument evidencing or securing the Senior Debt proves to have been false when made, or, in the event of a breach by Debtor or Subordinated Creditor in the performance of any of the terms of this Subordination Agreement or any instrument or agreement evidencing or securing the Senior Debt, all of the Senior Debt shall, at the option of Senior Creditors, become immediately due and payable without presentment, demand, protest, or notice of any kind, notwithstanding any time or credit otherwise allowed. At any time Subordinated Creditor fails to comply with any provision of this Subordination Agreement that is applicable to Subordinated Creditor, Senior Creditors may secure and obtain specific performance of this Subordination Agreement, whether or not Debtor has complied with this Subordination Agreement, and may exercise any other remedy available at law or equity.

Section 10. **Miscellaneous.**

(a) Notices. Except as otherwise set forth herein, all notices, requests and demands required or permitted to be made hereunder shall be in writing and sent by certified or registered mail, return receipt requested, or by express courier or delivery service (provided the same shall provide dated evidence of delivery), or by facsimile, if followed by an original sent by certified mail, registered mail, express courier or delivery service, shall be deemed given or made five (5) business days after mailing if sent by mail, one (1) business day after consignment to an express courier or delivery service, and upon sending thereof if sent by facsimile as provided above, and shall be directed as follows:

If to Subordinated Creditor:

Office of the Governor
Attn: Emerging Technology Fund
P.O. Box 12878
Austin, Texas 78711-2878
E-mail: ETF.Compliance@governor.state.tx.us

With copy to

Office of the Governor
Attn: General Counsel Division
Emerging Technology Fund
P.O. Box 12878
Austin, Texas 78711-2878

If to Debtor:

Ideal Power Converters, Inc.
5004 Bee Creek Road, Suite 600
Spicewood, Texas 78669
Tel: 512-264-1542

If to Senior Creditors:

To the addresses specified on the signature pages hereto.

With a copy (not constituting notice) to:

Law Offices of Aaron A. Grunfeld
1100 Glendon Ave., Suite 850
Los Angeles, California 90024
Attention: Aaron A. Grunfeld
AGrunfeld@grunfeldlaw.com

or, as to any of the foregoing, at such other address as shall be designated by such party in a written notice to the other party hereto.

(b) No waiver. No failure or delay on the part of Senior Creditors or on the part of the Collateral Agent in exercising any right hereunder shall operate as a waiver thereof or of any other right nor shall any single or partial exercise of any such right preclude any other further exercise thereof or of any other right.

(c) Amendments and Waivers. Except as otherwise expressly provided herein, this Subordination Agreement may not be amended or modified, nor may any of its terms be waived, except by written instruments signed by the party or parties against which enforcement thereof is sought. Each waiver or consent under any provision hereof shall be effective only in the specific instances for the purpose for which given.

(d) Assignments. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, that Debtor may not assign its rights or delegate its duties hereunder without the prior written consent of Senior Creditors and Subordinated Creditor. Senior Creditors may assign, through the sale of participation interests or otherwise, all or any part of its interest under this Subordination Agreement or any related documents upon notice to Subordinated Creditor and an agreement stating that such assignee or participant shall abide by the terms of this Subordination Agreement. Senior Creditors may disclose this Subordination Agreement and the related documents to any potential assignee or participant.

(e) Entire Agreement. This Subordination Agreement constitutes and expresses the entire understanding between the parties hereto with respect to the subject matter hereof, and supersedes all prior and contemporaneous agreements and understandings, inducements or conditions, whether express or implied, oral or written.

(f) Counterparts. This Subordination Agreement may be executed in any number of identical counterparts, any set of which signed by all parties hereto shall be deemed to constitute a complete, executed original for all purposes.

(g) Governing Law: Choice of Forum.

(i) Texas Law. This Subordination Agreement shall be interpreted and the rights and liabilities of the parties hereto determined in accordance with the internal laws and not the law of conflicts of the State of Texas.

(ii) Forum. Any legal action or proceeding with respect to this subordination agreement or any other loan document may be brought in the courts within the State of Texas or in any court of the United States within the State of Texas, and by execution and delivery of this Subordination Agreement, Debtor, Subordinated Creditor and Senior Creditors' consent, for itself and in respect of its property, to the non-exclusive jurisdiction of those courts. Each of Debtor, Subordinated Creditor and Senior Creditors irrevocably waive any objection, including any objection to the laying of venue or based on the grounds of *forum non conveniens*, which it may now or hereafter have to the bringing of any action or proceeding in such jurisdiction in respect of this subordination agreement or any document related hereto. Debtor and Subordinated Creditor hereby waive personal service of any and all process upon it and consents that all such service of process may be made by registered mail (return receipt requested) directed to such person at its address set forth in Section 10(a) and service so made shall be deemed to be completed five (5) days after the same shall have been so deposited in the U.S. mails. Nothing contained herein shall affect the right of Senior Creditors to serve legal process by any other manner permitted by law.

(h) Further Assurances. From and after the date hereof, the parties shall, on request, cooperate with one another by furnishing any additional information, executing and delivering any additional documents and instruments, and doing any and all such other things as may be reasonably required by the parties or their counsel to consummate or otherwise implement the transactions contemplated by this Agreement.

(i) No Waiver of Sovereign Immunity of the State of Texas. Nothing in this Agreement shall be construed as waiving any rights of or to Sovereign Immunity inuring to the Subordinated Creditor under the laws of the State of Texas.

(j) Term of Subordination. Notwithstanding anything else herein set forth, this Subordination Agreement shall terminate upon the earlier of (i) payment of the Senior Loans or (ii) the automatic conversion of Senior Loans in accordance with the terms of the Senior Loan Agreements, upon completion of Debtor's initial public offering of securities ("IPO"). Debtor has advised Subordinated Creditor that Debtor will endeavor in good faith to close, but cannot assure that the IPO will be completed by or about to August 30, 2013.

[The Remaining Portion of this Page is Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused this Subordination Agreement to be executed as of the day and year first above written.

DEBTOR: **IDEAL POWER CONVERTERS, INC.**

By: /s/ Christopher Cobb
Name: Christopher Cobb
Title: Chief Executive Officer

SUBORDINATED
CREDITOR: **THE OFFICE OF THE GOVERNOR ECONOMICDEVELOPMENT AND TOURISM**

By: /s/ Jeffrey A. Boud
Name:
Title:

COLLATERAL AGENT: [_____], a [California _____]

By: /s/ Anthony DiGiandomenico

Name: Anthony DiGiandomenico

Title: _____

SENIOR CREDITORS:

_____
(Print Name of Subscriber)

_____
(Signature)

Name:
Title:_____

Mailing Address:
_____
_____
_____
(City, State and Zip)

_____
(Name of Co-Subscriber, if applicable)

_____
(Signature)

Name:_____
Title: _____

Telephone No.:_____
Facsimile No:_____
Email Address:_____

SCHEDULE I

Definitions

"Collateral" shall mean any assets of any Debtor or any other Person which is subject to a Lien in favor of Senior Creditors.

"Collateral Agent" shall have the meaning set forth in the Preamble.

"Debt" shall mean, with respect to any Person, all loans, advances and indebtedness for borrowed money, howsoever arising, owed by such Person of every kind and description (whether or not evidenced by any note or instrument and whether or not for the payment of money), direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, including all principal, interest, fees, taxes, charges, expenses (including attorneys' fees) and other amounts payable in connection therewith, and all obligations and liabilities under guaranties.

"Debtor" shall have the meaning given to that term in the introductory paragraph hereof.

"Debtor Relief Proceeding" shall mean any suit, action, case or other proceeding commenced by, against or for Debtor or its property seeking the dissolution, liquidation, reorganization or other relief of Debtor or its Debt under any state, federal or foreign bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a receiver, trustee, liquidator, custodian or other similar official for Debtor or its property or any general assignment by Debtor for the benefit of its creditors.

"Entire Subordinated Debt Instrument Balance" shall mean the entire principal amount then payable under the Subordinated Debt Instrument (not to exceed One Million dollars ($1,000,000)), plus interest accrued pursuant to the Investment Unit Agreement.

"Fiscal Quarter" means each three-month period ending on March 31, June 30, September 30, and December 31 during any Fiscal Year.

"Fiscal Year" means, with respect to Debtor, Debtor's fiscal year for financial accounting purposes. Debtor's Fiscal Year ends on December 31.

"Lien" means any interest in property securing an obligation owed to, or a claim by, a Person other than the owner of the property, whether such interest is based on the common law, statute or contract, and, including, without limitation, a security interest, pledge or lien arising from a mortgage, deed of trust, encumbrance, pledge, hypothecation, assignment, deposit arrangement, agreement, security agreement, conditional sale or trust receipt or a lease, consignment or bailment for security purposes.

"Person" shall mean any natural person, corporation, partnership, firm, association, governmental authority or any other entity whether acting in an individual, fiduciary, or other capacity.

"Requirements of Law" shall mean, with respect to any Person, the articles or certificate of incorporation, bylaws, partnership agreement, trust agreement, operating agreement or other organizational or governing documents of such Person, and any material law, treaty, rule or regulation, or a final and binding determination, order, judgment or decree of any arbitrator, court or other governmental authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

"Senior Creditors" shall have the meaning given to such term in the introductory paragraph hereof.

"Senior Debt" shall mean (i) all Debt now or hereafter existing or owed by Debtor to Senior Creditors pursuant to the Senior Loan Agreements with a principal amount up to the Maximum Principal Amount, any Senior Loan Document or any instruments or other documents executed by Debtor with or in favor of Senior Creditors in connection therewith, as such agreements may be amended, supplemented, modified, extended, restated or replaced, and whether for principal, premium, interest (including all interest accruing after the initiation of any Debtor Relief Proceeding, whether or not allowed), fees, expenses, indemnities or otherwise; and (ii) all Debt owed by Debtor to Senior Creditors in connection with any refinancing, refunding, restructuring or replacement of all or any part of the Senior Debt described in clause (i) (including all such Debt arising after the commencement of any Debtor Relief Proceeding).

"Senior Debt Default" shall mean a "Default" or an "Event of Default" under the Senior Loan Agreement.

"Senior Debt Payment Default" shall mean a default in the payment when due of principal or interest under the Senior Loan Documents.

"Senior Loan" shall have the meaning given to such terms in the Recitals hereto.

"Senior Loan Agreement" shall have the meaning given to such term in the Recitals hereto.

"Senior Loan Documents" shall have the meaning given to such term in the Senior Loan Agreement.

"Subordinated Creditors" shall have the meaning given to that term in the introductory paragraph hereof.

"Subordinated Debt" shall mean (i) all Debt now or at any time owed by Debtor to Subordinated Creditor pursuant to the Subordinated Debt Instrument (including all such Debt arising after the commencement of any Debtor Relief Proceeding); and (ii) all Debt owed by Debtor in connection with any permitted refinancing, refunding, restructuring or replacement of all or any part of the Debt described in clause (i) (including all such Debt arising after the commencement of any Debtor Relief Proceeding).

"Subordinated Debt Instrument" shall have the meaning given to that term in the Recitals hereto.

"Subordinated Debt Interest Payment" shall mean any Subordinated Debt Payment in respect of the interest payable in respect of the outstanding principal amount of the Subordinated Debt Instrument.

"Subordinated Debt Payment" shall mean any direct or indirect payment, prepayment, reduction or discharge of any of the Subordinated Debt, whether such payment, prepayment, reduction or discharge is effected by Debtor, any guarantor of Subordinated Debt, any trustee or receiver for the estate or property of any of the foregoing or any other Person through direct payment, redemption, purchase, refinancing, setoff, cancellation, issuance of securities, any action on the Subordinated Debt Instrument, transfer of assets or distribution to creditors in any Debtor Relief Proceeding or otherwise.

"Subordinated Debt Principal Payment" shall mean any Subordinated Debt Payment in respect of the principal amount of no more than One Million dollars ($1,000,000) payable to Subordinated Creditor under the terms of the Subordinated Debt Instrument.

EXHIBIT A

Subordinated Debt Instrument

EXHIBIT G

REGISTRATION RIGHTS AGREEMENT

IDEAL POWER INC.

REGISTRATION RIGHTS AGREEMENT

This **REGISTRATION RIGHTS AGREEMENT** (this "**Agreement**"), dated as of July [___], 2013, is made and entered into by and between Ideal Power Inc., a Delaware corporation with headquarters located at5004 Bee Creek Road, Suite 600 Spicewood, Texas 78669 (the "**Company**"), and each of the purchasers set forth on the signature pages hereto (the "**Purchasers**").

WHEREAS, in connection with the Securities Purchase Agreement by and among the parties hereto of even date herewith (the "**Securities Purchase Agreement**"), the Company has agreed, upon the terms and subject to the conditions contained therein, to issue and sell to the Purchasers: (i) Senior Secured Convertible Promissory Notes for an aggregate purchase price of $750,000 which, together with the Senior Secured Convertible Promissory Notes issued by the Company on August 31, 2012 for an aggregate purchase price of $750,000 and the Senior Secured Convertible Promissory Notes issued by the Company on November 21, 2012 for an aggregate purchase price of $3,250,000, shall be referred to in this Agreement as the **"Notes"**, and (ii) warrants to purchase shares of the Company's common stock, $0.001 par value (the **"Common Stock"**) of the Company (the **"Warrants"**); and

WHEREAS, in order to induce the Purchasers to execute and deliver the Securities Purchase Agreement, the Company has agreed to provide certain registration rights under the Securities Act of 1933, as amended, and the rules and regulations thereunder, or any similar successor statute (collectively, the "**Securities Act**"), and applicable state securities laws.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and each Purchaser hereby agree as follows:

1. **Definitions.**

As used in this Agreement, the following capitalized terms shall have the following meanings. Capitalized terms used but not otherwise defined herein shall have the respective meanings set forth in the Securities Purchase Agreement.

(a) "**Business Day**" means any day other than Saturday, Sunday or a federal holiday.

(b) "**Closing Date**" shall have the meaning set forth in the Securities Purchase Agreement.

(c) "**Effectiveness Deadline**" means (i) with respect to any Registration Statement required to be filed pursuant to Section 2(a), 90 days after the Filing Deadline for such initial Registration Statement, and (ii) with respect to any additional Registration Statements that may be required to be filed by the Company pursuant to this Agreement, the earlier of the (A) 90th calendar day following the date on which the Company was required to file such additional Registration Statement and (B) 2nd Business Day after the date the Company is notified (orally or in writing, whichever is earlier) by the SEC that such Registration Statement will not be reviewed or will not be subject to further review.

(d) "**Filing Deadline**" means (i) with respect to any Registration Statement required to be filed pursuant to Section 2(a), within 60 days after receipt of a written request from the Required Holders pursuant to Section 2(a), and (ii) with respect to any additional Registration Statements that may be required to be filed by the Company pursuant to this Agreement, the date on which the Company was required to file such additional Registration Statement pursuant to the terms of this Agreement.

(e) "**Person**" means an individual, a limited liability company, a partnership, a joint venture, a corporation, a trust, an unincorporated organization or a government or any department or agency thereof.

(f) "**Purchasers**" means the Purchasers and any transferee or assignee who agrees to become bound by the provisions of this Agreement in accordance with Section 9 hereof.

(g) "**register**," "**registered**," and "**registration**" refer to a registration effected by preparing and filing a Registration Statement or Statements in compliance with the Securities Act and pursuant to Rule 415 under the Securities Act or any successor rule providing for offering securities on a continuous basis ("**Rule 415**"), and the declaration or ordering of effectiveness of such Registration Statement by the U.S. Securities and Exchange Commission (the "**SEC**"); provided, however, if the Required Holders in good faith determine that under applicable SEC interpretations, rules or policies a Rule 415 registration would not, in light of the circumstances of the Company or the proposed offering, permit the resale of all of the Registrable Securities immediately after effectiveness, or material limitations would be imposed on any such resale, then the registration shall be on Form S-1 or such other form that permits the maximum ability of holders of Registrable Securities to effectuate an unrestricted resale of such securities.

(h) "**Registrable Securities**" means (i) the Common Stock into which the Principal Amount, together with any accrued interest and any other amounts payable under the Notes may be converted and (ii) the shares of Common Stock issuable upon exercise or otherwise pursuant to the Warrants (without regard to any limitations on exercise set forth therein) (the "Warrant Shares"), and (iii) any shares of capital stock issued or issuable in exchange for or otherwise with respect to the foregoing.

(i) "**Registration Statement**" means a registration statement of the Company under the Securities Act which the Company may or is obligated to file hereunder.

(j) "**Required Holders**" means the holders of at least a majority of the Registrable Securities (excluding any Registrable Securities held by the Company or any of its subsidiaries) holding Notes with an aggregate minimum Principal Amount of $3 million.

(k) "**Rule 144**" means Rule 144 promulgated by the SEC under the Securities Act, as such rule may be amended from time to time, or any other similar or successor rule or regulation of the SEC that may at any time permit the Purchasers to sell securities of the Company to the public without registration.

(l) "**Rule 415**" means Rule 415 promulgated by the SEC under the Securities Act, as such rule may be amended from time to time, or any other similar or successor rule or regulation of the SEC providing for offering securities on a continuous or delayed basis.

(m) "**SEC**" means the United States Securities and Exchange Commission or any successor thereto.

2. **Registration.**

(a) Mandatory Registration. Subject to the terms and conditions, and in accordance with the provisions of Section 3 and Section 4 hereof, at any time after the Closing Date through July ___, 2014, if the Company shall receive a written request from the Required Holders that the Company file a registration statement under the Securities Act covering the registration of at least 25% of the Registrable Securities then outstanding, then the Company shall, within 30 days of the receipt thereof, give written notice of such request to the remaining Purchasers, and subject to the limitations of this Section 2, prepare and, as soon as practicable, but in no event later than the Filing Deadline, file with the SEC an initial Registration Statement on Form S-1 covering the resale of all of such Registrable Securities. Such initial Registration Statement, and each other Registration Statement required to be filed pursuant to the terms of this Agreement, shall contain (except if otherwise directed by the Required Holders) the "Selling Shareholders" and "Plan of Distribution" sections in substantially the form attached hereto as Exhibit 1. The Company shall use reasonable best efforts to have such initial Registration Statement, and each other Registration Statement required to be filed pursuant to the terms of this Agreement, declared effective by the SEC as soon as practicable, but in no event later than the applicable Effectiveness Deadline for such Registration Statement.

(b) Piggy-Back Registrations. Subject to the terms and conditions, and in accordance with the provisions of Section 4 hereof, in the event that all Registrable Securities are not registered for resale, should the Company at any time prior to the expiration of the Registration Period (as hereinafter defined), determine to file with the SEC a Registration Statement relating to an offering for its own account or the account of others under the Securities Act of any of its equity securities (other than on Form S-4 or Form S-8 or their then equivalents relating to equity securities to be issued solely in connection with any acquisition of any entity or business or equity securities issuable in connection with stock option or other bona fide employee benefit plans), the Company shall send to each Purchaser who is entitled to registration rights under this Section 2(b) written notice of such determination and, if within 20 days after the effective date of such notice (as provided for in Section 11(b) hereof), such Purchaser shall so request in writing, the Company shall include in such Registration Statement all or any part of the Registrable Securities such Purchaser requests to be registered. Notwithstanding any other provision of this Agreement, the Company may withdraw any registration statement referred to in this Section 2(b) without incurring any liability to the Purchasers.

(c) Offering. Notwithstanding anything to the contrary contained in this Agreement, in the event the staff of the SEC (the "Staff") or the SEC seeks to characterize any offering pursuant to a Registration Statement filed pursuant to this Agreement as constituting an offering of securities by, or on behalf of, the Company, or in any other manner, such that the Staff or the SEC do not permit such Registration Statement to become effective and used for resales in a manner that does not constitute such an offering and that permits the continuous resale at the market by the Purchasers participating therein (or as otherwise may be acceptable to each Purchaser) without being named therein as an "underwriter," then the Company shall reduce the number of shares to be included in such Registration Statement by all Purchasers until such time as the Staff and the SEC shall so permit such Registration Statement to become effective as aforesaid. In making such reduction, the Company shall reduce the number of shares to be included by all Purchasers on a pro rata basis (based upon the number of Registrable Securities otherwise required to be included for each Purchaser) unless the inclusion of shares by a particular Purchaser or a particular set of Purchasers are resulting in the Staff or the SEC's "by or on behalf of the Company" offering position, in which event the shares held by such Purchaser or set of Purchasers shall be the only shares subject to reduction (and if by a set of Purchasers on a pro rata basis by such Purchasers or on such other basis as would result in the exclusion of the least number of shares by all such Purchasers); provided, that, with respect to such pro rata portion allocated to any Purchaser, such Purchaser may elect the allocation of such pro rata portion among the Registrable Securities of such Purchaser. In addition, in the event that the Staff or the SEC requires any Purchaser seeking to sell securities under a Registration Statement filed pursuant to this Agreement to be specifically identified as an "underwriter" in order to permit such Registration Statement to become effective, and such Purchaser does not consent to being so named as an underwriter in such Registration Statement, then, in each such case, the Company shall reduce the total number of Registrable Securities to be registered on behalf of such Purchaser, until such time as the Staff or the SEC does not require such identification or until such Purchaser accepts such identification and the manner thereof.

(d) Allocation of Registrable Securities. The initial number of Registrable Securities included in any Registration Statement and any increase in the number of Registrable Securities included therein shall be allocated pro rata among the Purchasers based on the number of Registrable Securities held by each Purchaser at the time such Registration Statement covering such initial number of Registrable Securities or increase thereof is declared effective by the SEC. In the event that a Purchaser sells or otherwise transfers any of such Purchaser's Registrable Securities, each transferee or assignee (as the case may be) that becomes an Purchaser shall be allocated a pro rata portion of the then-remaining number of Registrable Securities included in such Registration Statement for such transferor or assignee (as the case may be). Any shares of Common Stock included in a Registration Statement and which remain allocated to any Person which ceases to hold any Registrable Securities covered by such Registration Statement shall be allocated to the remaining Purchasers, pro rata based on the number of Registrable Securities then held by such Purchasers which are covered by such Registration Statement.

(e) No Inclusion of Other Securities. With the exception of any Registrable Securities that result from the offerings of senior secured convertible promissory notes together with warrants that the Company closed on August 31, 2012 and November 21, 2012, in no event shall the Company include any securities other than Registrable Securities on any Registration Statement without the prior written consent of the Required Holders. Until July ____, 2014, the Company shall not enter into any agreement providing any registration rights to any of its security holders without the consent of the Required Holders.

(f) Termination. All registration rights under this Section 2 shall terminate and be of no further force and effect upon repayment of the Notes (with respect to each Note); provided, however, that if the Warrant Shares are not registered prior to the termination of the registration rights, then the Purchaser will have the right to require the Company to purchase the Warrant in accordance with Section 13 of the Warrant (the "Put Right"). The Put Right will expire 12 months from the termination of the registration rights in accordance with this Section 2(f).

(g) Late Fees. If for any reason the Company does not file a registration statement by the Filing Deadline ("Filing Default") or if for any reason it is unable to have that registration statement declared effective by the SEC as of the Effectiveness Deadline ("Effectiveness Default"), then the Company shall pay promptly an amount that is determined by (A) multiplying (i) the amount of the Offering, by (ii) 0.03, and then (iii) dividing by 30, followed by (B) multiplying the result by the number of elapsed days needed to cure the Filing Default or the Effectiveness Default. By way of example if the Company cured the Filing Default or the Effectiveness Default 10 days after the Filing Deadline or 10 days after the Effectiveness Deadline, then it would be required to pay the Purchasers as a group an aggregate of $5,000, according to their respective interests, no later than the earlier of (x) 10 business days after cure of the Filing Default or of the Effectiveness Default, or (ii) 10 business days after the month in which the Filing Default or the Effectiveness Default has occurred.

3. **Obligations of the Company**. In connection with the registration of the Registrable Securities, the Company shall have the following obligations:

(a) On or prior to the Filing Deadline the Company will use reasonable best efforts to become a publicly traded and publicly reporting company under both the Securities Act and the Securities Exchange Act of 1934 and will use reasonable best efforts to file a Registration Statement with the Securities and Exchange Commission ("SEC") on Form S-1 covering the registration of Common Stock of the Company, including the Registrable Securities, on or prior to the Filing Deadline and shall use its reasonable best efforts to cause such Registration Statement to be declared effective by the SEC as soon as practicable after such filing (but in no event later than the Effectiveness Date), and the Company shall take all such other actions associated with being a publicly traded company, including filing an application for listing the Common Stock on the NASDAQ Capital Market or such other exchange as agreed to by the Company and the underwriter. Subject to Allowable Grace Periods, upon effectiveness, the Company shall use its reasonable best efforts to keep such Registration Statement effective pursuant to Rule 415 at all times until such date as is the earlier of: (i) the date on which all of the Registrable Securities covered by the Registration Statement have been sold and (ii) the date on which the Registrable Securities (in the opinion of counsel to the Purchasers reasonably acceptable to the Company) may be immediately sold to the public by non-affiliates without registration or restriction (including, without limitation, as to volume by each holder thereof) under the Securities Act (the "**Registration Period**"). Notwithstanding anything to the contrary contained in this Agreement, the Company shall ensure that, when filed and at all times while effective, each Registration Statement (including, without limitation, all amendments and supplements thereto) and the prospectus (including, without limitation, all amendments and supplements thereto) used in connection with such Registration Statement (1) shall not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein, or necessary to make the statements therein (in the case of prospectuses, in the light of the circumstances in which they were made) not misleading and (2) will disclose (whether directly or through incorporation by reference to other SEC filings to the extent permitted) all material information regarding the Company and its securities. The Company shall submit to the SEC, within one Business Day after the later of the date that (i) the Company learns that no review of a particular Registration Statement will be made by the Staff or that the Staff has no further comments on a particular Registration Statement (as the case may be) and (ii) the consent of Legal Counsel is obtained pursuant to Section 3(c) (which consent shall be immediately sought), a request for acceleration of effectiveness of such Registration Statement to a time and date not later than 48 hours after the submission of such request.

(b) The Company shall use reasonable best efforts to prepare and file with the SEC such amendments (including post-effective amendments) and supplements to the Registration Statements and the prospectus used in connection with the Registration Statements, which prospectus is to be filed pursuant to Rule 424 promulgated under the Securities Act, as may be necessary to keep the Registration Statements effective at all times during the Registration Period, and, during such period, comply with the provisions of the Securities Act with respect to the disposition of all Registrable Securities of the Company covered by the Registration Statements; provided, however, by 8:30 a.m. (New York time) on the Business Day immediately following each Effective Date, the Company shall file with the SEC in accordance with Rule 424(b) under the Securities Act the final prospectus to be used in connection with sales pursuant to the applicable Registration Statement (whether or not such a prospectus is technically required by such rule).

(c) If requested by a Purchaser, the Company shall furnish to each Purchaser whose Registrable Securities are included in a Registration Statement promptly (but in no event more than two business days) after the Registration Statement is declared effective by the SEC, such number of copies of a final prospectus and all amendments and supplements thereto and such other documents as such Purchaser may reasonably request in order to facilitate the disposition of the Registrable Securities owned by such Purchaser. The Company will promptly notify each Purchaser of the effectiveness of each Registration Statement or any post-effective amendment. The Company will, as promptly as reasonably practical, respond to any and all comments received from the SEC (which comments relating to such Registration Statement that pertain to the Purchasers as "Selling Shareholders" shall promptly be made available to the Purchasers upon request; provided that, the Company shall not be obligated to make available any comments that would result in the disclosure to the Purchasers of material and non-public information concerning the Company or that contain information for which the Company has sought confidential treatment), with a view towards causing each Registration Statement or any amendment thereto to be declared effective by the SEC as soon as practicable, shall promptly file an acceleration request as soon as practicable following the resolution or clearance of all SEC comments or, if applicable, following notification by the SEC that any such Registration Statement or any amendment thereto will not be subject to review and, if required by law, shall promptly file with the SEC a final prospectus as soon as practicable following receipt by the Company from the SEC of an order declaring the Registration Statement effective.

(d) The Company shall use reasonable best efforts to: (i) register and qualify the Registrable Securities covered by the Registration Statements under such other securities or "blue sky" laws of such jurisdictions in the United States as the Purchasers who hold a majority-in-interest of the Registrable Securities being offered reasonably request (not to exceed 10 states), (ii) prepare and file in those jurisdictions such amendments (including post-effective amendments) and supplements to such registrations and qualifications as may be necessary to maintain the effectiveness thereof during the Registration Period, (iii) take such other actions as may be necessary to maintain such registrations and qualifications in effect at all times during the Registration Period, and (iv) take all other actions reasonably necessary or advisable to qualify the Registrable Securities for sale in such jurisdictions; provided, however, that the Company shall not be required in connection therewith or as a condition thereto to: (a) qualify to do business in any jurisdiction where it would not otherwise be required to qualify but for this Section 3(d), (b) subject itself to general taxation in any such jurisdiction, (c) file a general consent to service of process in any such jurisdiction, (d) provide any undertakings that cause the Company undue expense or burden, or (e) make any change in its charter or bylaws, which in each case the Board of Directors of the Company determines to be contrary to the best interests of the Company and its shareholders.

(e) The Company shall promptly notify each Purchaser (i) when a prospectus or any prospectus supplement or post-effective amendment has been filed, when a Registration Statement or any post-effective amendment has become effective, and when the Company receives written notice from the SEC that a Registration Statement or any post-effective amendment will be reviewed by the SEC, (ii) of any request by the SEC for amendments or supplements to a Registration Statement or related prospectus or related information, (iii) of the Company's reasonable determination that a post-effective amendment to a Registration Statement would be appropriate; and (iv) of the receipt of any request by the SEC or any other federal or state governmental authority for any additional information relating to the Registration Statement or any amendment or supplement thereto or any related prospectus. The Company shall respond as promptly as practicable to any comments received from the SEC with respect to each Registration Statement or any amendment thereto.

(f) The Company shall use its reasonable best efforts to prevent the issuance of any stop order or other suspension of effectiveness of any Registration Statement, and, if such an order is issued, to obtain the withdrawal of such order at the earliest possible moment and to notify each Purchaser who holds Registrable Securities being sold (or, in the event of an underwritten offering, the managing underwriters) of the issuance of such order and the resolution thereof.

(g) The sections of such Registration Statement covering information with respect to the Purchasers, the Purchaser's beneficial ownership of securities of the Company or the Purchasers intended method of disposition of Registrable Securities shall conform to the information provided to the Company by each of the Purchasers.

(h) In connection with an underwritten offering only, at the request of the Required Holders, the Company shall furnish, on the date that Registrable Securities are delivered to an underwriter for sale in connection with any Registration Statement: (i) an opinion, dated as of such date, from counsel representing the Company for purposes of such Registration Statement, in form, scope and substance as is customarily given in an underwritten public offering, addressed to the underwriters, if any, and the Purchasers and (ii) a letter, dated such date, from the Company's independent registered public accounting firm in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, addressed to the underwriters, if any, and the Purchasers.

(i) The Company shall take all reasonable efforts to cause all the Registrable Securities covered by the Registration Statement to be quoted on the NASDAQ Capital Market (or equivalent reasonably acceptable to the Required Holders) or listed on a national exchange.

(j) The Company shall provide a transfer agent and registrar, which may be a single entity, for the Registrable Securities not later than the effective date of the Registration Statement.

(k) The Company shall use its reasonable best efforts to cause the Registrable Securities covered by a Registration Statement to be registered with or approved by such other governmental agencies or authorities as may be necessary to consummate the disposition of such Registrable Securities.

(l) The Company shall make generally available to its security holders as soon as practical, but not later than 90 days after the close of the period covered thereby, an earnings statement (in form complying with, and in the manner provided by, the provisions of Rule 158 under the Securities Act) covering a twelve-month period beginning not later than the first day of the Company's fiscal quarter next following the applicable Effective Date of each Registration Statement.

(m) The Company shall use its reasonable best efforts to comply with all applicable rules and regulations of the SEC in connection with any registration hereunder.

(n) Notwithstanding anything to the contrary herein (but subject to the last sentence of this Section 3(n)), at any time after the Effective Date of a particular Registration Statement, the Company may delay the disclosure of material, non-public information concerning the Company or any of its subsidiaries the disclosure of which at the time is not, in the good faith opinion of the board of directors of the Company, in the best interest of the Company and, upon the advice of counsel to the Company, otherwise required (a "**Grace Period**"), provided that the Company shall promptly notify the Purchasers in writing of the existence of material, non-public information giving rise to a Grace Period (provided that in each such notice the Company shall not disclose the content of such material, non-public information to any of the Purchasers) and the date on which such Grace Period will begin and end.

4. **Underwriting Requirements.** In connection with any Registration Statement involving an underwritten offering of shares of the Company's Common Stock, the Company shall not be required to include any of the Purchasers' Registrable Securities in such underwriting unless the Purchaser accepts the terms of the underwriting as agreed upon between the Company and its underwriters, and then only in such quantity as the underwriter in its sole discretion determines will not jeopardize the success of the offering by the Company. If the total number of Registrable Securities to be included in such offering (the "Requested Securities") exceeds the number of securities to be sold (other than by the Company) that the underwriter in its reasonable discretion determines is compatible with the success of the offering, then the Company shall be required to include in the offering only that number of such Requested Securities which the underwriter, in its sole discretion, determines will not jeopardize the success of the offering. If the underwriter determines that less than all of the Requested Securities requested to be registered can be included in such offering, then the securities to be registered that are included in such offering shall be allocated among the holders of the Registrable Securities (the "Holders") in proportion (as nearly as practicable to) the number of Requested Securities owned by each Holder. To facilitate the allocation of shares in accordance with the above provisions, the Company or the underwriters may round the number of shares allocated to any Holder to the nearest 10 shares. For purposes of the provision in this Section 4 concerning apportionment, for any Holder that is a partnership, limited liability company, or corporation, the partners, members, retired partners, retired members, shareholders, and affiliates of such Holder, or the estates and immediate family members of any such partners, retired partners, members, and retired members and any trusts for the benefit of any of the foregoing persons, shall be deemed to be a single "Holder," and any pro rata reduction with respect to such "Holder" shall be based upon the aggregate number of Requested Securities owned by all persons included in such "Holder," as defined in this sentence. The Purchasers understand that the underwriter may determine that none of the Registrable Securities can be included in the offering.

5. **Obligations of the Purchasers**. In connection with the registration of the Registrable Securities, the Purchasers shall have the following obligations:

(a) It shall be a condition precedent to the obligations of the Company to include any Purchaser's Registrable Securities in any Registration Statement that such Purchaser shall timely furnish to the Company such information regarding itself, the Registrable Securities held by it, the intended method of disposition of the Registrable Securities held by it and any other information as shall be reasonably required to effect the registration of such Registrable Securities and shall provide such information and execute such documents in connection with such registration as the Company may reasonably request. At least three business days prior to the first anticipated filing date of the Registration Statement, the Company shall notify each Purchaser of the information the Company requires from each such Purchaser.

(b) Each Purchaser, by such Purchaser's acceptance of the Registrable Securities, agrees to cooperate with the Company as reasonably requested by the Company in connection with the preparation and filing of the Registration Statements hereunder, unless such Purchaser has notified the Company in writing of such Purchaser's election to exclude all of such Purchaser's Registrable Securities from the Registration Statements.

(c) In the event that Purchasers holding a majority-in-interest of the Registrable Securities being registered determine to engage the services of an underwriter, each Purchaser agrees to enter into and perform such Purchaser's obligations under an underwriting agreement, in usual and customary form, including, without limitation, customary indemnification and contribution obligations, with the managing underwriter of such offering and take such other actions as are reasonably required in order to expedite or facilitate the disposition of the Registrable Securities, unless such Purchaser has notified the Company in writing of such Purchaser's election to exclude all of such Purchaser's Registrable Securities from such Registration Statement.

(d) Each Purchaser agrees that, upon receipt of any notice from the Company of the happening of any event of which the Company has knowledge as a result of which the prospectus included in any Registration Statement, as then in effect, includes an untrue statement of a material fact or omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or of the issuance of a stop order or other suspension of effectiveness of any Registration Statement, such Purchaser will immediately discontinue disposition of Registrable Securities pursuant to the Registration Statement covering such Registrable Securities until such Purchaser's receipt of the copies of the supplemented or amended prospectus and, if so directed by the Company, such Purchaser shall deliver to the Company (at the expense of the Company) or destroy (and deliver to the Company a certificate of destruction) all copies in such Purchaser's possession, of the prospectus covering such Registrable Securities current at the time of receipt of such notice.

(e) No Purchaser may participate in any underwritten registration hereunder unless such Purchaser: (i) agrees to sell such Purchaser's Registrable Securities on the basis provided in any underwriting arrangements in usual and customary form entered into by the Company, (ii) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents reasonably required under the terms of such underwriting arrangements, and (iii) agrees to pay its pro rata share of all underwriting discounts and commissions and any expenses in excess of those payable by the Company pursuant to Section 6 below.

(f) Each Purchaser covenants and agrees that it will comply with the prospectus delivery requirements of the Securities Act as applicable to it or an exemption therefrom in connection with the offer and sale of Registrable Securities pursuant to any Registration Statement.

6. **Expenses of Registration.** All reasonable expenses, other than underwriting discounts and commissions, incurred in connection with registrations, filings or qualifications pursuant to Sections 2 and 3, including, without limitation, all registration, listing and qualification fees, printers and accounting fees, the fees and disbursements of counsel for the Company, and the reasonable fees and disbursements of legal counsel to the underwriter (if any) shall be borne by the Company.

7. **Indemnification**.

(a) To the fullest extent permitted by law, the Company will, and hereby does, indemnify, hold harmless and defend each Purchaser and each of its directors, officers, shareholders, members, partners, employees, agents, advisors, representatives (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding the lack of such title or any other title) and each Person, if any, who controls such Purchaser within the meaning of the Securities Act or the Exchange Act and each of the directors, officers, shareholders, members, partners, employees, agents, advisors, representatives (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding the lack of such title or any other title) of such controlling Persons (each, an "**Indemnified Person**"), against any losses, obligations, claims, damages, liabilities, contingencies, judgments, fines, penalties, charges, costs (including, without limitation, court costs, reasonable attorneys' fees and costs of defense and investigation), amounts paid in settlement or expenses, joint or several, (collectively, "**Claims**") incurred in investigating, preparing or defending any action, claim, suit, inquiry, proceeding, investigation or appeal taken from the foregoing by or before any court or governmental, administrative or other regulatory agency, body or the SEC, whether pending or threatened, whether or not an indemnified party is or may be a party thereto ("**Indemnified Damages**"), to which any of them may become subject insofar as such Claims (or actions or proceedings, whether commenced or threatened, in respect thereof) arise out of or are based upon: (i) any untrue statement or alleged untrue statement of a material fact in a Registration Statement or any post-effective amendment thereto or in any filing made in connection with the qualification of the offering under the securities or other "blue sky" laws of any jurisdiction in which Registrable Securities are offered ("**Blue Sky Filing**"), or the omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus if used prior to the effective date of such Registration Statement, or contained in the final prospectus (as amended or supplemented, if the Company files any amendment thereof or supplement thereto with the SEC) or the omission or alleged omission to state therein any material fact necessary to make the statements made therein, in light of the circumstances under which the statements therein were made, not misleading or (iii) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any other law, including, without limitation, any state securities law, or any rule or regulation thereunder relating to the offer or sale of the Registrable Securities pursuant to a Registration Statement (the matters in the foregoing clauses (i) through (iii) being, collectively, "**Violations**"). Subject to Section 7(c), the Company shall reimburse the Indemnified Persons, promptly as such expenses are incurred and are due and payable, for any legal fees or other reasonable expenses incurred by them in connection with investigating or defending any such Claim. Notwithstanding anything to the contrary contained herein, the indemnification agreement contained in this Section 7(a): (i) shall not apply to a Claim by an Indemnified Person arising out of or based upon a Violation which occurs in reliance upon and in conformity with information furnished in writing to the Company by such Indemnified Person for such Indemnified Person expressly for use in connection with the preparation of such Registration Statement or any such amendment thereof or supplement thereto and (ii) shall not be available to a particular Purchaser to the extent such Claim is based on a failure of such Purchaser to deliver or to cause to be delivered the prospectus made available by the Company (to the extent applicable), including, without limitation, a corrected prospectus, if such prospectus or corrected prospectus was timely made available by the Company and then only if, and to the extent that, following the receipt of the corrected prospectus no grounds for such Claim would have existed; and (iii) shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of the Company, which consent shall not be unreasonably withheld or delayed. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Indemnified Person.

(b) In connection with any Registration Statement in which an Purchaser is participating, such Purchaser agrees to severally and not jointly indemnify, hold harmless and defend, to the same extent and in the same manner as is set forth in Section 7(a), the Company, each of its directors, each of its officers who signs the Registration Statement and each Person, if any, who controls the Company within the meaning of the Securities Act or the Exchange Act (each, an "**Indemnified Party**"), against any Claim or Indemnified Damages to which any of them may become subject, under the Securities Act, the Exchange Act or otherwise, insofar as such Claim or Indemnified Damages arise out of or are based upon any Violation, in each case, to the extent, and only to the extent, that such Violation occurs in reliance upon and in conformity with written information furnished to the Company by such Purchaser expressly for use in connection with such Registration Statement; and, subject to Section 7(c) and the below provisos in this Section 7(b), such Purchaser will reimburse promptly as such expenses are incurred and are due and payable, for any legal fees or other reasonable expenses incurred by them in connection with investigating or defending any such Claim; provided, however, the indemnity agreement contained in this Section 7(b) and the agreement with respect to contribution contained in Section 7 shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of such Purchaser, which consent shall not be unreasonably withheld or delayed, provided further that such Purchaser shall be liable under this Section 7(b) for only that amount of a Claim or Indemnified Damages as does not exceed the net proceeds to such Purchaser as a result of the applicable sale of Registrable Securities pursuant to such Registration Statement. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such Indemnified Party.

(c) Promptly after receipt by an Indemnified Person or Indemnified Party (as the case may be) under this Section 7 of notice of the commencement of any action or proceeding (including, without limitation, any governmental action or proceeding) involving a Claim, such Indemnified Person or Indemnified Party (as the case may be) shall, if a Claim in respect thereof is to be made against any indemnifying party under this Section 7, deliver to the indemnifying party a written notice of the commencement thereof, and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume control of the defense thereof with counsel mutually satisfactory to the indemnifying party and the Indemnified Person or the Indemnified Party (as the case may be); provided, however, an Indemnified Person or Indemnified Party (as the case may be) shall have the right to retain its own counsel with the fees and expenses of such counsel to be paid by the indemnifying party if: (i) the indemnifying party has agreed in writing to pay such fees and expenses; (ii) the indemnifying party shall have failed promptly to assume the defense of such Claim and to employ counsel reasonably satisfactory to such Indemnified Person or Indemnified Party (as the case may be) in any such Claim; or (iii) the named parties to any such Claim (including, without limitation, any impleaded parties) include both such Indemnified Person or Indemnified Party and the indemnifying party, and such Indemnified Person or such Indemnified Party shall have been advised by counsel that a conflict of interest is likely to exist if the same counsel were to represent such Indemnified Person or such Indemnified Party and the indemnifying party (in which case, if such Indemnified Person or such Indemnified Party notifies the indemnifying party in writing that it elects to employ separate counsel at the expense of the indemnifying party, then the indemnifying party shall not have the right to assume the defense thereof and such counsel shall be at the expense of the Indemnifying Party, provided further that in the case of clause (iii) above the indemnifying party shall not be responsible for the reasonable fees and expenses of more than one separate legal counsel for such Indemnified Person or Indemnified Party). The Indemnified Party or Indemnified Person shall reasonably cooperate with the indemnifying party in connection with any negotiation or defense of any such action or Claim by the indemnifying party and shall furnish to the indemnifying party all information reasonably available to the Indemnified Party or Indemnified Person which relates to such action or Claim. The indemnifying party shall keep the Indemnified Party or Indemnified Person reasonably apprised at all times as to the status of the defense or any settlement negotiations with respect thereto. No indemnifying party shall be liable for any settlement of any action, claim or proceeding effected without its prior written consent; provided, however, the indemnifying party shall not unreasonably withhold, delay or condition its consent. No indemnifying party shall, without the prior written consent of the Indemnified Party or Indemnified Person, consent to entry of any judgment or enter into any settlement or other compromise which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party or Indemnified Person of a release from all liability in respect to such Claim or litigation, and such settlement shall not include any admission as to fault on the part of the Indemnified Party. Following indemnification as provided for hereunder, the indemnifying party shall be subrogated to all rights of the Indemnified Party or Indemnified Person with respect to all third parties, firms or corporations relating to the matter for which indemnification has been made. The failure to deliver written notice to the indemnifying party within a

reasonable time of the commencement of any such action shall not relieve such indemnifying party of any liability to the Indemnified Person or Indemnified Party under this Section 7, except to the extent that the indemnifying party is materially and adversely prejudiced in its ability to defend such action.

(d) No Person involved in the sale of Registrable Securities who is guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) in connection with such sale shall be entitled to indemnification from any Person involved in such sale of Registrable Securities who is not guilty of fraudulent misrepresentation.

(e) The indemnity and contribution agreements contained herein shall be in addition to (i) any cause of action or similar right of the Indemnified Party or Indemnified Person against the indemnifying party or others, and (ii) any liabilities the indemnifying party may be subject to pursuant to the law.

8. **Amendment of Registration Rights**. The terms and provisions of this Agreement may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only with written consent of the Company and the Required Holders. Any amendment or waiver effected in accordance with this Section 8 shall be binding upon each Purchaser and the Company; provided that no such amendment shall be effective to the extent that it (1) applies to less than all of the holders of Registrable Securities or (2) imposes any obligation or liability on any Purchaser without such Purchaser's prior written consent (which may be granted or withheld in such Purchaser's sole discretion). No waiver shall be effective unless it is in writing and signed by an authorized representative of the waiving party. No consideration shall be offered or paid to any Person to amend or consent to a waiver or modification of any provision of this Agreement unless the same consideration also is offered to all of the parties to this Agreement.

9. **Miscellaneous.**

(a) A person or entity is deemed to be a holder of Registrable Securities whenever such person or entity owns of record such Registrable Securities. If the Company receives conflicting instructions, notices or elections from two or more persons or entities with respect to the same Registrable Securities, the Company shall act upon the basis of instructions, notice or election received from the registered owner of such Registrable Securities.

(b) Any notices required or permitted to be given under the terms hereof shall be sent by certified or registered mail (return receipt requested) or delivered personally or by courier (including a recognized overnight delivery service)or by facsimile and shall be effective five days after being placed in the mail, if mailed by regular United States mail, or upon receipt, if delivered personally or by courier (including a recognized overnight delivery service) or by facsimile, in each case addressed to a party. The addresses for such communications shall be:

If to the Company:

Ideal Power Inc.
5004 Bee Creek Road, Suite 600
Spicewood, Texas 78669
Attention: Chief Executive Officer
Telephone: (512) 264-1542
Facsimile No.: (512) 264-1546

If to a Purchaser:

To the address set forth on the signature page of this Agreement.

With a copy (not constituting notice) to:

MDB Capital Group, LLC
401 Wilshire Blvd., Suite 1020
Santa Monica, CA 90401
Attention: Anthony DiGiandomenico
Telephone: (310) 526-5015
Facsimile No.: (310) 536-5020

Each party shall provide notice to the other party of any change in address.

(c) Failure of any party to exercise any right or remedy under this Agreement or otherwise, or delay by a party in exercising such right or remedy, shall not operate as a waiver thereof.

(d) This Agreement shall be governed by, and construed in accordance with, the internal laws of the State of New York without regard to the choice of law principles thereof. Each of the parties hereto irrevocably submits to the exclusive jurisdiction of the courts of the State of New York located in New York County and the United States District Court for the Southern District of New York for the purpose of any suit, action, proceeding or judgment relating to or arising out of this Agreement and the transactions contemplated hereby. Service of process in connection with any such suit, action or proceeding may be served on each party hereto anywhere in the world by the same methods as are specified for the giving of notices under this Agreement. Each of the parties hereto irrevocably consents to the jurisdiction of any such court in any such suit, action or proceeding and to the laying of venue in such court. Each party hereto irrevocably waives any objection to the laying of venue of any such suit, action or proceeding brought in such courts and irrevocably waives any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum. EACH OF THE PARTIES HERETO WAIVES ANY RIGHT TO REQUEST A TRIAL BY JURY IN ANY LITIGATION WITH RESPECT TO THIS AGREEMENT AND REPRESENTS THAT COUNSEL HAS BEEN CONSULTED SPECIFICALLY AS TO THIS WAIVER.

(e) In the event that any provision of this Agreement is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any provision hereof which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision hereof.

(f) This Agreement and the other Transaction Documents (including all schedules and exhibits thereto) constitute the entire agreement among the parties hereto with respect to the subject matter hereof and thereof. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein and therein. This Agreement and the other Transaction Documents (including all schedules and exhibits thereto) supersede all prior agreements and understandings among the parties hereto with respect to the subject matter hereof and thereof.

(g) This Agreement shall be binding upon and inure to the benefit of the parties and their successors and assigns. This Agreement is not for the benefit of, nor may any provision hereof be enforced by, any Person, other than the parties hereto or their respective permitted successors and assigns.

(h) The headings in this Agreement are for convenience of reference only and shall not form part of, or affect the interpretation of, this Agreement. Unless the context clearly indicates otherwise, each pronoun herein shall be deemed to include the masculine, feminine, neuter, singular and plural forms thereof. The terms “including,” “includes,” “include” and words of like import shall be construed broadly as if followed by the words “without limitation.” The terms “herein,” “hereunder,” “hereof” and words of like import refer to this entire Agreement instead of just the provision in which they are found.

(i) This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party. This Agreement, once executed by a party, may be delivered to the other party hereto by facsimile transmission or electronic mail delivery of a copy of this Agreement bearing the signature of the party so delivering this Agreement.

(j) Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

(k) Except as otherwise provided herein, all consents and other determinations to be made by the Purchasers pursuant to this Agreement shall be made by the Required Holders.

(l) The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

(m) The obligations of each Purchaser under this Agreement and the other Transaction Documents are several and not joint with the obligations of any other Purchaser, and no Purchaser shall be responsible in any way for the performance of the obligations of any other Purchaser under this Agreement or any other Transaction Document. Nothing contained herein or in any other Transaction Document, and no action taken by any Purchaser pursuant hereto or thereto, shall be deemed to constitute the Purchasers as, and the Company acknowledges that the Purchasers do not so constitute, a partnership, an association, a joint venture or any other kind of group or entity, or create a presumption that the Purchasers are in any way acting in concert or as a group or entity with respect to such obligations or the transactions contemplated by the Transaction Documents or any matters, and the Company acknowledges that the Purchasers are not acting in concert or as a group, and the Company shall not assert any such claim, with respect to such obligations or the transactions contemplated by this Agreement or any of the other the Transaction Documents. Each Purchaser shall be entitled to independently protect and enforce its rights, including, without limitation, the rights arising out of this Agreement or out of any other Transaction Documents, and it shall not be necessary for any other Purchaser to be joined as an additional party in any proceeding for such purpose.

[Remainder of page intentionally left blank; signature pages follow.]

IN WITNESS WHEREOF, the undersigned Purchasers and the Company have caused this Registration Rights Agreement to be duly executed as of the date first above written.

IDEAL POWER INC.

By: _____

Name Paul Bundschuh
Title Chief Executive Officer

PURCHASERS:

The Purchasers executing the Signature Page in the form attached hereto as Annex A and delivering the same to the Company or its agents shall be deemed to have executed this Agreement and agreed to the terms hereof.

Annex A

Registration Rights Agreement
Purchaser Counterpart Signature Page

The undersigned, desiring to: enter into this Registration Rights Agreement dated as of July __, 2013 (the "**Agreement**"), between the undersigned, Ideal Power Inc., a Delaware corporation (the "**Company**"), and the other parties thereto, in or substantially in the form furnished to the undersigned, hereby agrees to join the Agreement as a party thereto, with all the rights and privileges appertaining thereto, and to be bound in all respects by the terms and conditions thereof.

IN WITNESS WHEREOF, the undersigned has executed the Agreement as of July ___, 2013.

PURCHASER:

Name and Address, Fax No. and Social Security No./EIN of Purchaser:

_____

_____

_____

_____

Fax No.: _____
Soc. Sec. No./EIN: _____

If a partnership, corporation, trust or other business entity:

By:

_____
Name:
Title:

If an individual:

_____

Signature

EXHIBIT 1

SELLING STOCKHOLDERS

The shares of common stock being offered by the selling shareholders are those issuable to the selling shareholders upon conversion of the senior secured convertible promissory notes and the exercise of the warrants. For additional information regarding the issuance of the senior secured convertible promissory notes and the warrants, see "Private Placement of Senior Secured Convertible Promissory Notes and Warrants" above. We are registering the shares of common stock in order to permit the selling shareholders to offer the shares for resale from time to time. Except for the ownership of the senior secured convertible promissory notes and the warrants issued pursuant to the Securities Purchase Agreement, the selling shareholders have not had any material relationship with us within the past three years.

The table below lists the selling shareholders and other information regarding the beneficial ownership (as determined under Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder) of the shares of common stock beneficially held by each of the selling shareholders, based on their respective beneficial ownership of the shares of common stock as of _____, 2013, assuming conversion of all amounts owed under the senior secured convertible promissory notes and exercise of the warrants held by each such selling shareholder on that date but taking account of any limitations on exercise set forth therein. The third column lists the number of shares of common stock being sold in this offering. The fourth column lists the shares of common stock that will be beneficially owned by each selling shareholder following this offering. We have assumed for purposes of preparing this table that each selling shareholder will sell all of the shares of common stock being offered.

In accordance with the terms of a registration rights agreement with the selling shareholders, this prospectus generally covers the resale of the sum of (i) the number of shares of common stock that may be issued in connection with the conversion of all amounts owed under the senior secured convertible promissory notes, in each case determined as if all amounts owed under the senior secured convertible promissory notes were converted and (ii) 100% of the maximum number of shares of common stock issuable upon exercise of the warrants, in each case, determined as if the outstanding warrants were exercised in full.

Name of Selling Shareholder	Number of Shares of Common Stock Owned Prior to Offering	Maximum Number Of Shares of Common Stock to be Sold Pursuant to this Prospectus	Number of Shares of Common Stock Owned After Offering

PLAN OF DISTRIBUTION

We are registering the shares of common stock issuable upon conversion of all amounts due under the senior secured convertible promissory notes and the exercise of the warrants to permit the resale of these shares of common stock by the holders of these securities from time to time after the date of this prospectus. We will not receive any of the proceeds from the sale by the selling shareholders of the shares of common stock. We will bear all fees and expenses incident to our obligation to register the shares of common stock.

The selling shareholders may sell all or a portion of the shares of common stock held by them and offered hereby from time to time directly or through one or more underwriters, broker-dealers or agents. If the shares of common stock are sold through underwriters or broker-dealers, the selling shareholders will be responsible for underwriting discounts or commissions or agent's commissions. The shares of common stock may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of the sale, at varying prices determined at the time of sale or at negotiated prices. These sales may be effected in transactions, which may involve crosses or block transactions, pursuant to one or more of the following methods:

- on any national securities exchange or quotation service on which the securities may be listed or quoted at the time of sale;
- in the over-the-counter market;
- in transactions otherwise than on these exchanges or systems or in the over-the-counter market;
- through the writing or settlement of options, whether such options are listed on an options exchange or otherwise;
- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- short sales made after the date the Registration Statement is declared effective by the SEC;
- agreements between broker-dealers and the selling shareholders to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

The selling shareholders may also sell shares of common stock under Rule 144 promulgated under the Securities Act of 1933, as amended, if available, rather than under this prospectus. In addition, the selling shareholders may transfer the shares of common stock by other means not described in this prospectus. If the selling shareholders effect such transactions by selling shares of common stock to or through underwriters, broker-dealers or agents, such underwriters, broker-dealers or agents may receive commissions in the form of discounts, concessions or commissions from the selling shareholders or commissions from purchasers of the shares of common stock for whom they may act as agent or to whom they may sell as principal (which discounts, concessions or commissions as to particular underwriters, broker-dealers or agents may be in excess of those customary in the types of transactions involved). In connection with sales of the shares of common stock or otherwise, the selling

shareholders may enter into hedging transactions with broker-dealers, which may in turn engage in short sales of the shares of common stock in the course of hedging in positions they assume. The selling shareholders may also sell shares of common stock short and deliver shares of common stock covered by this prospectus to close out short positions and to return borrowed shares in connection with such short sales. The selling shareholders may also loan or pledge shares of common stock to broker-dealers that in turn may sell such shares.

The selling shareholders may pledge or grant a security interest in some or all of the warrants or shares of common stock owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of common stock from time to time pursuant to this prospectus or any amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act amending, if necessary, the list of selling shareholders to include the pledgee, transferee or other successors in interest as selling shareholders under this prospectus. The selling shareholders also may transfer and donate the shares of common stock in other circumstances in which case the transferees, donees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

To the extent required by the Securities Act and the rules and regulations thereunder, the selling shareholders and any broker-dealer participating in the distribution of the shares of common stock may be deemed to be "underwriters" within the meaning of the Securities Act, and any commission paid, or any discounts or concessions allowed to, any such broker-dealer may be deemed to be underwriting commissions or discounts under the Securities Act. At the time a particular offering of the shares of common stock is made, a prospectus supplement, if required, will be distributed, which will set forth the aggregate amount of shares of common stock being offered and the terms of the offering, including the name or names of any broker-dealers or agents, any discounts, commissions and other terms constituting compensation from the selling shareholders and any discounts, commissions or concessions allowed or re-allowed or paid to broker-dealers.

Under the securities laws of some states, the shares of common stock may be sold in such states only through registered or licensed brokers or dealers. In addition, in some states the shares of common stock may not be sold unless such shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with.

There can be no assurance that any selling shareholder will sell any or all of the shares of common stock registered pursuant to the registration statement, of which this prospectus forms a part.

The selling shareholders and any other person participating in such distribution will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, including, without limitation, to the extent applicable, Regulation M of the Exchange Act, which may limit the timing of purchases and sales of any of the shares of common stock by the selling shareholders and any other participating person. To the extent applicable, Regulation M may also restrict the ability of any person engaged in the distribution of the shares of common stock to engage in market-making activities with respect to the shares of common stock. All of the foregoing may affect the marketability of the shares of common stock and the ability of any person or entity to engage in market-making activities with respect to the shares of common stock.

We will pay all expenses of the registration of the shares of common stock pursuant to the registration rights agreement, estimated to be $[_____] in total, including, without limitation, Securities and Exchange Commission filing fees and expenses of compliance with state securities or "blue sky" laws; provided, however, a selling shareholder will pay all underwriting discounts and selling commissions, if any. We will indemnify the selling shareholders against liabilities, including some liabilities under the Securities Act in accordance with the registration rights agreements or the selling shareholders will be entitled to contribution. We may be indemnified by the selling shareholders against civil liabilities, including liabilities under the Securities Act that may arise from any written information furnished to us by the selling shareholder specifically for use in this prospectus, in accordance with the related registration rights agreements or we may be entitled to contribution.

Once sold under the registration statement, of which this prospectus forms a part, the shares of common stock will be freely tradable in the hands of persons other than our affiliates.

EXHIBIT H

FORM OF LEGAL OPINION

1. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to carry on its business as now conducted and as proposed to be conducted. The Company has no direct or indirect subsidiaries. The Company is duly qualified as a foreign corporation to do business and is in good standing in every jurisdiction in which its ownership or use of property or the nature of the business conducted by it makes such qualification necessary except where the failure to be so qualified or in good standing would not have a Material Adverse Effect.

2. The Company has the requisite corporate power and authority to execute, deliver and perform its obligations under the Transaction Documents. The Transaction Documents, and the issuance of the Notes and Warrants and the reservation and issuance of Common Stock issuable upon conversion of the Notes and exercise of the Warrants have been (a) duly approved by the Board of Directors of the Company, and (b) the Securities, when issued pursuant to the Agreement and upon delivery, shall be validly issued and outstanding, fully paid and non-assessable.

3. The execution, delivery and performance of the Transaction Documents by the Company and the consummation of the transactions contemplated thereby, will not, with or without the giving of notice or the passage of time or both: (a) violate the provisions of the Articles of Incorporation or bylaws of the Company; or (b) to our knowledge, violate any judgment, decree, order or award of any court binding upon the Company.

4. The Transaction Documents constitute the valid and legally binding obligations of the Company and are enforceable against the Company in accordance with their respective terms.

5. The Securities have not been registered under the Securities Act of 1933, as amended (the "Act") or under the laws of any state or other jurisdiction, and, subject to the accuracy of the Purchasers' representations and warranties contained in Section 5 of each such Purchasers' Securities Purchase Agreements, will be issued pursuant to a valid exemption from the registration requirements of the Act.

6. The Purchasers have been granted valid security interests in the Collateral pursuant to the Security Agreement, enforceable against the Company in accordance with the respective terms and provisions of the Security Agreement, and to the extent such security interest may be perfected under the Uniform Commercial Code by the filing of financing statements, then upon the due and timely filing of Uniform Commercial Code financing statements respecting the Company, with the Secretary of State of the State of Delaware, those security interests will be perfected in such Collateral to the extent described in those statements and the Security Agreement.

7. The Subordination Agreement is a valid and binding obligation of the Company and of TETF and enforceable against TETF in accordance with its respective terms and provisions.

IDEAL POWER INC.

Schedules to the
Securities Purchase Agreement

Dated July __, 2013

The following disclosures are intended only to list those items required to be listed in the Sections of the Agreement corresponding to the number of the schedule, and to qualify and limit the representations, warranties and covenants made by IDEAL POWER INC., a Delaware corporation (the "Company"), in the Securities Purchase Agreement dated _____, 2013 (the "Agreement") between the Company and the Purchasers listed thereto. Unless otherwise noted herein, any capitalized term in the following schedules (the "Schedules") shall have the same meaning assigned to such term in the Agreement.

Ideal Power Inc.

DISCLOSURE SCHEDULES

July __, 2013

These Disclosure Schedules are provided in connection with the representations and warranties in Section 4 of the Securities Purchase Agreement dated July ___, 2013 (the "***Agreement***") by and between Ideal Power Inc., a Delaware corporation (the "***Company***"), and the Purchasers named therein. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Agreement.

Nothing contained herein is intended to broaden the scope of any representation or warranty contained in the Agreement or to create any covenant on the part of the Company. Inclusion of any item in these Disclosure Schedules (a) does not represent a determination that such item is material nor shall it be deemed to establish a standard of materiality, except to the extent that the representation or warranty in the Agreement to which such item relates includes a representation or warranty as to materiality; (b) does not represent a determination that such item did not arise in the ordinary course of business, except to the extent that the representation or warranty in the Agreement to which such item relates includes a representation or warranty as to the ordinary course of business; and (c) shall not constitute, or be deemed to be, an admission to any party other than the Purchasers concerning such item.

All references to "Section" or "subsection" refer to a Section or subsection in the Agreement, unless the context otherwise requires. The headings in these Schedules are for convenience of reference only and shall not affect the disclosures contained herein. The disclosures in any section or subsection of these Disclosure Schedules shall qualify other sections and subsections in these Disclosure Schedules only to the extent it is readily apparent from a reading of the disclosure that such disclosure is applicable to such other sections and subsections. As used in these Disclosure Schedules, "Company" means Ideal Power Inc. only.

These Disclosure Schedules includes descriptions of certain of the Company's agreements or instruments. The descriptions are qualified in their entirety by reference to the detailed terms of the applicable agreement or instrument, provided that each agreement or instrument described herein was previously delivered or made available to a counsel for the Purchasers.

All of the capitalization, share and per share information in this Disclosure Schedule gives effect to the Reclassification and the Stock Split provided for in the Amended and Restated Certificate of Formation of the Company (the "Restated Certificate").

Schedule 4(b)(i) Capitalization

Outstanding Common Shareholders

Shareholder	shares of common
William C Alexander	1,160,250
Hamo Hacopian	625,000
Dr. David Breed	312,500
Cindy D. Breed	312,500
Charles De Tarr	281,925
Battery Ventures VIII, L.P.	122,175
John Bundschuh	108,550
Paul Bundschuh	106,620
Mark Baum	105,000
Dynamic Manufacturing Solutions LLC	96,150
Mike Barron	42,160
Herman and Ann Breed	40,000
Christopher Cobb	33,557
John P. Bundschuh	27,469
Paul Rousch	27,195
Salim A. and Rita S. Momin	25,000
Thomas Ryan (was 25,000)	24,000
Joel Sher	18,815
Andrew Boll	15,000
Peter W. Bundschuh	14,675
William D. Bundschuh	14,675
Mercom Capital LLC	11,289
Total	3,524,505

Note: Three independent directors, have earned shares to be issued. The number of shares to be issued as of March 31, 2013 was 29,680 and as of June 30, 2013, the number of shares to be issued was 59,932.

Outstanding Preferred Shareholders

Shareholder	shares of Preferred Stock (as of March 31, 2013)
None	0

Schedule 4(b)(ii) **Outstanding options, warrants**

1. The Company has issued the following warrants, copies of which have been made available to counsel for the Purchasers:

    a. Common Stock Warrant, dated November 3, 2008, granting Entrepreneurs Foundation of Central Texas the right to purchase 85,950 shares of Common Stock of the Company at an exercise price of $0.0004 per share.

    b. Right to Purchase Shares pursuant to that Investment Unit issued by Ideal Power Converters, Inc. to the Office of the Governor Economic Development and Tourism, dated October 1, 2010, which provides for the issuance of shares of the Company's Common Stock or shares of the same class of capital stock or series of preferred stock as shall be issued in the First Qualifying Financing Transaction (defined therein).

2. The following agreements, copies of which have been made available to counsel for the Purchasers, provide for issuance of Common Stock:

    a. In connection with an offer for full employment, Mike Barron is eligible to be granted a stock option with a 2 year vesting period for 9,407 shares with a strike price of $2.65754.

    b. Services Agreement, by and between Dynamic Manufacturing Solutions, LLC and Ideal Power Converters, Inc., dated January 15, 2010, which provided that Dynamic Manufacturing Solutions, LLC would receive $65 per hour, to be paid through issuances of Common Stock of Company. According to the Services Agreement, each share of Common Stock of the Company was valued at $31.20 (prior to the stock split), based on a valuation of approximately $4,000,000 and 128,196 issued and optioned shares. All shares issued pursuant to this agreement shall give effect to the Reclassification and the Stock Split provided in the Restated Certificate. Compensation to Dynamic Manufacturing in the form of Common Stock of the Company is capped at a number of shares representing 3% of the total outstanding shares of Common Stock of the Company. As of December 31, 2010, Dynamic Manufacturing Solutions, LLC reached the cap in the contract with 1,846 hrs at the $65/hr rate valued at $120,000 and 96,150 shares were issued (after stock split). The Company has no outstanding obligations to Dynamic Manufacturing Solutions, LLC under this agreement, except that Dynamic Manufacturing Solutions, LLC, shall be paid an hourly rate of $85 per hour, if the Company fails to provide Dynamic Manufacturing Solutions, LLC with a right of first refusal on certain future manufacturing projects.

The Company has issued the following options, copies of which have been made available to counsel for the Purchasers:

Outstanding Option holders

Option Number	Holder	Date	Number of Shares of Common Stock	Exercise Price
1	Robert Groover	6/15/2007	15,000	$ 0.04
2	Patrick Holmes	6/15/2007	10,000	$ 0.04
5	Charles De T arr	1/31/2009	63,675	$ 0.17
6	Paul Bundschuh	5/12/2009	2,925	$ 0.34
9	Paul Bundschuh	8/25/2009	3,050	$ 0.33
12	Robert King	2/23/2010	64,100	$ 1.25
13-A	Mike Barron	6/30/2010	34,550	$ 1.25
14	Paul Bundschuh	6/30/2010	28,050	$ 1.25
15	Donald Haygood	6/30/2010	1,200	$ 1.25
16	Hamid T oliyat	9/10/2010	48,375	$ 1.25
17	Mike Barron	9/30/2010	26,350	$ 1.25
18	Paul Bundschuh	9/30/2010	14,025	$ 1.25
19	Donald Haygood	9/30/2010	1,200	$ 1.25
20	Paul Roush	9/30/2010	3,575	$ 1.25
21	Paul Bundschuh	12/31/2010	14,025	$ 1.25
22	Donald Haygood	12/31/2010	1,200	$ 1.25
29	Chris Cobb	5/21/2012	45,155	$ 2.66
	T otal		376,455	

Note 1:

Options for 38,756 issued in 2011 were cancelled due to a technicality.
Although it is not required to, it is expected the board will issue shares from the
2013 Equity Incentive Plan that would offset the cancellation.

Note 2: 2013 Equity Incentive Plan:

On May 17, 2013 the board approved the 2013 Equity Incentive Plan.
On July 5, at the annual shareholders meeting, the shareholders approved the new plan.
The plan has authorized and made available the issuance of options for 1,161,767 shares
The total number of shares available will grow to a maximum of 2,000,000 based on
a formula that increases the pool as additional shares are sold or converted from notes.
The board has indicated that it intends to issue options for approximately 850,000 shares

Outstanding Warrant holders

Name - Note holders with warrants prior to 8/31/12	Note Amount	warrant conversion rate	Shares from conversion of notes
Bundschuh, John P	**$ 13,000**	$ 2.65754	4,892
Bundschuh, Paul	**$ 13,000**	$ 2.65754	4,892
Bundschuh, Peter W	**$ 13,000**	$ 2.65754	4,892
Bundschuh, William	**$ 13,000**	$ 2.65754	4,892
Charles De Tarr	**$ 150,000**	$ 2.65754	56,443
Chris Cobb	**$ 200,000**	$ 2.65754	75,258
Dr Breed	**$ 25,000**	$ 2.65754	9,407
Joel Sher	**$ 15,000**	$ 2.65754	5,644
John Mike Barron	$ 26,575	$ 2.65754	10,000
Passel LTD	**$ 100,000**	$ 2.65754	37,629
Mike Barron	$ 26,575	$ 2.65754	10,000
Sher's fam ily Trust	**$ 10,000**	$ 2.65754	3,763
R Andrew Webb	**$ 40,000**	$ 2.65754	15,052
Magnus LeVicki	**$ 50,000**	$ 2.65754	18,814
Notes (w/warrants) total -prior to 8/31/12 funding	$ 695,151		261,578

The notes had 100% warrant coverage, exercisable at $2.65754.

Entrepreneurs Foundation of Central Texas	85,950
sub-total	347,528

Name - Note holders with warrants issued 8/31/12	Note Amount	warrant coverage 100%	Shares from conversion of notes
Aaron A. Grunfeld	$ 15,000	15,000	
Allen Estrin	$ 5,000	5,000	
Am y En-Mei Wang and Gregory Adam Horw itz JTWROS	$ 10,000	10,000	
Ankur V. Desai	$ 5,000	5,000	
Anthony DiGiandom enico	$ 25,000	25,000	
Benjam in L. Padnos	$ 50,000	50,000	
Equity Tust Com pany Custodian FBO Robert C. Clifford IRA, 6.67%, Undivided Interest	$ 50,000	50,000	
The Handler Revocable Trust	$ 15,000	15,000	
Daniel Landry	$ 10,000	10,000	
Daniel Sanker	$ 10,000	10,000	
David M. Mossberg	$ 10,000	10,000	
Erick Richardson	$ 50,000	50,000	
Greg Suess	$ 20,000	20,000	
Harvey Kesner	$ 15,000	15,000	
Jeffrey S and Margaret M Padnos JTWROS	$ 50,000	50,000	
Jam es P. Tierney	$ 35,000	35,000	
Causew ay Bay Capital, LLC	$ 50,000	50,000	
Christopher and Karen Jennings JTWROS	$ 25,000	25,000	
Bell Fam ily Trust	$ 100,000	100,000	
Michael Joseph Cavalier Jr.	$ 50,000	50,000	
Nim ish Patel	$ 10,000	10,000	
Paul Teske and Rivers Teske JTWROS	$ 10,000	10,000	
Peter A. Appel	$ 100,000	100,000	
Ralph P. Ferrara	$ 10,000	10,000	
Sanford Dean Greenberg	$ 10,000	10,000	see
Thom as L. Wallace, Sr.	$ 10,000	10,000	note
Notes (w/warrants) total - 8/31/2012 funding	$ 750,000	$ 750,000	
Warrants are exercisable at $1.46 or at 30% discount to IPO price, whichever is low er			
At $1.46 the num ber of shares the warrants could get:		513,699	

Name - Note holders with warrants issued 12/21/12	Note Amount	warrant coverage 50%	Shares from conversion of notes
Anthony Di Giandomenico	$ 25,000.00	**$ 12,500**	see warrant
Handler Revocable Trust, Brad Handler TTEE	$ 50,000.00	**$ 25,000**	agreements
Dani el Padnos	$ 25,000.00	**$ 12,500**	
Edg r Park	$ 10,000.00	**$ 5,000**	
Gary Schuman	$ 10,000.00	**$ 5,000**	
Bibicoff Family Trust	$ 50,000.00	**$ 25,000**	
Jane Di Gia n	$ 25,000.00	**$ 12,500**	
John A. Elway	$ 100,000.00	**$ 50,000**	
The John Sta nley Revocabl e Trust UAD 8-4-2006, John Stanley TTEE	$ 200,000.00	**$ 100,000**	
Jonathan J. Padnos	$ 10,000.00	**$ 5,000**	
YKA Partners , Ltd.	$ 50,000.00	**$ 25,000**	
Causeway Bay Capital , LLC	$ 100,000.00	**$ 50,000**	
Bell Family Trust	$ 100,000.00	**$ 50,000**	
Series E-1 of the Larren Smitty, LLC	$ 100,000.00	**$ 50,000**	
MDB Capital Group LLC	$ 200,000.00	**$ 100,000**	
MDB Capital Group LLC	$ 195,000.00	**$ 97,500**	
Bennett Living Trus t, Michel Bennett Trustee U/A 3-12-1992	$ 25,000.00	**$ 12,500**	
Michael Cavalier	$ 50,000.00	**$ 25,000**	
Michael Kelly	$ 20,000.00	**$ 10,000**	
Pierce Family Trust DTD 9-13-2000, Mitchel l D. Pierce TTEE	$ 100,000.00	**$ 50,000**	
Morrie Tob n	$ 25,000.00	**$ 12,500**	
Nicholas Lewin	$ 100,000.00	**$ 50,000**	
Peter A. Appel	$1,625,000.00	**$ 812,500**	
R & A Chade Family Trust, Richa rd Chade TTEE	$ 25,000.00	**$ 12,500**	
Xin Liu	$ 10,000.00	**$ 5,000**	
Sivan Padnos Caspi	$ 10,000.00	**$ 5,000**	
Wiley Pickett	$ 10,000.00	**$ 5,000**	
sub-total warrants	**$** 3,250,000	**$ 1,625,000**	

Warrants excercisable at $1.46 or at 30% discount to IPO price, whichever is lower
At $1.46 the number of shares the warrants could get: 1,113,014

On July 24, 2012, we entered into engagement agreements with MDB Capital Group LLC ("MDB") (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 a warrant to purchase 477,135 shares of common stock and a warrant to purchase 222,603 shares of common stock. The warrant to purchase 477,135 shares of common stock expires seven years from the date of issuance. The warrant for the purchase of 222,603 shares of common stock expires seven years after the issue date, provided, however, if the Company closes an IPO after the fifth anniversary date of the issue date but prior to the expiration date, then the expiration date will be extended for an additional five years following the close of the IPO. The exercise price of the warrant to purchase 477,135 shares of common stock will be determined as follows: (i) in the event of an IPO that occurs prior to the November 21, 2013, the per-share exercise price will be equal to the lower of 0.70 times the IPO price or $1.46; or (ii) in the event of a Private Equity Financing (as defined in the warrant agreement) that occurs prior to November 21, 2013, the per-share exercise price will be equal to the lower of 0.70 times the Private Equity Financing Price or $1.46; provided, however, that (A) if we undertake first, a Private Equity Financing and secondly, an IPO prior to November 21, 2013 and (B) the Private Equity Financing price is higher than the IPO price, then the per share exercise price will be adjusted to equal the number of shares of common stock and the exercise price calculated in accordance with subsection (i) above; or (iii) if we do not undertake either a Private Equity Financing or an IPO prior to the November 21, 2013, then the exercise price will be $1.46 per share. The exercise price of the warrant to purchase 222,603 shares of common stock will be determined as follows: (i) in the event of an IPO that occurs prior to the November 21, 2013, the per-share exercise price will be equal to 125% of the lower of 0.70 times the IPO price or $1.825; or (ii) in the event of a Private Equity Financing (as defined in the warrant agreement) that occurs prior to November 21, 2013, the per-share exercise price will be equal to 125% of the lower 0.70 times the Private Equity Financing Price or $1.825; provided, however, that (A) if we undertake first, a Private Equity Financing and secondly, an IPO prior to November 21, 2013 and (B) the Private Equity Financing price is higher than the IPO price, then the per share exercise price will be adjusted to equal the number of shares of common stock and the exercise price calculated in accordance with subsection (i) above; or (iii) if we do not undertake either a Private Equity Financing or an IPO prior to the November 21, 2013, then the exercise price will be $1.825 per share.

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 and April 16, 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 must 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 is 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 are 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 March 2013, 2013 and December 31, 2012, the Company had secured convertible promissory notes aggregating $4,000,000.

The Promissory Note accrues interest at an annual rate of 8% and could be repaid at the option of the Company after April 1, 2012. The Promissory Note will be cancelled and the debt, including accrued interest, will be forgiven upon the earlier of: 1) October 1, 2020 or 2) the date the ETF receives a return of cash or public securities equal to the proceeds from the Promissory Note plus accrued interest in connection with a qualifying liquidation event, as defined in the agreement. Upon note repayment or forgiveness, the agreement will terminate and the Company will be released from all obligations under the Agreement.

In connection with the Promissory Note, in October 2010 and July 2011, the Company issued warrants to purchase 33,875 and 101,626 shares of the Company's common stock, respectively. The fair value of the warrants was determined to be $66,372 and $199,104, respectively, and was recorded as debt discount.

Schedule 4 g IP status

Page 1

Dkt#	Status	where?	A pp No	Filed	Priority	Pat No?	Issue/*est.*
IPC-011.P	expired	USpr	6 0/81 1 ,1 9 1	6-Jun-06	6-Jun-06		
IPC-011~CN	pending	CN	2 007 8002 9 2 08.4	6-Feb-09	**6-Jun-06**		
IPC-011~EP	pending	EP	7 7 9 59 1 5.3		6-Jun-06		
IPC-012	issued	US	1 1 /7 59 ,006	6-Jun-07	6-Jun-06	7,599,196	**6-Oct-09**
IPC-012A	issued	US	1 2 /4 7 9 ,2 07	5-Jun-09	6-Jun-06	8,300,426	**30-Oct-12**
IPC-012E	issued	US	1 3 /2 05,2 4 3	8-Aug-11	6-Jun-06	8,400,800	**19-Mar-13**
IPC-012F	issued	US	1 3 /2 05,2 50	8-Aug-11	6-Jun-06	8,395,910	**12-Mar-13**
IPC-012G	issued	US	1 3 /2 05,2 6 3	8-Aug-11	6-Jun-06	8,345,452	**1-Jan-13**
IPC-013	issued	US	1 1 /7 58,9 7 0	6-Jun-07	6-Jun-06	7,778,045	**17-Aug-10**
IPC-013C	pending	US	1 3 /859 ,2 6 5	9-Apr-13	6-Jun-06		
IPC-020~BR	pending	BR	PI1 01 1 551 -0	28-Dec-11	29-Jun-09		
IPC-020~CN	pending	CN	2 01 08003 87 04 8	29-Feb-12	29-Jun-09		
IPC-020~EP	pending	EP	1 08003 1 0.4	13-Jan-12	29-Jun-09		
IPC-020~KR	pending	KR	2 01 2 -7 0007 2 0	10-Jan-12	29-Jun-09		
IPC-020A	issued	US	1 3 /2 05,2 1 2	8-Aug-11	29-Jun-09	8,391,033	**5-Mar-13**
IPC-020B	issued	US	1 3 /54 1 ,9 02	5-Jul-12	29-Jun-09	8,441,819	**14-May-13**
IPC-020C	issued	US	1 3 /54 1 ,9 05	5-Jul-12	29-Jun-09	8,432,711	**30-Apr-13**
IPC-020D	issued	US	1 3 /54 1 ,9 1 0	5-Jul-12	29-Jun-09	8,446,705	**21-May-13**
IPC-020E	issued	US	1 3 /54 1 ,9 1 4	5-Jul-12	29-Jun-09	8,451,637	**28-May-13**
IPC-020F	pending	US	1 3 /84 7 ,7 03	20-Mar-13	29-Jun-09		
IPC-021~BR	pending	BR	BR1 1 2 01 2 003 6 1 2 -2	16-Feb-12	17-Aug-09		
IPC-021~CA	pending	CA	2 8084 9 0				
IPC-021A	issued	US	1 3 /2 05,2 2 5	8-Aug-11	17-Aug-09	8,295,069	**23-Oct-12**
IPC-021B	issuing	US	1 3 /54 2 ,2 2 3	5-Jul-12	17-Aug-09		*13-Aug-13*
IPC-021C	issued	US	1 3 /54 2 ,2 2 5	5-Jul-12	17-Aug-09	8,406,025	**26-Mar-13**
IPC-021D	auth	US			17-Aug-09		
IPC-022	issued	US	1 3 /3 08,2 00	30-Nov-11	30-Nov-10	8,446,042	**21-May-13**
IPC-022A	issued	US	1 3 /7 05,2 3 0	5-Dec-12	30-Nov-10	8,446,043	**21-May-13**
IPC-022A	pending	US	1 3 /87 2 ,9 7 3	29-Apr-13	30-Nov-10		
IPC-022WO	*expiring*	PCT	PCT/US1 1 /6 2 6 89	30-Nov-11	30-Nov-10		
IPC-023	pending	US	1 3 /4 01 ,7 7 1	21-Feb-12	18-Feb-11		
IPC-024	pending	US	1 3 /4 00,56 7	20-Feb-12	18-Feb-11		*27-Aug-13*
IPC-028	issued	US	1 3 /3 08,3 56	30-Nov-11	30-Nov-10	8,461,718	**11-Jun-13**
IPC-028~IN	pending	IN	4 9 55/DELNPi2 01 3				
IPC-028~MY	pending	MY					
IPC-028~PH	pending	PH					
IPC-028~SG	pending	SG	2 01 3 04 01 9 -1	21-May-13			
IPC-028A	issued	US	1 3 /7 05,2 4 0	5-Dec-12	30-Nov-10	8,471,408	**25-Jun-13**
IPC-028B	pending	US	1 3 /87 2 ,9 7 9	29-Apr-13	30-Nov-10		
IPC-029.P	expiring	USpr	6 1 /7 00,1 3 1	12-Sep-12	12-Sep-12		
IPC-029.P2	expiring	USpr	6 1 /7 84 ,001	14-Mar-13	12-Sep-12		
IPC-030.P	pending	USpr	6 1 /81 4 ,9 9 3	23-Apr-13	23-Apr-13		
IPC-036.P	pending	USpr	6 1 /83 8,7 58	24-Jun-13	24-Jun-13		
IPC-037.P	pending	USpr	6 1 /84 1 ,6 1 8	1-Jul-13	1-Jul-13		
IPC-038.P	pending	USpr	6 1 /84 1 ,6 2 1	1-Jul-13	1-Jul-13		

Dkt#	Status	where?	A pp No	Filed	Priority	Pat No?	Issue/*est.*
IPC-039.P	pending	USpr	6 1 /84 1 ,6 2 4	1-Jul-13	1-Jul-13		
IPC-PCCS-001	proposed						
IPC-PCCS-002	proposed						
IPC-PCCS-003	pending	USpr	6 1 /7 6 5,09 8	15-Feb-13	15-Feb-13		
IPC-PCCS-004	pending	USpr	6 1 /7 6 5,1 2 9	15-Feb-13	15-Feb-13		
IPC-PCCS-005	proposed						
IPC-PCCS-006	proposed						
IPC-PCCS-007	pending	USpr	6 1 /7 6 5,09 9	15-Feb-13	15-Feb-13		
IPC-PCCS-008	proposed						
IPC-PCCS-009	proposed						
IPC-PCCS-011	pending	USpr	6 1 /7 6 5,1 00	15-Feb-13	15-Feb-13		
IPC-PCCS-012	pending	USpr	6 1 /7 6 5,1 3 1	15-Feb-13	15-Feb-13		
IPC-PCCS-013	pending	USpr	6 1 /7 6 5,1 02	15-Feb-13	15-Feb-13		
IPC-PCCS-014	proposed						
IPC-PCCS-015	pending	USpr	6 1 /7 6 5,1 04	15-Feb-13	15-Feb-13		
IPC-PCCS-018	proposed						
IPC-PCCS-019	proposed						
IPC-PCCS-021	pending	USpr	6 1 /7 6 5,1 07	15-Feb-13	15-Feb-13		
IPC-PCCS-022	proposed						
IPC-PCCS-025	proposed						
IPC-PCCS-026	pending	USpr	6 1 /7 6 5,1 3 2	15-Feb-13	15-Feb-13		
IPC-PCCS-029	pending	USpr	6 1 /7 7 8,6 4 8	13-Mar-13	13-Mar-13		
IPC-PCCS-030	proposed						
IPC-PCCS-031	proposed						
IPC-PCCS-032	pending	USpr	6 1 /7 6 5,1 1 0	15-Feb-13	15-Feb-13		
IPC-PCCS-034	proposed						
IPC-PCCS-035	pending	USpr	6 1 /7 6 5,1 1 2	15-Feb-13	15-Feb-13		
IPC-PCCS-036	pending	USpr	6 1 /7 6 5,1 1 4	15-Feb-13	15-Feb-13		
IPC-PCCS-037	pending	USpr	6 1 /7 7 8,6 6 1	13-Mar-13			
IPC-PCCS-038	proposed						
IPC-PCCS-040	pending	USpr	6 1 /7 6 5,1 1 6	15-Feb-13	15-Feb-13		
IPC-PCCS-041	pending	USpr	6 1 /7 6 5,1 1 8	15-Feb-13	15-Feb-13		
IPC-PCCS-043	pending	USpr	6 1 /7 6 5,1 1 9	15-Feb-13	15-Feb-13		
IPC-PCCS-044	pending	USpr	6 1 /7 6 5,1 2 2	15-Feb-13	15-Feb-13		
IPC-PCCS-045	proposed						
IPC-PCCS-046	pending	USpr	6 1 /7 6 5,1 3 7	15-Feb-13	15-Feb-13		
IPC-PCCS-046	proposed		6 1 /7 6 5,1 3 7	15-Feb-13			
IPC-PCCS-047	proposed						
IPC-PCCS-051	proposed						
IPC-PCCS-052	proposed						
IPC-PCCS-053	pending	USpr	6 1 /7 6 5,1 2 3	15-Feb-13	15-Feb-13		
IPC-PCCS-054	pending	USpr	6 1 /7 6 5,1 2 6	15-Feb-13	15-Feb-13		
IPC-PCCS-055	proposed						
IPC-PCCS-057	pending	USpr	6 1 /7 6 5,1 3 9	15-Feb-13	15-Feb-13		
IPC-PCCS-059	pending	USpr	6 1 /7 6 5,1 4 4	15-Feb-13	15-Feb-13		
IPC-PCCS-060	pending	USpr	6 1 /7 6 5,1 4 6	15-Feb-13	15-Feb-13		
IPC-PCCS-061	pending	USpr	6 1 /7 7 8,6 80	13-Mar-13	13-Mar-13		
IPC-PCCS-062	pending	USpr	6 1 /81 7 ,09 2	29-Apr-13	29-Apr-13		
IPC-PCCS-063	pending	USpr	6 1 /81 7 ,01 2	29-Apr-13	29-Apr-13		
IPC-PCCS-064	pending	USpr	6 1 /81 7 ,01 9	29-Apr-13	29-Apr-13		
IPC-PCCS-065	proposed						
IPC-PCCS-066	proposed						
IPC-PCCS-067	proposed						

Ideal Power Converters
List of Inventions
Refer to US Patent Office records for all the issued patents.

No.	AN or Number	Title(s)	Technology Description	Benefit
1	7,599,196 7,778,045	UNIVERSAL POWER CONVERTER UNIVERSAL POWER CONVERSION METHODS	A unique arrangement of passive and active circuit elements that are operated to transfer power by indirect means between input and output power ports.	Due to the indirect transfer method , which uses a magnetic energy storage device referred to as a "link inductor", input and output ports may have significant differences in common mode voltage, allowing grounded ports to be used without an isolation transformer. Additionally, all switching is very "soft", resulting in very low switching stresses and loss. Many other benefits accrue with this technology, such as multi-port capability and high current control bandwidth.
2	13/205,212	ENERGY-TRANSFER REACTANCE POWER TRANSFER DEVICES, METHODS, AND SYSTEMS WITH CROWBAR SWITCH SHUNTING	A means of shutting down the IPC converter quickly to protect it against transients	A low cost method to provide a high level of external transient (e.g. lightening) protection.
3	**13/205,225**	**POWER CONVERSION WITH ADDED PSEUDO-PHASE**	**Provides for an "port" internal to the IPC converter for temporary storage of energy as needed to buffer the power flow from a steady power source to an unsteady power sink, or vice-versa**	**Eliminates the need for large, expensive, and dangerous electrolytic capacitors to interface a DC input to a single phase AC output**
4	61/418,144	Photovoltaic String Monitoring and Diagnostic	A technique using an IPC inverter to monitor the current-voltage (I-V) curves of an attached solar PV array	Useful for detecting abnormalities in said PV array
5	61/444,365	Sealed Compartment Vent and Dehumidifier	Uses a desiccant and active heater to control the humidity in the power electronics compartment of an IPC PV inverter, using the diurnal heating and cooling cycle of the inverter	Keeps the internal humidity low even in an environment with high humidity, which prolongs the life of the inverter
6	61/444,385	Zero Current Crossing Detection Circuit	A means to detect when the current through the IPC converter's link inductor goes through zero	A low latency, noise free technique for finding when the link inductor current is zero

Schedule 4(i) **Financial Statements**

1. Attached are the audited financial statements for the years ended December 31, 2012 and 2011 and the reviewed financial statements for the three months ended March 31, 2013 and 2012.

Ideal Power Inc.

INDEX TO CONDENSED FINANCIAL STATEMENTS

IDEAL POWER INC.
Condensed Balance Sheets

	March 31, 2013 (unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,215,986	$ 1,972,301
Accounts receivable, net	303,890	485,674
Inventories, net	209,942	217,867
Prepayments and other current assets	27,254	28,468
Prepaid offering costs	12,398	-
Total current assets	1,769,470	2,704,310
Property and equipment, net	27,659	27,903
Patents, net	528,637	474,790
Total Assets	$ 2,325,766	$ 3,207,003
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Current portion of long-term debt, net of debt discount of $2,791,325 at March 31, 2013 and $3,828,711 at December 31, 2012.	$ 2,350,532	$ 1,313,146
Accounts payable	404,357	684,558
Accrued expenses	214,262	178,003
Deferred revenue	75,000	-
Total current liabilities	3,044,151	2,175,707
Long-term debt	1,152,690	1,132,690
Commitments		
Stockholders' deficit:		
Common stock, $0.001 par value; 50,000,000 shares authorized; 3,524,505 issued and outstanding at March 31, 2013 and December 31, 2012.	3,525	3,525
Common stock to be issued	43,333	-
Additional paid-in capital	7,109,741	7,098,252
Treasury stock	(2,657)	(2,657)
Accumulated deficit	(9,025,017)	(7,200,514)
Total stockholders' deficit	(1,871,075)	(101,394)
Total Liabilities and Stockholders' Deficit	$ 2,325,766	$ 3,207,003

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

IDEAL POWER INC.
Condensed Statements of Operations
(Unaudited)

	Three Months Ended	
	March 31, 2013	**March 31, 2012**
Revenues:		
Products and services	$ 132,897	$ 45,900
Royalties	25,000	25,000
Grants	222,238	61,282
Total revenue	380,135	132,182
Cost of revenues	366,989	87,577
Gross profit	13,146	44,605
Operating expenses:		
General and administrative	437,312	255,840
Research and development	256,348	352,841
Sales and marketing	60,560	43,650
Total operating expenses	754,220	652,331
Loss from operations	(741,074)	(607,726)
Interest expense, net (including amortization of debt discount of $1,037,386 and $77,430 for the three months ended March 31, 2013 and 2012, respectively)	1,083,429	103,549
Net loss	$ (1,824,503)	$ (711,275)
Net loss per share – basic and fully diluted	$ (0.52)	$ (0.20)
Weighted average number of shares outstanding – basic and fully diluted	3,524,505	3,477,050

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

IDEAL POWER INC.
Condensed Statement of Stockholders' Deficit (Unaudited)
For the three months ended March 31, 2013

	Common Stock		Common Stock Issuable		Additional Paid-In	Treasury	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Stock	Deficit	Deficit
Balances at January 1, 2013	3,524,505	$ 3,525	-	$ -	$7,098,252	$ (2,657)	$ (7,200,514)	$ (101,394)
Common stock issuable for services	-	-	29,680	43,333	-	-	-	43,333
Stock-based compensation	-	-	-	-	11,489	-	-	11,489
Net loss for the three months ended March 31, 2013	-	-	-	-	-	-	(1,824,503)	(1,824,503)
Balances at March 31, 2013	3,524,505	$ 3,525	29,680	$ 43,333	$7,109,741	$ (2,657)	$ (9,025,017)	$ (1,871,075)

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

IDEAL POWER INC.
Condensed Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31,	
	2013	**2012**
Cash flows from operating activities:		
Net loss	$ (1,824,503)	$ (711,275)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	5,578	13,674
Common stock to be issued for services	43,333	-
Stock-based compensation	11,489	13,048
Amortization of debt discount	1,037,386	77,430
Decrease (increase) in operating assets:		
Accounts receivable	181,785	55,497
Inventories	7,925	-
Prepaid expenses and offering costs	(11,180)	-
Increase (decrease) in operating liabilities:		
Accounts payable	(280,201)	193,954
Accrued expenses	36,255	17,207
Deferred Revenue	75,000	75,000
Net cash used in operating activities	(717,133)	(265,465)
Cash flows from investing activities:		
Purchase of property and equipment and patents	(59,182)	(63,614)
Cash flows from financing activities:		
Borrowings on notes payable	20,000	202,704
Proceeds from issuance of common stock	-	52,000
Net cash provided by financing activities	20,000	254,704
Net decrease in cash and cash equivalents	(756,315)	(74,375)
Cash and cash equivalents at beginning of period	1,972,301	100,675
Cash and cash equivalents at end of the period	$ 1,215,986	$ 26,300
Supplemental disclosure of cash flow information:		
Cash paid during the three months:		
Interest	$ 0	$ 212

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

Ideal Power Inc.
Notes to Condensed 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 in Austin, Texas, it develops power converter solutions for photovoltaic generation, grid-storage and electric vehicle charging. The principal products of the Company are photovoltaic inverters and battery converters. The Company is developing technology to build electric vehicle chargers, wind converters and variable frequency drives. The Company also renders services to customers for developing a technological platform similar to that of the Company.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation and Going Concern

The accompanying unaudited interim condensed financial statements and information have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission for Form 10-Q. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The condensed balance sheet at December 31, 2012 has been derived from the Company's audited financial statements.

In the opinion of management, these condensed financial statements reflect all normal recurring and other adjustments necessary for a fair presentation. These financials statements should be read in conjunction with the audited financial statements for the year ended December 31, 2012 included elsewhere in this document. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year or any other future periods.

The accompanying unaudited interim condensed financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP) which contemplate continuation of the Company as a going concern. However, the Company is subject to the risks and uncertainties associated with a new business and has incurred significant losses from operations since inception. The Company's operations are dependent upon it raising additional funds through a private offering of its stock or debt financing. The Company is obligated to pay or convert $5,142,000 in promissory notes due in 2013. The Company has no committed sources of capital and is not certain whether additional financing will be available when needed on terms that are acceptable, if at all. These matters raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that could result from the outcome of this uncertainty. The report from the Company's independent registered public accounting firm relating to the year ended December 31, 2012 states that there is substantial doubt about the Company's ability to continue as a going concern.

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 March 31, 2013 and December 31, 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 March 31, 2013 and December 31, 2012.

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. Once the patents are awarded the amortization is computed using the straight-line method over the estimated useful lives of the patents of 20 years commencing from the date of filing of patents.

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 three months ended March 31, 2013.

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, notes payable, line of credit 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 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.

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 related costs are incurred, provided that the conditions under which the government grants were provided have been met. Government grants amounted to $222,238 and $61,282 for the three months ended March 31, 2013 and 2012, respectively.

At March 31, 2013 and December 31, 2012, grants receivable amounted to $223,223 and $348,647, respectively, and were included in accounts receivable.

Royalty income is recognized as earned based on the terms of the contractual agreements.

Product Warranties

The Company 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

Research and development costs are expensed as incurred. Research and development costs incurred during the three months ended March 31, 2013 and 2012 amounted to $256,348 and $352,841, respectively.

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 March 31, 2013 and December 31, 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 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).

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, accounts payable and short term debt. The Company maintains its cash with a major financial institution located in the United States of America. Balances are insured by the Federal Deposit Insurance Corporation up to $250,000. Periodically throughout the year, the Company maintains balances in excess of federally insured limits. The Company encounters 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 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 two and three customers that accounted for 80% and 100% of net revenue for the three months ended March 31, 2013 and 2012, respectively. The loss of one of these customers could cause an adverse effect on the Company's operations. The Company had an accounts receivable balance from two customers and one customer that accounted for 85% and 72% of total accounts receivable at March 31, 2013 and December 31, 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:

	March 31, 2013 (unaudited)	December 31, 2012
Raw Materials	$ 128,246	$ 144,842
Finished goods	81,696	73,025
	$ 209,942	$ 217,867

Note 4 – Prepayment and Other Current Assets

Prepayment and other current assets consisted of the following:

	March 31, 2013 (unaudited)	December 31, 2012
Prepaid insurance	$ 20,254	$ 22,186
Prepaid subscription	5,000	4,282
Others	2,000	2,000
	$ 27,254	$ 28,468

Note 5 – Property and Equipment

Property and equipment consisted of the following:

	March 31, 2013 (unaudited)	December 31, 2012
Machinery and Equipment	$ 19,670	$ 19,670
Building leasehold improvements	46,850	46,850
Furniture, fixtures and computers	62,684	58,379
	129,204	124,899
Accumulated depreciation and amortization	(101,545)	(96,996)
	$ 27,659	$ 27,903

Note 6 – Patents

Patents consisted of the following:

	March 31, 2013 (unaudited)	December 31, 2012
Patents	$ 534,134	$ 479,256
Accumulated amortization	(5,497)	(4,466)
	$ 528,637	$ 474,790

Amortization expense related to patents amounted to $1,031 and $404 for the three months ended March 31, 2013 and 2012, respectively. Estimated amortization expense for the succeeding five years and thereafter is $5,900 (2014); $5,900 (2015); $5,900 (2016); $5,900 (2017); $5,900 (2018); and $85,000 (thereafter).

At March 31, 2013 and December 31, 2012, the Company had capitalized approximately $414,000 and $426,000, respectively, for costs related to patents that have not been awarded.

Note 7 – Long-term Debt

	March 31, 2013 (unaudited)	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 and April 16, 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 must 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 is 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 are 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 March 2013, 2013 and December 31, 2012, the Company had secured convertible promissory notes aggregating $4,000,000. See 4) and 5) below. The Promissory Note accrues interest at an annual rate of 8% and could be repaid at the option of the Company after April 1, 2012. The Promissory Note will be cancelled and the debt, including accrued interest, will be forgiven upon the earlier of: 1) October 1, 2020 or 2) the date the ETF receives a return of cash or public securities equal to the proceeds from the Promissory Note plus accrued interest in connection with a qualifying liquidation event, as defined in the agreement. Upon note repayment or forgiveness, the agreement will terminate and the Company will be released from all obligations under the Agreement. In connection with the Promissory Note, in October 2010 and July 2011, the Company issued warrants to purchase 33,875 and 101,626 shares of the Company's common stock, respectively. The fair value of the warrants was determined to be $66,372 and $199,104, respectively, and was recorded as debt discount. During the three months ended March 31, 2013 and 2012 the Company incurred interest expense amounting to $0 and $77,430 related to the accretion of the debt discount. Interest on the Promissory Note, including accretion of debt discount, amounted to $20,000 and $97,430 for the three months ended March 31, 2013 and 2012, respectively. Effective interest rate on this Promissory Note was 8% and 16% per annum for the three months ended March 31, 2013 and 2012, respectively. Accrued interest amounted to $152,690 and $132,690 at March 31, 2013 and 2012, respectively, and is included in the outstanding amount of promissory note.	$ 1,152,690	$ 1,132,690
2) Unsecured convertible promissory notes with principal and interest due at maturity at 6% per annum, 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 $10million, 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 are convertible into 172,249 shares of the Company's common stock at the option of the note holder upon occurrence of certain events, as defined in the promissory notes. The embedded beneficial conversion feature associated with these convertible promissory notes had no intrinsic value. Of the total amount outstanding, $40,000 was due to an officer of the Company at March 31, 2013 and December 31, 2012, respectively. Interest expense on these notes amounted to $5,400 and $5,370 for the three months ended March 31, 2013 and 2012, respectively.	360,000	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 $10million, 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 .Of the total amount outstanding, $389,575 was due to an officer, employee, and director of the Company. The promissory notes are convertible into 332,608 shares of the Company's common stock at the option of the note holder upon occurrence of certain events, as defined in the promissory notes. 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 261,581 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 three months ending March 31, 2013 and 2012 the Company incurred interest expense amounting to $65,532and $0, respectively, related to the accretion of the debt discount. Interest on these promissory notes, including accretion of debt discount, amounted to $75,960 and $536 for the three months ended March 31, 2013 and 2012, respectively. Unamortized debt discount amounted to $196,597 at March 31, 2013 and $262,129 at December 31, 2012. Effective interest rate on these notes was 44% per annum for the three months ended March 31, 2013.	498,553	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) November 21, 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. Of the total amount outstanding, $100,000 was due to one of the directors of the Company. The promissory notes are convertible into 512,645 shares of the Company's common stock at the option of the note holder upon occurrence of certain events, as defined in the promissory notes. 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 513,699 shares of the		

Company's common stock. The fair value of the warrants was determined to be $749,846 and was recorded as debt discount. During the three months ended March 31, 2013 and 2012, the Company incurred interest expense amounting to $150,000 and $0, respectively, related to the accretion of debt discount. Interest expense including accretion of debt discount, amounted to $151,875 and $0 for the three months ended March 31, 2013 and 2012, respectively. Unamortized debt discount amounted to $400,000 as of March 31, 2013 and $550,000 at December 31, 2012. Effective interest rate on these notes was 81% per annum for the three months ended March 31, 2013.	350,000	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) November 21, 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. Of the total amount outstanding, $200,000 was due to two directors of the Company. The promissory notes are convertible into 2,226,027 shares of the Company's common stock at the option of the note holder upon occurrence of certain events, as defined in the promissory notes. 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 1,113,014 shares of the Company's common stock. The fair value of the warrants was determined to be $1,625,890 and was recorded as debt discount. In connection with these promissory notes the Company issued underwriter warrants to purchase 222,603 shares of the Company's common stock. The fair value of the warrants was determined to be $292,368 and was recorded as debt discount. The Company also incurred debt raising cost of $375,000 in connection with these promissory notes which has been recorded as debt discount. During the three months ending March 31, 2013 and 2012, the Company incurred interest expense amounting to $812,500 and $0, respectively, related to the accretion of the debt discount. Interest expense, including accretion of debt discount, amounted to $820,624 and $0 for the three months ended March 31, 2013 and 2012 respectively. Unamortized debt discount amounted to $2,166,667 at March 31, 2013 and $2,979,167 at December 31, 2012. The effective interest rate on these notes was 101% per annum for the three months ended March 31, 2013.	1,083,333	270,833
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 is convertible into 59,388 shares of the Company's common stock at the option of the note holder upon occurrence of certain events, as defined in the promissory note. 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 three months ending March 31, 2013 and 2012, the Company incurred interest expense amounting to $9,354 and $0, respectively, related to the accretion of the debt discount. Interest expense, including accretion of debt discount, amounted to $9,570 and $0 for the three months ended March 31, 2013 and 2012, respectively. Unamortized debt discount amounted to $28,061 and $37,415 at March 31, 2013 and December 31, 2012, respectively. Effective interest rate was 44% per annum for the three months ended March 31, 2013.	58,646	49,292
	3,503,222	2,445,836
Less current portion of long-term debt, net of debt discount of $2,791,325 at March 31, 2013 and $3,828,711 at December 31, 2012	2,350,532	1,313,146
Long-term debt	$ 1,152,690	$ 1,132,690

The unamortized debt discount of $2,791,325 at March 31, 2013 will be amortized during the year ended December 31, 2013. Maturities of the long-term debt over the succeeding year and thereafter is approximately $5,142,000 (2013); and $1,153,000 (thereafter).

Note 8 – Warranty Reserve

The changes in warranty reserve, included in accrued expenses, were as follows:

	March 31, 2013 (unaudited)
Balance, January 1, 2013	$ 103,129
Provisions for warranty and beta replacements	11,812
Warranty payments or beta replacements	-
Balance, end of the period	$ 114,941

Note 9 – Common and Preferred Stock

All shares of common and preferred stock have a par value of $0.001. Each holder of common stock is entitled to one vote per share outstanding. Each holder of preferred stock is entitled to the number of votes equal to the number of shares of common stock into which the shares of preferred stock could be converted on the record date. As of March 31, 2013 and December 31, 2012 there were no outstanding shares of preferred stock.

Common Stock

During the three months ended March 31, 2013, the Company recognized an award of 29,680 shares of its common stock for services performed by directors. The shares have not been issued and are excluded from the weighted average total shares outstanding. The fair value of common stock to be issued in connection with services rendered was determined to be $43,333.

Note 10 – Stock Option Plan

During the three months ended March 31, 2013, the Company did not grant any stock options. The following presents a summary of activity under the Company's stock option plan for the three months ended March 31, 2013 (unaudited):

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)
Outstanding at January 1, 2013	376,455	$ 1.141	7.8
Granted	-	-	
Exercised	-	-	
Forfeited/Expired/Exchanged	-	-	
Outstanding at March 31, 2013	376,455	$ 1.141	7.6
Exercisable at March 31, 2013	338,270	$ 0.980	7.7

The following table sets forth additional information about stock options outstanding at March 31, 2013 (unaudited):

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Life (in years)	Weighted Average Exercise Price	Options Exercisable
$ 0.04 - $0.99	94,650	8.4	$ 0.1493	94,650
$ 1.00 - $1.99	236,650	7.4	1.2480	234,213
$ 2.00- $2.66	45,155	7.0	$ 2.6575	9,407
	376,455			338,270

The estimated aggregate pretax intrinsic value (the difference between the Company's estimated stock price on the last day of the three months ended March 31, 2013 and the exercises price, multiplied by the number of in-the-money options) is approximately $381,000. This amount changes based on the fair value of the Company's stock.

As of March 31, 2013, there was approximately $67,000 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 3.7 years.

Note 11 – Warrants

During the three months ended March 31, 2013 the Company did not issue any warrants. A summary of the Company's warrant activity and related information for the three months ended March 31, 2013 is as follows:

	Warrants	Weighted Average Exercise Price
Outstanding at January 1, 2013	2,809,483	$ 1.52
Granted	-	-
Exercised	-	-
Forfeited/Expired	-	-
Outstanding at March 31, 2013	2,809,483	$ 1.52

Note 12 – 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 three months ended March 31, 2013 and 2012 amounted to $9,200 and $8,614, respectively.

Future estimated lease payments are as follows:

Year ending March 31	
2014	$ 38,000
2015	6,000
	$ 44,000

Employment Agreement

The Company has entered into an employment agreement, subsequently amended on May 8, 2013, with executive management personnel that provides 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 agreement, the severance expense due would be a minimum six month salary of approximately $88,000, plus any pro-rated bonuses and vacation days earned.

Note 13 – Consulting Services

During the three months ended March 31, 2013 and 2012, the Company incurred $18,024 and $4,821, respectively, on consulting services rendered by 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 14 – Retirement Plan

The Company has adopted a defined contribution plan covering all of its employees. Under the plan, the Company contributions are discretionary. The Company did not make any discretionary contributions during the three months ended March 31, 2013 and 2012.

Note 15 – Subsequent Events

Consulting Agreement

On April 19, 2013, the Company entered into an agreement effective May 1, 2013 with an unrelated party to provide public relations services for a monthly fee of $7,500 for a period of 12 months.

Employment Agreements

On May 8, 2013, the Company entered into employment agreements with its Chief Technology Officer and Chief Executive Officer of the Company that provide for severance payments upon termination without cause. Consequently, if the Company had released executive management personnel without cause or due to change in control, as defined in the employment agreements, the severance expense due would be minimum six month salary of approximately $212,000, plus any pro-rated bonuses and vacation days earned.

Ideal Power Inc.

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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, 2012 and 2011, and the related statements of operations, stockholders' deficit, and cash flows for each of the years in the two-year period ended December 31, 2012. 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, 2012 and 2011, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As more fully discussed in Note 2 to the financial statements, the Company is subject to the risks and uncertainties associated with a new business and has incurred significant losses from operations since inception. The Company's operations are dependent upon it raising additional funds through an equity offering or debt financing. The Company is also obligated to pay or convert $5,142,000 in promissory notes due in November and December 2013. The Company has no committed sources of capital and is not certain whether additional financing will be available when needed on terms that are acceptable, if at all. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding these matters are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Gumbiner Savett Inc.

July 16, 2013
Santa Monica, California

IDEAL POWER INC.
Balance Sheets

	December 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,972,301	$ 100,675
Certificate of deposit	-	20,000
Accounts receivable, net	485,674	103,360
Inventories, net	217,867	130,018
Prepayments and other current assets	28,468	-
Total current assets	2,704,310	354,053
Property and equipment, net	27,903	72,425
Patents, net	474,790	153,375
Total Assets	$ 3,207,003	$ 579,853
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Revolving line of credit	$ -	$ 20,000
Current portion of long-term debt, net of debt discount of $3,828,711 at December 31, 2012	1,313,146	-
Accounts payable	684,558	248,666
Accrued expenses	178,003	146,824
Total current liabilities	2,175,707	415,490
Long-term debt, net of debt discount of $0 and $77,430 at December 31, 2012 and 2011, respectively	1,132,690	1,335,260
Commitments		
Stockholders' deficit:		
Common stock, $0.001 par value; 50,000,000 shares authorized; 3,524,505 and 3,460,091shares issued and outstanding at December 31, 2012 and 2011, respectively	3,525	3,460
Additional paid-in capital	7,098,252	1,381,595
Treasury stock	(2,657)	(2,657)
Accumulated deficit	(7,200,514)	(2,553,295)
Total stockholders' deficit	(101,394)	(1,170,897)
Total Liabilities and Stockholders' Deficit	$ 3,207,003	$ 579,853

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

IDEAL POWER INC.
Statements of Operations

	For the Year Ended December 31,	
	2012	**2011**
Revenues:		
Products and services	$ 319,550	$ 814,190
Royalties	100,000	20,000
Grants	707,357	26,581
Total revenue	1,126,907	860,771
Cost of revenues	957,641	757,393
Gross profit	169,266	103,378
Operating expenses:		
General and administrative	1,916,911	633,348
Research and development	1,127,192	914,851
Sales and marketing	163,470	67,861
Total operating expenses	3,207,573	1,616,060
Loss from operations	(3,038,307)	(1,512,682)
Interest expense, net (including amortization of debt discount of $1,472,904 and $176,984 for the years ended December 31, 2012 and 2011, respectively)	1,608,912	238,257
Net loss	$ (4,647,219)	$ (1,750,939)
Net loss per share – basic and fully diluted	$ (1.33)	$ (0.53)
Weighted average number of shares outstanding – basic and fully diluted	3,489,963	3,282,520

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

IDEAL POWER INC.
Statement of Stockholders' Deficit
For the Years Ended December 31, 2012 and 2011

	Common Stock		Preferred Stock		Additional Paid-In	Treasury	Accumulated	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Capital	Stock	Deficit	(Deficit)
Balances at December 31, 2010	3,223,457	$ 3,223	122,175	$ 122	$ 821,126	$ -	$ (802,356)	$ 22,115
Issuance of common stock	70,741	71	-	-	187,931	-	-	188,002
Issuance of common stock for services	44,718	45	-	-	118,795	-	-	118,840
Conversion of Series Seed Preferred stock to common stock	122,175	122	(122,175)	(122)	-	-	-	-
Issuance of warrants in connection with debt	-	-	-	-	199,104	-	-	199,104
Stock-based compensation	-	-	-	-	54,639	-	-	54,639
Repurchase of common stock	(1,000)	(1)	-	-	-	(2,657)	-	(2,658)
Net loss for the year ended December 31, 2011	-	-	-	-	-	-	(1,750,939)	(1,750,939)
Balances at December 31, 2011	3,460,091	3,460	-	-	1,381,595	(2,657)	(2,553,295)	(1,170,897)
Issuance of common stock	19,568	20	-	-	51,980	-	-	52,000
Issuance of common stock for services	44,846	45	-	-	78,949	-	-	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 in	-	-	-	-	64,596	-	-	64,596
Net loss for the year ended December 31, 2012	-	-	-	-	-	-	(4,647,219)	(4,647,219)
Balances at December 31, 2012	3,524,505	$ 3,525	-	$ -	$7,098,252	$ (2,657)	$ (7,200,514)	$ (101,394)

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

IDEAL POWER INC.
Statements of Cash Flows

	For the Year Ended December 31,	
	2012	**2011**
Cash flows from operating activities:		
Net loss	$ (4,647,219)	$ (1,750,939)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	52,139	40,859
Stock-based compensation	64,596	54,639
Issuance of common stock for services	78,994	118,840
Amortization of debt discount	1,472,904	176,984
Issuance of note payable in connection with services	86,707	-
Fair value of warrants issued for consulting services	670,947	-
Increase in operating assets:		
Accounts receivable	(382,314)	(103,360)
Inventories	(87,849)	(130,018)
Prepaid expenses	(27,468)	-
Increase in operating liabilities:		
Accounts payable	435,892	101,077
Accrued expenses	31,182	136,275
Net cash used in operating activities	(2,251,489)	(1,355,643)
Cash flows from investing activities:		
Purchase of property and equipment	(5,961)	(74,381)
Acquisition of patents	(323,074)	(56,430)
Certificate of deposit	20,000	(20,000)
Net cash used in investing activities	(309,035)	(150,811)
Cash flows from financing activities:		
(Repayment) borrowings on line of credit	(20,000)	20,000
Borrowings on notes payable, net of debt raising costs	4,400,150	1,158,032
Proceeds from issuance of common stock	52,000	188,002
Repurchase of common stock	-	(2,658)
Net cash provided by financing activities	4,432,150	1,363,376
Net increase (decrease) in cash and cash equivalents	1,871,626	(143,078)
Cash and cash equivalents at beginning of year	100,675	243,753
Cash and cash equivalents at end of year	$ 1,972,301	$ 100,675
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$ 212	$ 4,152

(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, 2012:

The Company issued 2,110,897 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.

Non cash activities for the year ended December 31, 2011:

The Company issued 101,626 warrants valued at $199,104 in connection with a note payable.

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 in Austin, Texas, it develops power converter solutions for photovoltaic generation, grid-storage and electric vehicle charging. The principal products of the Company are photovoltaic inverters and battery converters. The Company is developing technology to build electric vehicle chargers, wind converters and variable frequency drives. The Company also renders services to customers for developing a technological platform similar to that of the Company.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation and Going Concern

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States (US GAAP) which contemplate continuation of the Company as a going concern. However, the Company is subject to the risks and uncertainties associated with a new business and has incurred significant losses from operations since inception. The Company's operations are dependent upon it raising additional funds through private offering of its stock or debt financing. The Company is obligated to pay or convert $5,142,000 in promissory notes due in 2013. The Company has no committed sources of capital and is not certain whether additional financing will be available when needed on terms that are acceptable, if at all. These matters raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that could result from the outcome of this uncertainty. The report from the Company's independent registered public accounting firm states that there is substantial doubt about the Company's ability to continue as a going concern.

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, 2012 and 2011.

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, 2012 and 2011.

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. Once the patents are awarded the amortization is computed using the straight-line method over the estimated useful lives of the patents of 20 years commencing from the date of filing of patents.

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, 2012 and 2011.

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, certificate of deposit, notes payable, line of credit 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 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.

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 related costs are incurred, provided that the conditions under which the government grants were provided have been met. Government grants amounted to $707,357 and $26,581 for the years ended December 31, 2012 and 2011, respectively. At December 31, 2012, grants receivable amounted to $348,647 and were included in accounts receivable. At December 31, 2011, there were no grants receivable.

Royalty income is recognized as earned based on the terms of the contractual agreements.

Product Warranties

The Company 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

Research and development costs are expensed as incurred. Research and development costs incurred during the years ended December 31, 2012 and 2011 amounted to $1,127,192 and $914,851, respectively.

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, 2012 and 2011, 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 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).

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, accounts payable and short term debt. 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. Periodically throughout the year, 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 two customers that accounted for 75% and 85% of net revenue for the years ended December 31, 2012 and 2011, respectively. The loss of one of these customers could cause an adverse effect on the Company's operations. The Company had an accounts receivable balance from one customer that accounted for 72% and 100% of total accounts receivable at December 31, 2012 and 2011, 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,	
	2012	2011
Raw materials	$ 144,842	$ 130,018
Finished goods	73,025	-
	$ 217,867	$ 130,018

Note 4 – Prepayment and Other Current Assets

At December 31, 2012, prepayment and other current assets consisted of the following:

Prepaid insurance	$ 22,186
Prepaid subscription	4,282
Others	2,000
	$ 28,468

Note 5 – Property and Equipment

Property and equipment consisted of the following:

	December 31,	
	2012	2011
Machinery and Equipment	$ 19,670	$ 19,670
Building leasehold improvements	46,850	46,850
Furniture, fixtures and computers	58,379	52,422
	124,899	118,942
Accumulated depreciation and amortization	(96,996)	(46,517)
	$ 27,903	$ 72,425

Note 6 – Patents

Patents consisted of the following:

	December 31,	
	2012	2011
Patents	$ 479,256	$ 156,182
Accumulated amortization	(4,466)	(2,807)
	$ 474,790	$ 153,375

Amortization expense related to patents amounted to $1,659 and $1,443 for the years ended December 31, 2012 and 2011, respectively. Estimated amortization expense for the succeeding five years and thereafter is $ 2,700(2013); $2,700 (2014); $2,700 (2015); $2,700 (2016); $2,700 (2017); and $35,000 (thereafter).

At December 31, 2012 and 2011, the Company had capitalized approximately $426,000 and $127,000, 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. Amount outstanding under this credit agreement amounted to $20,000 at December 31, 2011, and was repaid in April 2012.

Note 8 – Long-term Debt

	December 31, 2012	December 31, 2011
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 and April 16, 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 must 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 is 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 are 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 accrues interest at an annual rate of 8% and could be repaid at the option of the Company after April 1, 2012. The Promissory Note will be cancelled and the debt, including accrued interest, will be forgiven upon the earlier of: 1) October 1, 2020 or 2) the date the ETF receives a return of cash or public securities equal to the proceeds from the Promissory Note plus accrued interest in connection with a qualifying liquidation event, as defined in the agreement. Upon note repayment or forgiveness, the agreement will terminate and the Company will be released from all obligations under the Agreement. In connection with the Promissory Note, in October 2010 and July 2011, the Company issued warrants to purchase 33,875 and 101,626 shares of the Company's common stock, respectively. The fair value of the warrants was determined to be $66,372 and $199,104, respectively, and was recorded as debt discount. During the years ended December 31, 2012 and 2011, the Company incurred interest expense amounting to $77,430 and $176,984 related to the accretion of the debt discount. Interest on the Promissory Note, including accretion of debt discount, amounted to $157,430 and $225,017 for the years ended December 31, 2012 and 2011, respectively. Unamortized debt discount amounted to $0 and $77,430 at December 31, 2012 and 2011, respectively. Effective interest rate on this Promissory Note was 16% and 36% per annum for the years ended December 31, 2012 and 2011, respectively. Accrued interest amounted to $132,690 and $52,690 at December 31, 2012 and 2011, respectively, and is included in the outstanding amount of Promissory note.	$ 1,132,690	$ 975,260
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 $10million, 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 are convertible into 172,249 shares of the Company's common stock at the option of the note holder upon occurrence of certain events, as defined in the promissory notes. The embedded beneficial conversion feature associated with these convertible promissory notes had no intrinsic value. Of the total amount outstanding, $40,000 was due to an officer of the Company at December 31, 2012 and 2011, respectively. Interest on these notes amounted to $21,600 and $9,146 for the years ended December 31, 2012 and 2011, respectively.	360,000	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 .Of the total amount outstanding, $389,575 was due to an officer, employee and directors of the Company. The promissory notes are convertible into 332,608 shares of the Company's common stock at the option of the note holder upon occurrence of certain events, as defined in the promissory notes. 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 261,581 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 year ended December 31, 2012, the Company incurred interest expense amounting to $157,711 related to the accretion of the debt discount. Interest on these promissory notes, including accretion of debt discount, amounted to $185,874 for the year ended December 31, 2012.		

Unamortized debt discount amounted to $262,129 at December 31, 2012. Effective interest rate on these notes was 35% per annum for the year ended December 31, 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) November 21, 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. Of the total amount outstanding, $100,000 was due to one of the directors of the Company. The promissory notes are convertible into 512,645 shares of the Company's common stock at the option of the note holder upon occurrence of certain events, as defined in the promissory notes. 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 513,699 shares of the Company's common stock. The fair value of the warrants was determined to be $749,846 and was recorded as debt discount. During the year ended December 31, 2012, the Company incurred interest expense amounting to $521,275 related to the accretion of the debt discount. Interest on these promissory notes, including accretion of debt discount, amounted to $523,796 for the year ended December 31, 2012. Unamortized debt discount amounted to $550,000 at December 31, 2012. Effective interest rate on these notes was 210% per annum for the year ended December 31, 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) November 21, 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. Of the total amount outstanding, $200,000 was due to two directors of the Company. The promissory notes are convertible into 2,226,027 shares of the Company's common stock at the option of the note holder upon occurrence of certain events, as defined in the promissory notes. 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 1,113,014 shares of the Company's common stock. The fair value of the warrants was determined to be $1,625,890 and was recorded as debt discount. In connection with these promissory notes the Company issued underwriter warrants to purchase 222,603 shares of the Company's common stock. The fair value of the warrants was determined to be $292,368 and was recorded as debt discount. The Company also incurred debt raising cost of $375,000 in connection with these promissory notes which has been recorded as debt discount. During the year ended December 31, 2012, the Company incurred interest expense amounting to $716,488 related to the accretion of the debt discount. Interest expense on these promissory notes, including accretion of debt discount, amounted to $720,099 for the year ended December 31, 2012. Unamortized debt discount amounted to $2,979,167 at December 31, 2012. The effective interest rate on these notes was 133% per annum for the year ended December 31, 2012	270,833	-
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 is convertible into 59,388 shares of the Company's common stock at the option of the note holder upon occurrence of certain events, as defined in the promissory note. 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. Unamortized debt discount amounted to $37,415 at December 31, 2012.	49,292	-
	2,445,836	1,335,260
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, net of debt discount of $0 and $77,430 at December 31, 2012 and 2011, respectively	$ 1,132,690	$ 1,335,260

Maturities of the long-term debt over the succeeding year and thereafter is approximately $5,142,000 (2013); and $1,133,000 (thereafter). The unamortized debt discount of $3,828,711 at December 31, 2012 will be amortized during the year ended December 31, 2013.

Note 9 – Warranty Reserve

The changes in warranty reserve, included in accrued expenses, were as follows:

	2012	2011
Balance, beginning of the year	$ 123,979	$ -
Provisions for warranty and beta replacements	18,900	123,979
Warranty payments or beta replacements	(39,750)	-
Balance, end of the year	$ 103,129	$ 123,979

Note 10 – Common and Preferred Stock

All shares of common and preferred stock have a par value of $0.001. Each holder of common stock is entitled to one vote per share outstanding. Each holder of preferred stock is entitled to the number of votes equal to the number of shares of common stock into which the shares of preferred stock could be converted on the record date. As of December 31, 2012 and 2011, there were no outstanding shares of preferred stock.

Common Stock

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 19,568 shares of the Company's common stock, (2) the issuance of an aggregate 44,846 shares of the Company's common stock with a fair value of $78,994 for services, (3) the issuance of 2,110,897 warrants with a value of $3,088,944 in connection with debt, (4) the issuance of 477,135 warrants with a fair value of $670,947 in connection with consulting services.

During the year ended December 31, 2011, stockholders' equity activity consisted of the following common stock transactions: (1) the issuance to investors in private placement, in consideration of $188,002, of an aggregate 70,741 shares, including 9,783 shares to an executive employee, of the Company's common stock (2) the issuance of an aggregate 44,718 shares, including 13,170 shares to an executive employee, of the Company's common stock with a fair value of $118,840 for services, (3) the issuance of 101,626 warrants with a fair value of $199,104 in connection with debt, (4) repurchase of 1,000 shares of the Company's common stock for $2,658.

Preferred Stock

During the year ended December 31, 2011, the Company converted 122,175 shares of Series Seed Preferred stock into an equal number of shares of the Company's common stock.

Note 11 – Stock Option Plan

In 2011, the Company adopted the 2011 Stock Option/Stock Issuance Plan (the "Plan") and reserved 371,000 shares of common stock for issuance under the Plan. The Plan is administered by the Company's board of directors and is divided into two separate equity programs: 1) the Option Grant Program under which eligible persons may, at the discretion of the Plan Administrator, be granted options to purchase shares of common stock, and (ii) the Stock Issuance Program, under which eligible persons may, at the discretion of the Plan Administrator, be issued shares of common stock directly, either through the immediate purchase of such shares or as a bonus for services rendered to the Company. 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.

During the year ended December 31, 2012, the Company did not grant any awards of common stock or options to purchase common stock from the Plan.

During the year ended December 31, 2011, the Company granted option awards to various employees for the purchase of 38,756 shares of common stock from the Plan at an exercise price of $2.658. The options were to vest over a period of 4 years commencing from the date of grant. The options were valued at approximately $83,000 using the Black-Scholes option pricing model. Pursuant to the terms of the Plan, if stockholder approval was not obtained within 12 months after the date of the board's adoption of the Plan, then all options previously granted under the Plan would terminate and cease to be outstanding, and no further options could be granted and no shares could be issued under the Plan. The Plan was not approved by the Company's stockholders on or before November 5, 2012 and the option grants terminated on that date.

Awards Granted Outside the Plan

During the year ended December 31, 2012, the Company granted 45,155 stock options to purchase shares of common stock at an exercise price of $2.658 to an executive employee. The options vest over a period of 4 years commencing from the date of grant. As permitted by SAB 107, due to the Company's insufficient history of option activity, management utilized the simplified approach to estimate the options expected term, 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 Company has never declared or paid dividends and has no plans to do so in the foreseeable future. The options were valued at approximately $85,000 using the Black-Scholes option pricing model. Amount of approximately $12,400 relating to these options was charged to expense during the year ended December 31, 2012.

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

	For the year ended December 31,	
	2012	2011
Risk-free interest rate	1.41%	1.41%
Expected dividend yield	0%	0%
Expected lives	5.25 years	9 years
Expected volatility	90%	90%

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

	2012			2011		
	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	370,056	$ 1.115	8.9	331,300	$ 0.934	9.9
Granted	45,155	2.658		38,756	2.658	
Exercised	-	-		-	-	
Forfeited/Expired/Exchanged	(38,756)	2.658		-	-	
Outstanding at December 31	376,455	$ 1.141	7.8	370,056	$ 1.115	8.9
Exercisable at December 31	326,570	$ 0.958	8.0	279,095	$ 0.884	9.0

The following table sets forth additional information about stock options outstanding at December 31, 2012:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Life (in years)	Weighted Average Exercise Price	Options Exercisable
$ 0.04 - $0.99	94,650	8.7	$ 0.1493	94,650
$ 1.00 - $1.99	236,650	7.6	$ 1.2480	225,335
$ 2.00- $2.66	45,155	7.4	$ 2.6575	6,585
	376,455			326,570

The estimated aggregate pretax intrinsic value (the difference between the Company's estimated stock price on the last day of the year ended December 31, 2012 and the exercises price, multiplied by the number of in-the-money options) is approximately $373,000. This amount changes based on the fair value of the Company's stock.

As of December 31, 2012, there was $79,371 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 3.4 years.

Note 12 – Warrants

During the year ended December 31, 2012, the Company issued 2,110,897 warrants to purchase shares of the Company's common stock to various promissory note holders with exercise prices ranging from $0.001 to $2.658. The warrants vest through November 2013. The warrants were valued at approximately $3,089,000 using the Black-Scholes option pricing model. See Note 8.

During the year ended December 31, 2012, the Company issued 477,135 warrants to purchase shares of the Company's common stock to a consultant in connection with consulting services. The warrants have an exercise price of $1.46. The warrants vested immediately. The warrants were valued at approximately $671,000 using the Black-Scholes option pricing model which was charged to expense during 2012.

During the year ended December 31, 2011, the Company issued 101,626 warrants to purchase shares of the Company's common stock in connection with Promissory Note with an exercise price of $0.001. The warrants vested over a period of 9 months from the date of issuance. The warrants were valued at approximately $199,000 using the Black-Scholes option pricing model. See Note 8.

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

	For the year ended December 31,	
	2012	2011
Risk-free interest rate	0.46% -0.69%	1.41%
Expected dividend yield	0%	0%
Expected lives	3.5 – 4 years	10 years
Expected volatility	90%	90%

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

	2012		2011	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Outstanding at January 1	221,451	$ 0.00072	119,825	$ 0.00043
Granted	2,588,032	1.87	101,626	0.0010
Exercised	-	-	-	-
Forfeited/Expired	-	-	-	-
Outstanding at December 31	2,809,483	$ 1.52	221,451	$ 0.00072

Note 13 – Income Taxes

Income taxes are disproportionate to income due to net operating loss carryforwards, which are fully reserved. As of December 31, 2012, the Company has federal net operating loss carryforwards of approximately $5,313,000 which will begin to expire in 2031. Management has concluded that it is more likely than not that the Company will not have sufficient 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, 2012 and 2011.

The following is a summary of the significant components of the Company's net deferred income tax assets and liabilities as of December 31, 2012 and 2011:

	Year ended December 31,	
	2012	2011
Current deferred income tax assets:		
Inventory – uniform capitalization	$ 18,000	$ 10,000
Less valuation allowance	(18,000)	(10,000)
	$ -	$ -
Non-current deferred income tax assets and (liabilities):		
Net operating loss	$ 1,806,000	$ 675,000
Research and development credit	18,000	18,000
Warrant reserve	35,000	42,000
Depreciation and amortization	7,000	1,000
Other	(139,000)	(29,000)
Less valuation allowance	(1,727,000)	(707,000)
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, 2012 and 2011, 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, 2012 and 2011, 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 jurisdiction. The Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2008. 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,	
	2012	2011
Statutory federal income tax rate	(34) %	(34) %
Debt discount	12	4
Other	-	1
Valuation allowance	22	29
	-%	-%

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, 2012 and 2011 amounted to $34,932 and $31,833, respectively.

Future estimated lease payments are as follows:

Year ending December 31,	
2013	$ 38,000
2014	16,000
	$ 54,000

Employment Agreement

The Company has entered into an employment agreement, subsequently amended on May 8, 2013, with executive management personnel that provides 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 agreement, the severance expense due would be a minimum six month salary of approximately $88,000, plus any pro-rated bonuses and vacation days earned.

Note 15 – Consulting Services

During the years ended December 31, 2112 and 2011, the Company incurred $50,069, and $75,823 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 $4,198 and $1,939 for the years ended December 31, 2012 and 2011, respectively.

Note 17 – Subsequent Events

Consulting Agreement

On April 19, 2013, the Company entered into an agreement effective May 1, 2013 with an unrelated party to provide public relations services for a monthly fee of $7,500 for a period of 12 months.

Employment Agreements

On May 8, 2013, the Company entered into employment agreements with its Chief Technology Officer and Chief Executive Officer of the Company that provide for severance payments upon termination without cause. Consequently, if the Company had released executive management personnel without cause or due to change in control, as defined in the employment agreements, the severance expense due would be minimum six month salary of approximately $212,000, plus any pro-rated bonuses and vacation days earned.

Schedule 4(m) **Material Agreements**

Tables - Notes

Table of Notes - section 1

Convertible Notes	Date		Note Amount	conversion rate or lower	shares given 2.65754
Pa s s el LTD	4/26/2011	$	100,000.00	2.65754	37,629
Fred Bea ch	6/21/2011	$	50,000.00	2.65754	18,814
Mr Redwi ne	9/1/2011	$	70,000.00	2.65754	26,340
Don Ba rr	9/29/2011	$	100,000.00	2.65754	37,629
Cha rl es De Ta rr	10/9/2011	$	40,000.00	2.65754	15,052
Bunds chuh, John P	4/12/2012	$	13,000.00	2.65754	4,892
Bunds chuh, Pa ul	4/12/2012	$	13,000.00	2.65754	4,892
Bunds chuh, Peter W	4/12/2012	$	13,000.00	2.65754	4,892
Bunds chuh, Wi l l i a m	4/12/2012	$	13,000.00	2.65754	4,892
Cha rl es De Ta rr	(mul ti pl e)	$	150,000.00	2.65754	56,443 75,258
Chri s Cobb	5/22/2012	$	200,000.00	2.65754	9,407
Dr Breed	2/24/2012	$	25,000.00	2.65754	5,644
Joel Sher	3/25/2012	$	15,000.00	2.65754	10,000
John Mi ke Ba rron	4/17/2012	$	26,575.40	2.65754	37,629
Pa s s el LTD	4/23/2012	$	100,000.00	2.65754	10,000
Mi ke Ba rron	4/18/2012	$	26,575.40	2.65754	3,763
Sher's fa mi l y Trus t	3/25/2012	$	10,000.00	2.65754	15,052
R Andrew Webb	6/11/2012	$	40,000.00	2.65754	18,814
Ma gnus Le'Vi cki	7/17/2012	$	50,000.00	2.65754	
s ub-tota l - notes s ecti on 1		$	1,055,150.80		397,042

Details:

6% interest rate. Due 12/31/2013.
The notes are convertible at the lower of $2.65754 or the IPO price.
All the notes are convertible, some have warrants as noted in warrant section. All have interest at 6% All the noteholders have aggreed they will covert at the IPO.

Table of Notes - section 2

Convertible Notes MDB round 1	Date	Note Amount	Due date (note 1)	conversion rate	shares
Aa ron A. Grunfel d	8/31/2012	$ 15,000.00	12/21/2013	s ee deta i l s	s ee deta i l s
Al l en Es tri n	8/31/2012	$ 5,000.00	12/21/2013		
Amy En-Mei Wa ng a nd Gregory Ada m Horwi tz JTWROS	8/31/2012	$ 10,000.00	12/21/2013		
Ankur V. Des a i	8/31/2012	$ 5,000.00	12/21/2013		
Anthony Di Gi a ndomeni co	8/31/2012	$ 25,000.00	12/21/2013		
Benja mi n L. Pa dnos	8/31/2012	$ 50,000.00	12/21/2013		
Equi ty Tus t Compa ny Cus todi a n FBO Robert C. Cl i fford IRA, 6.67%, Undi vi ded	8/31/2012	$ 50,000.00	12/21/2013		
The Ha ndl er Revoca bl e Trus t	8/31/2012	$ 15,000.00	12/21/2013		
Da ni el La ndry	8/31/2012	$ 10,000.00	12/21/2013		
Da ni el Sa nker	8/31/2012	$ 10,000.00	12/21/2013		
Da vi d M. Mos s berg	8/31/2012	$ 10,000.00	12/21/2013		
Eri ck Ri cha rds on	8/31/2012	$ 50,000.00	12/21/2013		
Greg Sues s	8/31/2012	$ 20,000.00	12/21/2013		
Ha rvey Kes ner	8/31/2012	$ 15,000.00	12/21/2013		
Jeffrey S a nd Ma rga ret M Pa dnos JTWROS	8/31/2012	$ 50,000.00	12/21/2013		
Ja mes P. Ti erney	8/31/2012	$ 35,000.00	12/21/2013		
Ca us ewa y Ba y Ca pi ta l , LLC	8/31/2012	$ 50,000.00	12/21/2013		
Chri s topher a nd Ka ren Jenni ngs JTWROS	8/31/2012	$ 25,000.00	12/21/2013		
Bel l Fa mi l y Trus t	8/31/2012	$ 100,000.00	12/21/2013		
Mi cha el Jos eph Ca va l i er Jr.	8/31/2012	$ 50,000.00	12/21/2013		
Ni mi s h Pa tel	8/31/2012	$ 10,000.00	12/21/2013		
Pa ul Tes ke a nd Ri vers Tes ke JTWROS	8/31/2012	$ 10,000.00	12/21/2013		
Peter A. Appel	8/31/2012	$ 100,000.00	12/21/2013		
Ra l ph P. Ferra ra	8/31/2012	$ 10,000.00	12/21/2013		
Sa nford Dea n Greenberg	8/31/2012	$ 10,000.00	12/21/2013		
Thoma s L. Wa l l a ce, Sr.	8/31/2012	$ 10,000.00	12/21/2013		
s ubtota l - notes s ecti on 2		$ 750,000.00			

Note 1:

These originally had a due date of August 31, 2013 but per agreement were re-dated to November 21, 2013 Details:
All these notes are convertible with a 30% discount to the IPO price or to the next qualifying transaction All the noteholders have aggreed they will covert at the IPO.
All notes have 100% warrants coverage as noted in warrant section. All have 1% interest - or higher if required by the IRS.

Table of Notes – section 3

Convertible Notes MDB round 2	Date		Note Amount	Due date	conversion rate	shares
Anthony Di Gi a ndomeni co	12/21/2013	$	25,000.00	12/21/2013	s ee deta i l s	s ee deta i l s
Ha ndl er Revoca bl e Trus t, Bra d Ha ndl er TTEE	12/21/2013	$	50,000.00	12/21/2013		
Da ni el Pa dnos	12/21/2013	$	25,000.00	12/21/2013		
Edga r Pa rk	12/21/2013	$	10,000.00	12/21/2013		
Ga ry Schuma n	12/21/2013	$	10,000.00	12/21/2013		
Bi bi coff Fa mi l y Trus t	12/21/2013	$	50,000.00	12/21/2013		
Ja ne Di Gi a n	12/21/2013	$	25,000.00	12/21/2013		
John A. El wa y	12/21/2013	$	100,000.00	12/21/2013		
The John Sta nl ey Revoca bl e Trus t UAD 8-4-2006, John Sta nl ey TTEE	12/21/2013	$	200,000.00	12/21/2013		
Jona tha n J. Pa dnos	12/21/2013	$	10,000.00	12/21/2013		
YKA Pa rtners , Ltd.	12/21/2013	$	50,000.00	12/21/2013		
Ca us ewa y Ba y Ca pi ta l , LLC	12/21/2013	$	100,000.00	12/21/2013		
Bel l Fa mi l y Trus t	12/21/2013	$	100,000.00	12/21/2013		
Seri es E-1 of the La rren Smi tty, LLC	12/21/2013	$	100,000.00	12/21/2013		
MDB Ca pi ta l Group LLC	12/21/2013	$	200,000.00	12/21/2013		
MDB Ca pi ta l Group LLC	12/21/2013	$	195,000.00	12/21/2013		
Bennett Li vi ng Trus t, Mi cha el Bennett Trus tee U/A 3-12-1992	12/21/2013	$	25,000.00	12/21/2013		
Mi cha el Ca va l i er	12/21/2013	$	50,000.00	12/21/2013		
Mi cha el Kel l y	12/21/2013	$	20,000.00	12/21/2013		
Pi erce Fa mi l y Trus t DTD 9-13-2000, Mi tchel l D. Pi erce TTEE	12/21/2013	$	100,000.00	12/21/2013		
Morri e Tobi n	12/21/2013	$	25,000.00	12/21/2013		
Ni chol a s Lewi n	12/21/2013	$	100,000.00	12/21/2013		
Peter A. Appel	12/21/2013	$	1,625,000.00	12/21/2013		
R & A Cha de Fa mi l y Trus t, Ri cha rd Cha de TTEE	12/21/2013	$	25,000.00	12/21/2013		
Xi n Li u	12/21/2013	$	10,000.00	12/21/2013		
Si va n Pa dnos Ca s pi	12/21/2013	$	10,000.00			
Wi l ey Pi ckett	12/21/2013	$	10,000.00	12/21/2013		
s ub-tota l notes s ecti on 4		$	3,250,000.00			

Details:

All these notes are convertible with a 30% discount to the IPO price or to the next qualifying transaction All the noteholders have aggreed they will covert at the IPO.
All notes have 50% warrants coverage as noted in warrant section. All have 1% interest - or higher if required by the IRS.

Table of Notes – section 4

Convertible Notes MDB round 2	Date	Note Amount	Due date	conversion rate	shares
Richardson & Patel	12/31/2012	$ 86,707.00	12/21/2013	s ee detail s	see detail s
Total - all Notes - secti on 3		$ 86,707.00			

Details:

The note is convertible with a 30% discount to the IPO price or to the next qualifying transaction The noteholder has aggreed they will covert at the IPO.
No warrants are associated with this note
The note has 1% interest - or higher if required by the IRS.

Note: Richardson continues to do work for Ideal Power Inc. for the IPO and has an agreement to accept up to $300,000 in its fees into convertible notes contingent on a successful IPO.

It is expected that the full $300,000 in convertible notes will be issued.

Other

1. Commercial Lease for office with Texas Public Employees Association dated May 7, 2013. For 12 month lease commending June 1, 2013 and ending May 31, 2014. Monthly payments with all fees are $3,266 per month.

2. Agreement and Note pursuant to that Investment Unit issued by Ideal Power Converters, Inc. to the Office of the Governor Economic Development and Tourism, dated October 1, 2010.

3. Services Agreement, by and between Dynamic Manufacturing Solutions, LLC and Ideal Power Converters, Inc., dated January 15, 2010. Expired January 15, 2013.

4. Master Services Agreement, by and between Austin Technology Incubator and Ideal Power Converters, Inc, dated October 10, 2008.

5. Research Agreement No. 10-1520, by and between the Texas Engineering Experiment Station and Ideal Power Converters, Inc., dated November 22, 2010. Certain provisions of such agreement provide for joint title and/or license of certain jointly developed Intellectual Property.

6. Consulting Services Agreement, by and between Ray Lowe and Ideal Power Converters, Inc., dated April 23, 2011. No longer using his services.

7. Consulting Services Agreement, by and between Selchau Consulting, LLC and Ideal Power Converters, Inc., dated March 1, 2011.

8. Consulting Services Agreement, by and between Scott Wartha and Ideal Power Converters, Inc., dated November 12, 2010.

9. Consulting services agreement with William Redmond dated December 27th, 2010. For engineering services on an as requested basis.

10. Consulting services agreement with Mike Barron dated March 23, 2010. For software development. He was paid in cash and stock. He became an employee July 1st 2011. The agreement is no longer active.

11. Consulting services agreement with Ed Wartha dated November 12th, 2010. For engineering services on as requested basis.

12. Consulting services agreement with Walter Scott dated November 12th, 2010. For engineering services on an as requested basis.

13. Retainer Agreement by and between Comprehensive Technologies and Ideal Power Converters, Inc. dated April 1. The Agreement covers a period of nine months at $2,000 per month, starting April 1·2011 and concluding December 31, 2011. Expired.

14. Sales Representative Agreement between Comprehensive Technologies and Ideal Power Converters, Inc. dated May 13, 2011.

15. Westlake Securities d/b/a Focus Strategies. Agreement dated March 7 and expired in July 2012 to assist in non-exclusive attempt to raise capital from a list of 5-6 financial firms.

16. Amplify Capital. Agreement dated December 6, 2011 7 and expired in July 2012 to assist in non-exclusive attempt to raise capital.

17. Grant Award Notice to Ideal Power Converters, Inc. for $40,000 in Eureka Grant Funds under the American Recovery and Reinvestment Act-2009 (ARRA). State Energy Program (Eureka Program). Innovation Marketing Grant. $40,000 received and spent.

18. IPC Cost Share On Department of Energy ARPA-E project. In a three year period, the Company commits to provide $127,965 in labor, while being allocated $427,590 from the $2,777,778 project budget. Currently past the 1st year.

19. Brian Quock. Independent sales rep agreement dated May 15th with Brian Quock. Sales in California.

20. Chris Cobb. Signed offer of employment dated May 21, 2012. With details of compensation. Later updated.

21. Mercom Capital. New agreement dated April 19th, 2013 for marketing and promotion services. The term is for 12 months starting May 1st, 2013. Fee is $7,500 per month.

22. Purchase Order, by and between Lockheed Martin Corporation and Ideal Power Converters, Inc., dated September 10, 2010.

23. Purchase Order, by and between Lockheed Martin Corporation and Ideal Power Converters, Inc., dated June 10, 2010.

24. Purchase Order, by and between Lockheed Martin Corporation and Ideal Power Converters, Inc., dated January 14, 2010.

25. License Agreement, by and between Lockheed Martin Corporation and Ideal Power Converters, Inc., dated December 22, 2009, License No. 09-MC-LI-0006

26. Texas Emerging Technology Fund Award and Security Agreement, by and between the State of Texas and Ideal Power Converters, Inc., dated October 1, 2010.

27. Research Agreement No. 10-1520, by and between the Texas Engineering Experiment Station and Ideal Power Converters, Inc., dated November 22, 2010. Certain provisions of such agreement provide for joint title and/or license of certain jointly developed Intellectual Property.

28. Statement of Work, issued by the Company to Texas Engineering Experiment Station, governed by the Research Agreement. Project almost completed.

29. Demonstration Agreement, by and between the City of Austin and Ideal Power Converters, Inc., dated May 20, 2010.

30. Engagement Agreement with MDB Capital Group dated July 24, 2012 to be the Company's exclusive financial advisor and placement agent in connection with an offering of series of offerings of Company securities.

31. Engagement Letter for Strategic Consulting Services with MDB Capital Group dated July 24, 2012 to develop key assets and plans to support the Company's business objectives.

32. Agreement with Corporate Stock Transfer dated February 1st 2013. They are now the company in charge of handling stock transfers.

33. Fee agreement with Richardson Patel LLP. Includes a flat fee of a total of $450,000 for the legal work required for the completion of the IPO, of which they have agreed to be paid $150,000 in cash and $300,000 in convertible notes.

34. Consulting services agreement with Mohamed Darwish dated March 25th, 2013. For engineering services on as requested basis.

35. Consulting services agreement Blanchard and Associates dated April 8th, 2013. For engineering services on an as requested basis.

36. Auditing services from Gumbiner Savett Inc dated January 26, 2013. Agreement for audit of 2011 and 2012 as well as the review of the first quarter of 2013.

37. Sales representative agreement with Bleecker Associates dated December 21, 2012. Sales rep to cover the Northeast Texas. Monthly draw of $3000/month. 5% commission rate. Can be terminated with a 90 advance notice to representative.

38. Executive employment agreements for: Bill Alexander dated May 7th, 2013. Term 2 years.

39. Executive employment agreements for: Paul Bundschuh dated May 7th, 2013. Term 2 years.

40. Executive employment agreements for: Chris Cobb dated May 8th, 2013. Term 2 years.

41. Job offer and agreement - Barry Loder dated June 20th, 2013. Currently CFO.

42. Job offer and agreement - John Merritt dated January 15, 2012. Currently an employee.

43. Job offer and agreement - Dan Benkman dated September 5, 2012. Currently an employee.

44. Agreement with Rensselaer. Signed February 24, 2012. Research Agreement for cost Reimbursement. To perform research in accordance with statement of work defined by Company and ARPAE requirements.

45. Agreement with Virginia Tech. Signed February 16, 2012. Research Agreement for cost Reimbursement. To perform research in accordance with statement of work defined by Company and ARPAE requirements.

46. Austin Manufacturing Services. We have a purchase order with AMS for 100 units. 50 at $6,247, and 50 at $6,905.48. We have received approx. 33 of the units. We are currently working on rescheduling delivery timing, at most we would receive 33 more by August 31 and the rest postponed until needed. We are currently working with AMS on a build as needed schedule basis for that 33 prior to August 31.

Schedule 4(k) **Tax Matters**

The 2012 Federal income tax return and the Texas Franchise Tax return were extended and will be filed by the due date of filing.

Schedule 4(l) **Certain Transactions**

1. Use of DataCorp for IT services including internet site. Company is owned by Hamo Hacopian who is on the board. Mr. Hamo Hacopian currently owns more than 5% of outstanding shares.

2. Convertible promissory notes held by VP Finance Charles De Tarr ($190,000), Chris Cobb President and COO ($200,000), and Dr. Breed ($25,000). Both Charles De Tarr and Dr Breed own more than 5% of currently outstanding shares.

Schedule 4(r) **No Brokers**

1 Westlake Securities d/b/a Focus Strategies. Agreement dated March 7 and expired in July 2012. Used to assist in non-exclusive attempt to raise capital from a list of 5-6 financial firms (mainly Texas "Cap-Co's")

2 Amplify Capital. Agreement dated December 6, 2011 and expired in July 2012 to assist in non-exclusive attempt to raise capital.

Schedule 4(t) **Risk Factors**

An investment in the Securities being offered under this Securities Purchase Agreement is speculative and involves a high degree of risk. You should purchase the Securities being offered hereby only if you can afford to sustain a total loss of your investment. Accordingly, in analyzing this investment you should carefully consider the following risk factors, as well as the other information included in this Securities Purchase Agreement and related exhibits and disclosure schedules, as well as other information furnished by the Company. The order of the risk factors is not necessarily indicative of the relative importance of any described risk. These risk factors are not the only risks we face and this list should not be considered exhaustive. We consider the risks described below to be material, however there may be other risks that currently are not known to us. . The occurrence of any one of the following events would be likely to have a material adverse effect on the Company and our business, prospects, financial condition, and/or results of operation, and you could lose all or part of your investment in the Company.

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 have a limited operating history, which makes it difficult to evaluate our business. Although we have issued patents and patent applications pending with the United States Patent and Trademark Office and equivalent offices in the European Union, South Korea, China, Brazil and Canada for a power converter topology and our methods of operating said topology, and have had them validated by UL certifications from Intertek, a Nationally Recognized Test Laboratory, the California Energy Commission, and several PV inverter installations, 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 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 electric vehicle 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 which 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.

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, such as photovoltaic systems, which utilize our inverter products, provide an alternative means for obtaining electricity and are relatively new methods of obtaining electrical power that businesses, consumers, and utilities may not adopt 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 photovoltaic 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.

We have incurred losses in prior periods and expect to incur losses in the future.

Our independent registered public accounting firm has issued an unqualified opinion with an explanatory paragraph to the effect that there is substantial doubt about our ability to continue as a going concern. This unqualified opinion with an explanatory paragraph could have a material adverse effect on our business, financial condition, results of operations and cash flows. See Note 2 to our financial statements included elsewhere in this prospectus.

Since our inception on May 17, 2007 through December 31, 2012, we sustained $7,200,514 in net losses and we had net losses at December 31, 2012 and 2011 of $4,647,219 and $1,750,939, respectively. We expect to continue to sustain losses for the foreseeable future. Net loss for the three months ended March 31, 2013 was $1,824,503, which increased the accumulated net losses to $9,025,017 as of March 31, 2013.

We began product sales in 2011 and shipped 14 units for $165,000. In 2012 we shipped 25 units for $266,000. In the first quarter of 2013, we shipped 15 units for $122,000. We also sold $10,000 in ancillary equipment, PV combiners made by SolarBOS. As sales of our products have generated minimal operating revenues, we have relied on sales of our debt securities to continue our operations. If we are unable to raise funds through sales of our securities, 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 may never be profitable.

We cannot assure you that we can achieve or sustain profitability on a quarterly or annual basis in the future. Our operations are subject to the risks and uncertainties inherent in the establishment of a business enterprise including, but not limited to, lack of operating capital, lack of personnel and lack of demand for our technology and products. There can be no assurance that we can execute our business plan, which involves developing technologies and products that aim to improve key performance characteristics of electronic power converters. Even if we are successful in implementing our business plan, there is no assurance that our future operations will be profitable.

Our business is dependent upon our ability to obtain financing. If we do not obtain such financing, we may have to cease our activities and investors could lose their entire investment.

There is no assurance that we will operate profitably or generate positive cash flows in the future. We will require additional financing to pay or convert the $5,142,000 in promissory notes due in November and December 2013 and in order to sell our current products and to continue the research and development required to produce our next generation of products. Furthermore, we have issued $4 million in senior secured convertible promissory notes that must be paid on November 21, 2013 if the notes are not converted to common stock prior to their maturity dates. Excluding funds that we would need to pay the promissory notes if they are not converted, we anticipate that we will need approximately $5 million during the next 12 months to sustain our business operations, including our research and development activities. We may not be able to obtain financing on commercially reasonable terms or at all. Our business is dependent upon our ability to obtain financing. If we do not obtain such financing, our business could fail and investors could lose their entire investment.

In conjunction with an award we received through the State of Texas, we have granted the Office of the Governor, Economic Development and Tourism ("OOGEDT"), a security interest in all of our assets. If we breach the award agreement the OOGEDT will be entitled to exercise its right to foreclose on our assets. If that were to happen, your investment would become worthless.

On October 1, 2010 we received a Texas Emerging Technology Fund Award in the amount of $1 million through the Office of the Governor, Economic Development and Tourism ("OOGEDT"). If we breach the terms of the award by, for example, moving our operations to a jurisdiction other than Texas, the OOGEDT may demand repayment of the grant funds that have been disbursed, which currently total $1,152,690 as of March 31, 2013. The OOGEDT has taken a security interest in our assets to secure the repayment of the funds in the event that we breach the terms of the award. If the OOGEDT were entitled to exercise its right to foreclose on our assets, your investment would become worthless.

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 component suppliers or 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.

We expect to license our technology in the future, however the terms of these agreements may not prove to be advantageous to us, which would adversely affect our business and results of operations.

Ultimately 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, we expect to face intense competition in the markets in which we do business, and we continue to rely on the marketing and sales efforts of third parties whom we do not control.

To date we have been focused on sales of our solar PV inverter and battery converter products. Even by adding veteran industry 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 OEMs. Consequently, commercial success of our products will depend to a great extent on the efforts of others. We have entered and intend to continue entering 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 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 which 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.

We will face intense competition in the markets for product applications for our solar PV inverter, grid-battery converter, electric vehicle charging infrastructure and other value-added products. We will compete directly with currently available products, some of which may be less expensive. The companies that make these other products may have established sales relationships and more name-brand recognition in the market than we do. In addition, some of those companies may have significantly greater financial, marketing, manufacturing and other resources.

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 building a 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 are highly dependent on certain 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 Bill Alexander (Chief Technology Officer) and Paul Bundschuh (Chief Executive Officer). If we lose the services of either of these persons, we would likely be forced to expend significant time and money in the pursuit of replacements, which 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 either of these executives.

We may in the future add production capabilities, which would subject us to numerous additional risks and could adversely affect our business, financial condition, results of operations and prospects.

We currently rely on third parties to produce our products, but we may in the future add production capabilities and produce products ourselves. Adding production to our operations would subject us to numerous additional risks, including:

- the need to use significant capital resources for equipment purchases;
- increases to our operating expenses to add personnel and expertise to effectively and efficiently manufacture products;
- inaccurate estimates of customer demand for our products and the resources needed to meet customer demand; and
- diversion of management's attention from other aspects of our business.

If we expand our business to produce our own products, we cannot assure you that we will be able to produce our products in a profitable manner or at all. If we add production capabilities and any of the risks above is realized, our business, financial condition, results of operations and prospects could be materially and adversely affected.

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 converter products 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.

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

Two customers, the Department of Energy (ARPAE) and Lockheed Martin, accounted for 75% of net revenue for the year ended December 31, 2012. Two customers, Lockheed Martin and Meridian Solar, accounted for 85% of net revenues for the year ended December 31, 2011. The loss of one of these customers could cause an adverse effect on our operations. 72% of the Company's accounts receivable balance at December 31, 2012 was from the Department of Energy and 100% of total accounts receivable at December 31, 2011 was from Lockheed Martin. Separate from the work for the Department of Energy and Lockheed Martin, the Company sold its product to eleven customers in 2012.

Our sales are based on purchase orders, which can make it difficult to allocate our resources effectively. If we fail to allocate our resources effectively, our results of operations could be adversely affected.

Our sales are primarily based on a purchase order basis, which is typical in the industries we serve. As a result, we are limited in our ability to predict the level of future sales or commitments from our customers, which may diminish our ability to allocate labor and materials and to manage our manufacturing process. Our failure to allocate our resources effectively could have a material adverse affect on our results of operations.

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.

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.

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

As a supplier to the solar, grid storage, electric vehicle charging infrastructure, wind, electric motor and related industries, we are subject to business cycles, the timing, length, and volatility of which 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 Relating to the Industry

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 must rely on raising funds from investors to support our 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.

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

Our business is highly competitive. 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, Satcon, SMA and Chint Solar. All aspects of our businesses, 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 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. federal 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.

If our products do not provide demonstrably superior features as well as outstanding reliability, efficiency and cost effectiveness we will not be able to successfully compete in our targeted markets.

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. Other companies, some of which have substantially greater resources than ours, are currently engaged in the development of products and technologies that are similar to, or may be competitive with, our products and technologies. If we cannot compete successfully in the markets for our products, our results of operations and financial condition would be adversely affected.

Changes to the National Electrical Codes could adversely affect our technology and products.

Our products are installed by system integrators that must meet National Electrical Codes including using equipment that meets industry standards such as UL1741. The NEC standards address the safety of these systems and are subject to change, which could adversely affect the competitiveness of our technology and products.

Our products may be affected by changing industry standards, which could make them less competitive.

The industry standards and certification requirements for our products, including the National Electrical Code, UL1741 and IEEE1547, continue to evolve. These standards and requirements may require changes that we respond to more slowly than competitors or that we may be unable to meet, making our products 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.

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 will operate in an increasingly demanding regulatory environment, which requires us to comply with applicable provisions of the Sarbanes-Oxley Act of 2002, or 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 we transition to operating 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.

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 Related to this Offering and Owning Our Common Stock

There is no public trading market for our common stock.

There is currently no public market for our common stock. While we plan to list our common stock on the Nasdaq Capital Market, we cannot assure you that our listing application will be approved, and that a public market for our common stock will develop. If our Nasdaq listing application is not approved, we will not complete the offering.

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 the common stock we are offering.

Management of our Company is within the control of the board of directors and the officers. You should not purchase these securities 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 a substantial percentage of our common stock, as calculated in accordance with Rule 13d-3 promulgated under the Securities Exchange Act of 1934. Therefore, management has 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 which may cause or prevent a change in control of the Company or its winding up and dissolution. Accordingly, no Purchaser should purchase the securities we are offering unless he or she is willing to entrust all aspects of the management of the Company to such individuals.

We may allocate the net proceeds from this offering in ways which differ from our estimates based on our current plans and assumptions and with which you may not agree.

The allocation of net proceeds of the Offering represents our estimates based upon our current plans and assumptions regarding industry and general economic conditions, our future revenues and expenditures. The amounts and timing of our actual expenditures will depend on numerous factors, including market conditions, cash generated by our operations, business developments and related rate of growth. We may find it necessary or advisable to use portions of the proceeds from this offering for other purposes. You may not have an opportunity to evaluate the economic, financial or other information on which we base our decisions on how to use our proceeds. As a result, you may not agree with our decisions.

We may allocate the net proceeds from this offering in ways which differ from our estimates based on our current plans and assumptions discussed in the section titled "Use of Proceeds" and with which you may not agree.

The allocation of net proceeds of the offering set forth in the "Use of Proceeds" section represents our estimates based upon our current plans and assumptions regarding industry and general economic conditions, our future revenues and expenditures. The amounts and timing of our actual expenditures will depend on numerous factors, including market conditions, cash generated by our operations, business developments and related rate of growth. We may find it necessary or advisable to use portions of the proceeds from this offering for other purposes. Circumstances that may give rise to a change in the use of proceeds and the alternate purposes for which the proceeds may be used are discussed in the section entitled "Use of Proceeds". You may not have an opportunity to evaluate the economic, financial or other information on which we base our decisions on how to use our proceeds. As a result, you and other stockholders may not agree with our decisions.

Schedule 5(g) **Fees Paid to Placement Agent**

The Company will pay to the Placement Agent a cash fee equal to 10% of the principal amount of the Notes sold. If all of the Notes are sold, the Placement Agent's fee will equal $75,000. The Company will also pay to the Placement Agent's legal counsel fees in the amount of $25,000.

Exhibit 10.31

IDEAL POWER INC.

REGISTRATION RIGHTS AGREEMENT

This **REGISTRATION RIGHTS AGREEMENT** (this "**Agreement**"), dated as of July 29, 2013, is made and entered into by and between Ideal Power Inc., a Delaware corporation with headquarters located at5004 Bee Creek Road, Suite 600 Spicewood, Texas 78669 (the "**Company**"), and each of the purchasers set forth on the signature pages hereto (the "**Purchasers**").

WHEREAS, in connection with the Securities Purchase Agreement by and among the parties hereto of even date herewith (the "**Securities Purchase Agreement**"), the Company has agreed, upon the terms and subject to the conditions contained therein, to issue and sell to the Purchasers: (i) Senior Secured Convertible Promissory Notes for an aggregate purchase price of $750,000 which, together with the Senior Secured Convertible Promissory Notes issued by the Company on August 31, 2012 for an aggregate purchase price of $750,000 and the Senior Secured Convertible Promissory Notes issued by the Company on November 21, 2012 for an aggregate purchase price of $3,250,000, shall be referred to in this Agreement as the **"Notes"**, and (ii) warrants to purchase shares of the Company's common stock, $0.001 par value (the **"Common Stock"**) of the Company (the **"Warrants"**); and

WHEREAS, in order to induce the Purchasers to execute and deliver the Securities Purchase Agreement, the Company has agreed to provide certain registration rights under the Securities Act of 1933, as amended, and the rules and regulations thereunder, or any similar successor statute (collectively, the "**Securities Act**"), and applicable state securities laws.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and each Purchaser hereby agree as follows:

1. **Definitions.**

As used in this Agreement, the following capitalized terms shall have the following meanings. Capitalized terms used but not otherwise defined herein shall have the respective meanings set forth in the Securities Purchase Agreement.

(a) "**Business Day**" means any day other than Saturday, Sunday or a federal holiday.

(b) "**Closing Date**" shall have the meaning set forth in the Securities Purchase Agreement.

(c) "**Effectiveness Deadline**" means (i) with respect to any Registration Statement required to be filed pursuant to Section 2(a), 90 days after the Filing Deadline for such initial Registration Statement, and (ii) with respect to any additional Registration Statements that may be required to be filed by the Company pursuant to this Agreement, the earlier of the (A) 90th calendar day following the date on which the Company was required to file such additional Registration Statement and (B) 2nd Business Day after the date the Company is notified (orally or in writing, whichever is earlier) by the SEC that such Registration Statement will not be reviewed or will not be subject to further review.

(d) "**Filing Deadline**" means (i) with respect to any Registration Statement required to be filed pursuant to Section 2(a), within 60 days after receipt of a written request from the Required Holders pursuant to Section 2(a), and (ii) with respect to any additional Registration Statements that may be required to be filed by the Company pursuant to this Agreement, the date on which the Company was required to file such additional Registration Statement pursuant to the terms of this Agreement.

(e) "**Person**" means an individual, a limited liability company, a partnership, a joint venture, a corporation, a trust, an unincorporated organization or a government or any department or agency thereof.

(f) "**Purchasers**" means the Purchasers and any transferee or assignee who agrees to become bound by the provisions of this Agreement in accordance with Section 9 hereof.

(g) "**register**," "**registered**," and "**registration**" refer to a registration effected by preparing and filing a Registration Statement or Statements in compliance with the Securities Act and pursuant to Rule 415 under the Securities Act or any successor rule providing for offering securities on a continuous basis ("**Rule 415**"), and the declaration or ordering of effectiveness of such Registration Statement by the U.S. Securities and Exchange Commission (the "**SEC**"); provided, however, if the Required Holders in good faith determine that under applicable SEC interpretations, rules or policies a Rule 415 registration would not, in light of the circumstances of the Company or the proposed offering, permit the resale of all of the Registrable Securities immediately after effectiveness, or material limitations would be imposed on any such resale, then the registration shall be on Form S-1 or such other form that permits the maximum ability of holders of Registrable Securities to effectuate an unrestricted resale of such securities.

(h) "**Registrable Securities**" means (i) the Common Stock into which the Principal Amount, together with any accrued interest and any other amounts payable under the Notes may be converted and (ii) the shares of Common Stock issuable upon exercise or otherwise pursuant to the Warrants (without regard to any limitations on exercise set forth therein) (the "Warrant Shares"), and (iii) any shares of capital stock issued or issuable in exchange for or otherwise with respect to the foregoing.

(i) "**Registration Statement**" means a registration statement of the Company under the Securities Act which the Company may or is obligated to file hereunder.

(j) "**Required Holders**" means the holders of at least a majority of the Registrable Securities (excluding any Registrable Securities held by the Company or any of its subsidiaries) holding Notes with an aggregate minimum Principal Amount of $3 million.

(k) "**Rule 144**" means Rule 144 promulgated by the SEC under the Securities Act, as such rule may be amended from time to time, or any other similar or successor rule or regulation of the SEC that may at any time permit the Purchasers to sell securities of the Company to the public without registration.

(l) "**Rule 415**" means Rule 415 promulgated by the SEC under the Securities Act, as such rule may be amended from time to time, or any other similar or successor rule or regulation of the SEC providing for offering securities on a continuous or delayed basis.

(m) "**SEC**" means the United States Securities and Exchange Commission or any successor thereto.

2. **Registration.**

(a) Mandatory Registration. Subject to the terms and conditions, and in accordance with the provisions of Section 3 and Section 4 hereof, at any time after the Closing Date through July 29, 2014, if the Company shall receive a written request from the Required Holders that the Company file a registration statement under the Securities Act covering the registration of at least 25% of the Registrable Securities then outstanding, then the Company shall, within 30 days of the receipt thereof, give written notice of such request to the remaining Purchasers, and subject to the limitations of this Section 2, prepare and, as soon as practicable, but in no event later than the Filing Deadline, file with the SEC an initial Registration Statement on Form S-1 covering the resale of all of such Registrable Securities. Such initial Registration Statement, and each other Registration Statement required to be filed pursuant to the terms of this Agreement, shall contain (except if otherwise directed by the Required Holders) the "Selling Shareholders" and "Plan of Distribution" sections in substantially the form attached hereto as Exhibit 1. The Company shall use reasonable best efforts to have such initial Registration Statement, and each other Registration Statement required to be filed pursuant to the terms of this Agreement, declared effective by the SEC as soon as practicable, but in no event later than the applicable Effectiveness Deadline for such Registration Statement.

(b) Piggy-Back Registrations. Subject to the terms and conditions, and in accordance with the provisions of Section 4 hereof, in the event that all Registrable Securities are not registered for resale, should the Company at any time prior to the expiration of the Registration Period (as hereinafter defined), determine to file with the SEC a Registration Statement relating to an offering for its own account or the account of others under the Securities Act of any of its equity securities (other than on Form S-4 or Form S-8 or their then equivalents relating to equity securities to be issued solely in connection with any acquisition of any entity or business or equity securities issuable in connection with stock option or other bona fide employee benefit plans), the Company shall send to each Purchaser who is entitled to registration rights under this Section 2(b) written notice of such determination and, if within 20 days after the effective date of such notice (as provided for in Section 11(b) hereof), such Purchaser shall so request in writing, the Company shall include in such Registration Statement all or any part of the Registrable Securities such Purchaser requests to be registered. Notwithstanding any other provision of this Agreement, the Company may withdraw any registration statement referred to in this Section 2(b) without incurring any liability to the Purchasers.

(c) Offering. Notwithstanding anything to the contrary contained in this Agreement, in the event the staff of the SEC (the "Staff") or the SEC seeks to characterize any offering pursuant to a Registration Statement filed pursuant to this Agreement as constituting an offering of securities by, or on behalf of, the Company, or in any other manner, such that the Staff or the SEC do not permit such Registration Statement to become effective and used for resales in a manner that does not constitute such an offering and that permits the continuous resale at the market by the Purchasers participating therein (or as otherwise may be acceptable to each Purchaser) without being named therein as an "underwriter," then the Company shall reduce the number of shares to be included in such Registration Statement by all Purchasers until such time as the Staff and the SEC shall so permit such Registration Statement to become effective as aforesaid. In making such reduction, the Company shall reduce the number of shares to be included by all Purchasers on a pro rata basis (based upon the number of Registrable Securities otherwise required to be included for each Purchaser) unless the inclusion of shares by a particular Purchaser or a particular set of Purchasers are resulting in the Staff or the SEC's "by or on behalf of the Company" offering position, in which event the shares held by such Purchaser or set of Purchasers shall be the only shares subject to reduction (and if by a set of Purchasers on a pro rata basis by such Purchasers or on such other basis as would result in the exclusion of the least number of shares by all such Purchasers); provided, that, with respect to such pro rata portion allocated to any Purchaser, such Purchaser may elect the allocation of such pro rata portion among the Registrable Securities of such Purchaser. In addition, in the event that the Staff or the SEC requires any Purchaser seeking to sell securities under a Registration Statement filed pursuant to this Agreement to be specifically identified as an "underwriter" in order to permit such Registration Statement to become effective, and such Purchaser does not consent to being so named as an underwriter in such Registration Statement, then, in each such case, the Company shall reduce the total number of Registrable Securities to be registered on behalf of such Purchaser, until such time as the Staff or the SEC does not require such identification or until such Purchaser accepts such identification and the manner thereof.

(d) Allocation of Registrable Securities. The initial number of Registrable Securities included in any Registration Statement and any increase in the number of Registrable Securities included therein shall be allocated pro rata among the Purchasers based on the number of Registrable Securities held by each Purchaser at the time such Registration Statement covering such initial number of Registrable Securities or increase thereof is declared effective by the SEC. In the event that a Purchaser sells or otherwise transfers any of such Purchaser's Registrable Securities, each transferee or assignee (as the case may be) that becomes an Purchaser shall be allocated a pro rata portion of the then-remaining number of Registrable Securities included in such Registration Statement for such transferor or assignee (as the case may be). Any shares of Common Stock included in a Registration Statement and which remain allocated to any Person which ceases to hold any Registrable Securities covered by such Registration Statement shall be allocated to the remaining Purchasers, pro rata based on the number of Registrable Securities then held by such Purchasers which are covered by such Registration Statement.

(e) No Inclusion of Other Securities. With the exception of any Registrable Securities that result from the offerings of senior secured convertible promissory notes together with warrants that the Company closed on August 31, 2012 and November 21, 2012, in no event shall the Company include any securities other than Registrable Securities on any Registration Statement without the prior written consent of the Required Holders. Until July ____, 2014, the Company shall not enter into any agreement providing any registration rights to any of its security holders without the consent of the Required Holders.

(f) Termination. All registration rights under this Section 2 shall terminate and be of no further force and effect upon repayment of the Notes (with respect to each Note); provided, however, that if the Warrant Shares are not registered prior to the termination of the registration rights, then the Purchaser will have the right to require the Company to purchase the Warrant in accordance with Section 13 of the Warrant (the "Put Right"). The Put Right will expire 12 months from the termination of the registration rights in accordance with this Section 2(f).

(g) Late Fees. If for any reason the Company does not file a registration statement by the Filing Deadline ("Filing Default") or if for any reason it is unable to have that registration statement declared effective by the SEC as of the Effectiveness Deadline ("Effectiveness Default"), then the Company shall pay promptly an amount that is determined by (A) multiplying (i) the amount of the Offering, by (ii) 0.03, and then (iii) dividing by 30, followed by (B) multiplying the result by the number of elapsed days needed to cure the Filing Default or the Effectiveness Default. By way of example if the Company cured the Filing Default or the Effectiveness Default 10 days after the Filing Deadline or 10 days after the Effectiveness Deadline, then it would be required to pay the Purchasers as a group an aggregate of $5,000, according to their respective interests, no later than the earlier of (x) 10 business days after cure of the Filing Default or of the Effectiveness Default, or (ii) 10 business days after the month in which the Filing Default or the Effectiveness Default has occurred.

3. **Obligations of the Company**. In connection with the registration of the Registrable Securities, the Company shall have the following obligations:

(a) On or prior to the Filing Deadline the Company will use reasonable best efforts to become a publicly traded and publicly reporting company under both the Securities Act and the Securities Exchange Act of 1934 and will use reasonable best efforts to file a Registration Statement with the Securities and Exchange Commission ("SEC") on Form S-1 covering the registration of Common Stock of the Company, including the Registrable Securities, on or prior to the Filing Deadline and shall use its reasonable best efforts to cause such Registration Statement to be declared effective by the SEC as soon as practicable after such filing (but in no event later than the Effectiveness Date), and the Company shall take all such other actions associated with being a publicly traded company, including filing an application for listing the Common Stock on the NASDAQ Capital Market or such other exchange as agreed to by the Company and the underwriter. Subject to Allowable Grace Periods, upon effectiveness, the Company shall use its reasonable best efforts to keep such Registration Statement effective pursuant to Rule 415 at all times until such date as is the earlier of: (i) the date on which all of the Registrable Securities covered by the Registration Statement have been sold and (ii) the date on which the Registrable Securities (in the opinion of counsel to the Purchasers reasonably acceptable to the Company) may be immediately sold to the public by non-affiliates without registration or restriction (including, without limitation, as to volume by each holder thereof) under the Securities Act (the "**Registration Period**"). Notwithstanding anything to the contrary contained in this Agreement, the Company shall ensure that, when filed and at all times while effective, each Registration Statement (including, without limitation, all amendments and supplements thereto) and the prospectus (including, without limitation, all amendments and supplements thereto) used in connection with such Registration Statement (1) shall not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein, or necessary to make the statements therein (in the case of prospectuses, in the light of the circumstances in which they were made) not misleading and (2) will disclose (whether directly or through incorporation by reference to other SEC filings to the extent permitted) all material information regarding the Company and its securities. The Company shall submit to the SEC, within one Business Day after the later of the date that (i) the Company learns that no review of a particular Registration Statement will be made by the Staff or that the Staff has no further comments on a particular Registration Statement (as the case may be) and (ii) the consent of Legal Counsel is obtained pursuant to Section 3(c) (which consent shall be immediately sought), a request for acceleration of effectiveness of such Registration Statement to a time and date not later than 48 hours after the submission of such request.

(b) The Company shall use reasonable best efforts to prepare and file with the SEC such amendments (including post-effective amendments) and supplements to the Registration Statements and the prospectus used in connection with the Registration Statements, which prospectus is to be filed pursuant to Rule 424 promulgated under the Securities Act, as may be necessary to keep the Registration Statements effective at all times during the Registration Period, and, during such period, comply with the provisions of the Securities Act with respect to the disposition of all Registrable Securities of the Company covered by the Registration Statements; provided, however, by 8:30 a.m. (New York time) on the Business Day immediately following each Effective Date, the Company shall file with the SEC in accordance with Rule 424(b) under the Securities Act the final prospectus to be used in connection with sales pursuant to the applicable Registration Statement (whether or not such a prospectus is technically required by such rule).

(c) If requested by a Purchaser, the Company shall furnish to each Purchaser whose Registrable Securities are included in a Registration Statement promptly (but in no event more than two business days) after the Registration Statement is declared effective by the SEC, such number of copies of a final prospectus and all amendments and supplements thereto and such other documents as such Purchaser may reasonably request in order to facilitate the disposition of the Registrable Securities owned by such Purchaser. The Company will promptly notify each Purchaser of the effectiveness of each Registration Statement or any post-effective amendment. The Company will, as promptly as reasonably practical, respond to any and all comments received from the SEC (which comments relating to such Registration Statement that pertain to the Purchasers as "Selling Shareholders" shall promptly be made available to the Purchasers upon request; provided that, the Company shall not be obligated to make available any comments that would result in the disclosure to the Purchasers of material and non-public information concerning the Company or that contain information for which the Company has sought confidential treatment), with a view towards causing each Registration Statement or any amendment thereto to be declared effective by the SEC as soon as practicable, shall promptly file an acceleration request as soon as practicable following the resolution or clearance of all SEC comments or, if applicable, following notification by the SEC that any such Registration Statement or any amendment thereto will not be subject to review and, if required by law, shall promptly file with the SEC a final prospectus as soon as practicable following receipt by the Company from the SEC of an order declaring the Registration Statement effective.

(d) The Company shall use reasonable best efforts to: (i) register and qualify the Registrable Securities covered by the Registration Statements under such other securities or "blue sky" laws of such jurisdictions in the United States as the Purchasers who hold a majority-in-interest of the Registrable Securities being offered reasonably request (not to exceed 10 states), (ii) prepare and file in those jurisdictions such amendments (including post-effective amendments) and supplements to such registrations and qualifications as may be necessary to maintain the effectiveness thereof during the Registration Period, (iii) take such other actions as may be necessary to maintain such registrations and qualifications in effect at all times during the Registration Period, and (iv) take all other actions reasonably necessary or advisable to qualify the Registrable Securities for sale in such jurisdictions; provided, however, that the Company shall not be required in connection therewith or as a condition thereto to: (a) qualify to do business in any jurisdiction where it would not otherwise be required to qualify but for this Section 3(d), (b) subject itself to general taxation in any such jurisdiction, (c) file a general consent to service of process in any such jurisdiction, (d) provide any undertakings that cause the Company undue expense or burden, or (e) make any change in its charter or bylaws, which in each case the Board of Directors of the Company determines to be contrary to the best interests of the Company and its shareholders.

(e) The Company shall promptly notify each Purchaser (i) when a prospectus or any prospectus supplement or post-effective amendment has been filed, when a Registration Statement or any post-effective amendment has become effective, and when the Company receives written notice from the SEC that a Registration Statement or any post-effective amendment will be reviewed by the SEC, (ii) of any request by the SEC for amendments or supplements to a Registration Statement or related prospectus or related information, (iii) of the Company's reasonable determination that a post-effective amendment to a Registration Statement would be appropriate; and (iv) of the receipt of any request by the SEC or any other federal or state governmental authority for any additional information relating to the Registration Statement or any amendment or supplement thereto or any related prospectus. The Company shall respond as promptly as practicable to any comments received from the SEC with respect to each Registration Statement or any amendment thereto.

(f) The Company shall use its reasonable best efforts to prevent the issuance of any stop order or other suspension of effectiveness of any Registration Statement, and, if such an order is issued, to obtain the withdrawal of such order at the earliest possible moment and to notify each Purchaser who holds Registrable Securities being sold (or, in the event of an underwritten offering, the managing underwriters) of the issuance of such order and the resolution thereof.

(g) The sections of such Registration Statement covering information with respect to the Purchasers, the Purchaser's beneficial ownership of securities of the Company or the Purchasers intended method of disposition of Registrable Securities shall conform to the information provided to the Company by each of the Purchasers.

(h) In connection with an underwritten offering only, at the request of the Required Holders, the Company shall furnish, on the date that Registrable Securities are delivered to an underwriter for sale in connection with any Registration Statement: (i) an opinion, dated as of such date, from counsel representing the Company for purposes of such Registration Statement, in form, scope and substance as is customarily given in an underwritten public offering, addressed to the underwriters, if any, and the Purchasers and (ii) a letter, dated such date, from the Company's independent registered public accounting firm in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, addressed to the underwriters, if any, and the Purchasers.

(i) The Company shall take all reasonable efforts to cause all the Registrable Securities covered by the Registration Statement to be quoted on the NASDAQ Capital Market (or equivalent reasonably acceptable to the Required Holders) or listed on a national exchange.

(j) The Company shall provide a transfer agent and registrar, which may be a single entity, for the Registrable Securities not later than the effective date of the Registration Statement.

(k) The Company shall use its reasonable best efforts to cause the Registrable Securities covered by a Registration Statement to be registered with or approved by such other governmental agencies or authorities as may be necessary to consummate the disposition of such Registrable Securities.

(l) The Company shall make generally available to its security holders as soon as practical, but not later than 90 days after the close of the period covered thereby, an earnings statement (in form complying with, and in the manner provided by, the provisions of Rule 158 under the Securities Act) covering a twelve-month period beginning not later than the first day of the Company's fiscal quarter next following the applicable Effective Date of each Registration Statement.

(m) The Company shall use its reasonable best efforts to comply with all applicable rules and regulations of the SEC in connection with any registration hereunder.

(n) Notwithstanding anything to the contrary herein (but subject to the last sentence of this Section 3(n)), at any time after the Effective Date of a particular Registration Statement, the Company may delay the disclosure of material, non-public information concerning the Company or any of its subsidiaries the disclosure of which at the time is not, in the good faith opinion of the board of directors of the Company, in the best interest of the Company and, upon the advice of counsel to the Company, otherwise required (a "**Grace Period**"), provided that the Company shall promptly notify the Purchasers in writing of the existence of material, non-public information giving rise to a Grace Period (provided that in each such notice the Company shall not disclose the content of such material, non-public information to any of the Purchasers) and the date on which such Grace Period will begin and end.

4. **Underwriting Requirements.** In connection with any Registration Statement involving an underwritten offering of shares of the Company's Common Stock, the Company shall not be required to include any of the Purchasers' Registrable Securities in such underwriting unless the Purchaser accepts the terms of the underwriting as agreed upon between the Company and its underwriters, and then only in such quantity as the underwriter in its sole discretion determines will not jeopardize the success of the offering by the Company. If the total number of Registrable Securities to be included in such offering (the "Requested Securities") exceeds the number of securities to be sold (other than by the Company) that the underwriter in its reasonable discretion determines is compatible with the success of the offering, then the Company shall be required to include in the offering only that number of such Requested Securities which the underwriter, in its sole discretion, determines will not jeopardize the success of the offering. If the underwriter determines that less than all of the Requested Securities requested to be registered can be included in such offering, then the securities to be registered that are included in such offering shall be allocated among the holders of the Registrable Securities (the "Holders") in proportion (as nearly as practicable to) the number of Requested Securities owned by each Holder. To facilitate the allocation of shares in accordance with the above provisions, the Company or the underwriters may round the number of shares allocated to any Holder to the nearest 10 shares. For purposes of the provision in this Section 4 concerning apportionment, for any Holder that is a partnership, limited liability company, or corporation, the partners, members, retired partners, retired members, shareholders, and affiliates of such Holder, or the estates and immediate family members of any such partners, retired partners, members, and retired members and any trusts for the benefit of any of the foregoing persons, shall be deemed to be a single "Holder," and any pro rata reduction with respect to such "Holder" shall be based upon the aggregate number of Requested Securities owned by all persons included in such "Holder," as defined in this sentence. The Purchasers understand that the underwriter may determine that none of the Registrable Securities can be included in the offering.

5. **Obligations of the Purchasers**. In connection with the registration of the Registrable Securities, the Purchasers shall have the following obligations:

(a) It shall be a condition precedent to the obligations of the Company to include any Purchaser's Registrable Securities in any Registration Statement that such Purchaser shall timely furnish to the Company such information regarding itself, the Registrable Securities held by it, the intended method of disposition of the Registrable Securities held by it and any other information as shall be reasonably required to effect the registration of such Registrable Securities and shall provide such information and execute such documents in connection with such registration as the Company may reasonably request. At least three business days prior to the first anticipated filing date of the Registration Statement, the Company shall notify each Purchaser of the information the Company requires from each such Purchaser.

(b) Each Purchaser, by such Purchaser's acceptance of the Registrable Securities, agrees to cooperate with the Company as reasonably requested by the Company in connection with the preparation and filing of the Registration Statements hereunder, unless such Purchaser has notified the Company in writing of such Purchaser's election to exclude all of such Purchaser's Registrable Securities from the Registration Statements.

(c) In the event that Purchasers holding a majority-in-interest of the Registrable Securities being registered determine to engage the services of an underwriter, each Purchaser agrees to enter into and perform such Purchaser's obligations under an underwriting agreement, in usual and customary form, including, without limitation, customary indemnification and contribution obligations, with the managing underwriter of such offering and take such other actions as are reasonably required in order to expedite or facilitate the disposition of the Registrable Securities, unless such Purchaser has notified the Company in writing of such Purchaser's election to exclude all of such Purchaser's Registrable Securities from such Registration Statement.

(d) Each Purchaser agrees that, upon receipt of any notice from the Company of the happening of any event of which the Company has knowledge as a result of which the prospectus included in any Registration Statement, as then in effect, includes an untrue statement of a material fact or omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or of the issuance of a stop order or other suspension of effectiveness of any Registration Statement, such Purchaser will immediately discontinue disposition of Registrable Securities pursuant to the Registration Statement covering such Registrable Securities until such Purchaser's receipt of the copies of the supplemented or amended prospectus and, if so directed by the Company, such Purchaser shall deliver to the Company (at the expense of the Company) or destroy (and deliver to the Company a certificate of destruction) all copies in such Purchaser's possession, of the prospectus covering such Registrable Securities current at the time of receipt of such notice.

(e) No Purchaser may participate in any underwritten registration hereunder unless such Purchaser: (i) agrees to sell such Purchaser's Registrable Securities on the basis provided in any underwriting arrangements in usual and customary form entered into by the Company, (ii) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents reasonably required under the terms of such underwriting arrangements, and (iii) agrees to pay its pro rata share of all underwriting discounts and commissions and any expenses in excess of those payable by the Company pursuant to Section 6 below.

(f) Each Purchaser covenants and agrees that it will comply with the prospectus delivery requirements of the Securities Act as applicable to it or an exemption therefrom in connection with the offer and sale of Registrable Securities pursuant to any Registration Statement.

6. **Expenses of Registration.** All reasonable expenses, other than underwriting discounts and commissions, incurred in connection with registrations, filings or qualifications pursuant to Sections 2 and 3, including, without limitation, all registration, listing and qualification fees, printers and accounting fees, the fees and disbursements of counsel for the Company, and the reasonable fees and disbursements of legal counsel to the underwriter (if any) shall be borne by the Company.

7. **Indemnification**.

(a) To the fullest extent permitted by law, the Company will, and hereby does, indemnify, hold harmless and defend each Purchaser and each of its directors, officers, shareholders, members, partners, employees, agents, advisors, representatives (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding the lack of such title or any other title) and each Person, if any, who controls such Purchaser within the meaning of the Securities Act or the Exchange Act and each of the directors, officers, shareholders, members, partners, employees, agents, advisors, representatives (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding the lack of such title or any other title) of such controlling Persons (each, an "**Indemnified Person**"), against any losses, obligations, claims, damages, liabilities, contingencies, judgments, fines, penalties, charges, costs (including, without limitation, court costs, reasonable attorneys' fees and costs of defense and investigation), amounts paid in settlement or expenses, joint or several, (collectively, "**Claims**") incurred in investigating, preparing or defending any action, claim, suit, inquiry, proceeding, investigation or appeal taken from the foregoing by or before any court or governmental, administrative or other regulatory agency, body or the SEC, whether pending or threatened, whether or not an indemnified party is or may be a party thereto ("**Indemnified Damages**"), to which any of them may become subject insofar as such Claims (or actions or proceedings, whether commenced or threatened, in respect thereof) arise out of or are based upon: (i) any untrue statement or alleged untrue statement of a material fact in a Registration Statement or any post-effective amendment thereto or in any filing made in connection with the qualification of the offering under the securities or other "blue sky" laws of any jurisdiction in which Registrable Securities are offered ("**Blue Sky Filing**"), or the omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus if used prior to the effective date of such Registration Statement, or contained in the final prospectus (as amended or supplemented, if the Company files any amendment thereof or supplement thereto with the SEC) or the omission or alleged omission to state therein any material fact necessary to make the statements made therein, in light of the circumstances under which the statements therein were made, not misleading or (iii) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any other law, including, without limitation, any state securities law, or any rule or regulation thereunder relating to the offer or sale of the Registrable Securities pursuant to a Registration Statement (the matters in the foregoing clauses (i) through (iii) being, collectively, "**Violations**"). Subject to Section 7(c), the Company shall reimburse the Indemnified Persons, promptly as such expenses are incurred and are due and payable, for any legal fees or other reasonable expenses incurred by them in connection with investigating or defending any such Claim. Notwithstanding anything to the contrary contained herein, the indemnification agreement contained in this Section 7(a): (i) shall not apply to a Claim by an Indemnified Person arising out of or based upon a Violation which occurs in reliance upon and in conformity with information furnished in writing to the Company by such Indemnified Person for such Indemnified Person expressly for use in connection with the preparation of such Registration Statement or any such amendment thereof or supplement thereto and (ii) shall not be available

to a particular Purchaser to the extent such Claim is based on a failure of such Purchaser to deliver or to cause to be delivered the prospectus made available by the Company (to the extent applicable), including, without limitation, a corrected prospectus, if such prospectus or corrected prospectus was timely made available by the Company and then only if, and to the extent that, following the receipt of the corrected prospectus no grounds for such Claim would have existed; and (iii) shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of the Company, which consent shall not be unreasonably withheld or delayed. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Indemnified Person.

(b) In connection with any Registration Statement in which an Purchaser is participating, such Purchaser agrees to severally and not jointly indemnify, hold harmless and defend, to the same extent and in the same manner as is set forth in Section 7(a), the Company, each of its directors, each of its officers who signs the Registration Statement and each Person, if any, who controls the Company within the meaning of the Securities Act or the Exchange Act (each, an "**Indemnified Party**"), against any Claim or Indemnified Damages to which any of them may become subject, under the Securities Act, the Exchange Act or otherwise, insofar as such Claim or Indemnified Damages arise out of or are based upon any Violation, in each case, to the extent, and only to the extent, that such Violation occurs in reliance upon and in conformity with written information furnished to the Company by such Purchaser expressly for use in connection with such Registration Statement; and, subject to Section 7(c) and the below provisos in this Section 7(b), such Purchaser will reimburse promptly as such expenses are incurred and are due and payable, for any legal fees or other reasonable expenses incurred by them in connection with investigating or defending any such Claim; provided, however, the indemnity agreement contained in this Section 7(b) and the agreement with respect to contribution contained in Section 7 shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of such Purchaser, which consent shall not be unreasonably withheld or delayed, provided further that such Purchaser shall be liable under this Section 7(b) for only that amount of a Claim or Indemnified Damages as does not exceed the net proceeds to such Purchaser as a result of the applicable sale of Registrable Securities pursuant to such Registration Statement. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such Indemnified Party.

(c) Promptly after receipt by an Indemnified Person or Indemnified Party (as the case may be) under this Section 7 of notice of the commencement of any action or proceeding (including, without limitation, any governmental action or proceeding) involving a Claim, such Indemnified Person or Indemnified Party (as the case may be) shall, if a Claim in respect thereof is to be made against any indemnifying party under this Section 7, deliver to the indemnifying party a written notice of the commencement thereof, and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume control of the defense thereof with counsel mutually satisfactory to the indemnifying party and the Indemnified Person or the Indemnified Party (as the case may be); provided, however, an Indemnified Person or Indemnified Party (as the case may be) shall have the right to retain its own counsel with the fees and expenses of such counsel to be paid by the indemnifying party if: (i) the indemnifying party has agreed in writing to pay such fees and expenses; (ii) the indemnifying party shall have failed promptly to assume the defense of such Claim and to employ counsel reasonably satisfactory to such Indemnified Person or Indemnified Party (as the case may be) in any such Claim; or (iii) the named parties to any such Claim (including, without limitation, any impleaded parties) include both such Indemnified Person or Indemnified Party and the indemnifying party, and such Indemnified Person or such Indemnified Party shall have been advised by counsel that a conflict of interest is likely to exist if the same counsel were to represent such Indemnified Person or such Indemnified Party and the indemnifying party (in which case, if such Indemnified Person or such Indemnified Party notifies the indemnifying party in writing that it elects to employ separate counsel at the expense of the indemnifying party, then the indemnifying party shall not have the right to assume the defense thereof and such counsel shall be at the expense of the Indemnifying Party, provided further that in the case of clause (iii) above the indemnifying party shall not be responsible for the reasonable fees and expenses of more than one separate legal counsel for such Indemnified Person or Indemnified Party). The Indemnified Party or Indemnified Person shall reasonably cooperate with the indemnifying party in connection with any negotiation or defense of any such action or Claim by the indemnifying party and shall furnish to the indemnifying party all information reasonably available to the Indemnified Party or Indemnified Person which relates to such action or Claim. The indemnifying party shall keep the Indemnified Party or Indemnified Person reasonably apprised at all times as to the status of the defense or any settlement negotiations with respect thereto. No indemnifying party shall be liable for any settlement of any

action, claim or proceeding effected without its prior written consent; provided, however, the indemnifying party shall not unreasonably withhold, delay or condition its consent. No indemnifying party shall, without the prior written consent of the Indemnified Party or Indemnified Person, consent to entry of any judgment or enter into any settlement or other compromise which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party or Indemnified Person of a release from all liability in respect to such Claim or litigation, and such settlement shall not include any admission as to fault on the part of the Indemnified Party. Following indemnification as provided for hereunder, the indemnifying party shall be subrogated to all rights of the Indemnified Party or Indemnified Person with respect to all third parties, firms or corporations relating to the matter for which indemnification has been made. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall not relieve such indemnifying party of any liability to the Indemnified Person or Indemnified Party under this Section 7, except to the extent that the indemnifying party is materially and adversely prejudiced in its ability to defend such action.

(d) No Person involved in the sale of Registrable Securities who is guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) in connection with such sale shall be entitled to indemnification from any Person involved in such sale of Registrable Securities who is not guilty of fraudulent misrepresentation.

(e) The indemnity and contribution agreements contained herein shall be in addition to (i) any cause of action or similar right of the Indemnified Party or Indemnified Person against the indemnifying party or others, and (ii) any liabilities the indemnifying party may be subject to pursuant to the law.

8. **Amendment of Registration Rights**. The terms and provisions of this Agreement may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only with written consent of the Company and the Required Holders. Any amendment or waiver effected in accordance with this Section 8 shall be binding upon each Purchaser and the Company; provided that no such amendment shall be effective to the extent that it (1) applies to less than all of the holders of Registrable Securities or (2) imposes any obligation or liability on any Purchaser without such Purchaser's prior written consent (which may be granted or withheld in such Purchaser's sole discretion). No waiver shall be effective unless it is in writing and signed by an authorized representative of the waiving party. No consideration shall be offered or paid to any Person to amend or consent to a waiver or modification of any provision of this Agreement unless the same consideration also is offered to all of the parties to this Agreement.

9. **Miscellaneous.**

(a) A person or entity is deemed to be a holder of Registrable Securities whenever such person or entity owns of record such Registrable Securities. If the Company receives conflicting instructions, notices or elections from two or more persons or entities with respect to the same Registrable Securities, the Company shall act upon the basis of instructions, notice or election received from the registered owner of such Registrable Securities.

(b) Any notices required or permitted to be given under the terms hereof shall be sent by certified or registered mail (return receipt requested) or delivered personally or by courier (including a recognized overnight delivery service)or by facsimile and shall be effective five days after being placed in the mail, if mailed by regular United States mail, or upon receipt, if delivered personally or by courier (including a recognized overnight delivery service) or by facsimile, in each case addressed to a party. The addresses for such communications shall be:

If to the Company:

Ideal Power Inc.
5004 Bee Creek Road, Suite 600
Spicewood, Texas 78669
Attention: Chief Executive Officer
Telephone: (512) 264-1542
Facsimile No.: (512) 264-1546

If to a Purchaser:

To the address set forth on the signature page of this Agreement.

With a copy (not constituting notice) to:

MDB Capital Group, LLC
401 Wilshire Blvd., Suite 1020
Santa Monica, CA 90401
Attention: Anthony DiGiandomenico
Telephone: (310) 526-5015
Facsimile No.: (310) 536-5020

Each party shall provide notice to the other party of any change in address.

(c) Failure of any party to exercise any right or remedy under this Agreement or otherwise, or delay by a party in exercising such right or remedy, shall not operate as a waiver thereof.

(d) This Agreement shall be governed by, and construed in accordance with, the internal laws of the State of New York without regard to the choice of law principles thereof. Each of the parties hereto irrevocably submits to the exclusive jurisdiction of the courts of the State of New York located in New York County and the United States District Court for the Southern District of New York for the purpose of any suit, action, proceeding or judgment relating to or arising out of this Agreement and the transactions contemplated hereby. Service of process in connection with any such suit, action or proceeding may be served on each party hereto anywhere in the world by the same methods as are specified for the giving of notices under this Agreement. Each of the parties hereto irrevocably consents to the jurisdiction of any such court in any such suit, action or proceeding and to the laying of venue in such court. Each party hereto irrevocably waives any objection to the laying of venue of any such suit, action or proceeding brought in such courts and irrevocably waives any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum. EACH OF THE PARTIES HERETO WAIVES ANY RIGHT TO REQUEST A TRIAL BY JURY IN ANY LITIGATION WITH RESPECT TO THIS AGREEMENT AND REPRESENTS THAT COUNSEL HAS BEEN CONSULTED SPECIFICALLY AS TO THIS WAIVER.

(e) In the event that any provision of this Agreement is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any provision hereof which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision hereof.

(f) This Agreement and the other Transaction Documents (including all schedules and exhibits thereto) constitute the entire agreement among the parties hereto with respect to the subject matter hereof and thereof. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein and therein. This Agreement and the other Transaction Documents (including all schedules and exhibits thereto) supersede all prior agreements and understandings among the parties hereto with respect to the subject matter hereof and thereof.

(g) This Agreement shall be binding upon and inure to the benefit of the parties and their successors and assigns. This Agreement is not for the benefit of, nor may any provision hereof be enforced by, any Person, other than the parties hereto or their respective permitted successors and assigns.

(h) The headings in this Agreement are for convenience of reference only and shall not form part of, or affect the interpretation of, this Agreement. Unless the context clearly indicates otherwise, each pronoun herein shall be deemed to include the masculine, feminine, neuter, singular and plural forms thereof. The terms "including," "includes," "include" and words of like import shall be construed broadly as if followed by the words "without limitation." The terms "herein," "hereunder," "hereof" and words of like import refer to this entire Agreement instead of just the provision in which they are found.

(i) This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party. This Agreement, once executed by a party, may be delivered to the other party hereto by facsimile transmission or electronic mail delivery of a copy of this Agreement bearing the signature of the party so delivering this Agreement.

(j) Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

(k) Except as otherwise provided herein, all consents and other determinations to be made by the Purchasers pursuant to this Agreement shall be made by the Required Holders.

(l) The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

(m) The obligations of each Purchaser under this Agreement and the other Transaction Documents are several and not joint with the obligations of any other Purchaser, and no Purchaser shall be responsible in any way for the performance of the obligations of any other Purchaser under this Agreement or any other Transaction Document. Nothing contained herein or in any other Transaction Document, and no action taken by any Purchaser pursuant hereto or thereto, shall be deemed to constitute the Purchasers as, and the Company acknowledges that the Purchasers do not so constitute, a partnership, an association, a joint venture or any other kind of group or entity, or create a presumption that the Purchasers are in any way acting in concert or as a group or entity with respect to such obligations or the transactions contemplated by the Transaction Documents or any matters, and the Company acknowledges that the Purchasers are not acting in concert or as a group, and the Company shall not assert any such claim, with respect to such obligations or the transactions contemplated by this Agreement or any of the other the Transaction Documents. Each Purchaser shall be entitled to independently protect and enforce its rights, including, without limitation, the rights arising out of this Agreement or out of any other Transaction Documents, and it shall not be necessary for any other Purchaser to be joined as an additional party in any proceeding for such purpose.

[Remainder of page intentionally left blank; signature pages follow.]

IN WITNESS WHEREOF, the undersigned Purchasers and the Company have caused this Registration Rights Agreement to be duly executed as of the date first above written.

IDEAL POWER INC.

By: _____
Name Paul Bundschuh
Title Chief Executive Officer

PURCHASERS:

The Purchasers executing the Signature Page in the form attached hereto as Annex A and delivering the same to the Company or its agents shall be deemed to have executed this Agreement and agreed to the terms hereof.

Annex A

Registration Rights Agreement
Purchaser Counterpart Signature Page

The undersigned, desiring to: enter into this Registration Rights Agreement dated as of July 29, 2013 (the "**Agreement**"), between the undersigned, Ideal Power Inc., a Delaware corporation (the "**Company**"), and the other parties thereto, in or substantially in the form furnished to the undersigned, hereby agrees to join the Agreement as a party thereto, with all the rights and privileges appertaining thereto, and to be bound in all respects by the terms and conditions thereof.

IN WITNESS WHEREOF, the undersigned has executed the Agreement as of July ___, 2013.

PURCHASER:

Name and Address, Fax No. and Social Security No./EIN of Purchaser:

_____
_____
_____
_____

Fax No.: _____
Soc. Sec. No./EIN: _____

If a partnership, corporation, trust or other business entity:

By:

_____
Name:
Title:

If an individual:

_____
Signature

EXHIBIT 1

SELLING STOCKHOLDERS

The shares of common stock being offered by the selling shareholders are those issuable to the selling shareholders upon conversion of the senior secured convertible promissory notes and the exercise of the warrants. For additional information regarding the issuance of the senior secured convertible promissory notes and the warrants, see "Private Placement of Senior Secured Convertible Promissory Notes and Warrants" above. We are registering the shares of common stock in order to permit the selling shareholders to offer the shares for resale from time to time. Except for the ownership of the senior secured convertible promissory notes and the warrants issued pursuant to the Securities Purchase Agreement, the selling shareholders have not had any material relationship with us within the past three years.

The table below lists the selling shareholders and other information regarding the beneficial ownership (as determined under Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder) of the shares of common stock beneficially held by each of the selling shareholders, based on their respective beneficial ownership of the shares of common stock as of _____, 2013, assuming conversion of all amounts owed under the senior secured convertible promissory notes and exercise of the warrants held by each such selling shareholder on that date but taking account of any limitations on exercise set forth therein. The third column lists the number of shares of common stock being sold in this offering. The fourth column lists the shares of common stock that will be beneficially owned by each selling shareholder following this offering. We have assumed for purposes of preparing this table that each selling shareholder will sell all of the shares of common stock being offered.

In accordance with the terms of a registration rights agreement with the selling shareholders, this prospectus generally covers the resale of the sum of (i) the number of shares of common stock that may be issued in connection with the conversion of all amounts owed under the senior secured convertible promissory notes, in each case determined as if all amounts owed under the senior secured convertible promissory notes were converted and (ii) 100% of the maximum number of shares of common stock issuable upon exercise of the warrants, in each case, determined as if the outstanding warrants were exercised in full.

Name of Selling Shareholder	Number of Shares of Common Stock Owned Prior to Offering	Maximum Number Of Shares of Common Stock to be Sold Pursuant to this Prospectus	Number of Shares of Common Stock Owned After Offering

PLAN OF DISTRIBUTION

We are registering the shares of common stock issuable upon conversion of all amounts due under the senior secured convertible promissory notes and the exercise of the warrants to permit the resale of these shares of common stock by the holders of these securities from time to time after the date of this prospectus. We will not receive any of the proceeds from the sale by the selling shareholders of the shares of common stock. We will bear all fees and expenses incident to our obligation to register the shares of common stock.

The selling shareholders may sell all or a portion of the shares of common stock held by them and offered hereby from time to time directly or through one or more underwriters, broker-dealers or agents. If the shares of common stock are sold through underwriters or broker-dealers, the selling shareholders will be responsible for underwriting discounts or commissions or agent's commissions. The shares of common stock may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of the sale, at varying prices determined at the time of sale or at negotiated prices. These sales may be effected in transactions, which may involve crosses or block transactions, pursuant to one or more of the following methods:

- on any national securities exchange or quotation service on which the securities may be listed or quoted at the time of sale;
- in the over-the-counter market;
- in transactions otherwise than on these exchanges or systems or in the over-the-counter market;
- through the writing or settlement of options, whether such options are listed on an options exchange or otherwise;
- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- short sales made after the date the Registration Statement is declared effective by the SEC;
- agreements between broker-dealers and the selling shareholders to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

The selling shareholders may also sell shares of common stock under Rule 144 promulgated under the Securities Act of 1933, as amended, if available, rather than under this prospectus. In addition, the selling shareholders may transfer the shares of common stock by other means not described in this prospectus. If the selling shareholders effect such transactions by selling shares of common stock to or through underwriters, broker-dealers or agents, such underwriters, broker-dealers or agents may receive commissions in the form of discounts, concessions or commissions from the selling shareholders or commissions from purchasers of the shares of common stock for whom they may act as agent or to whom they may sell as principal (which discounts, concessions or commissions as to particular underwriters, broker-dealers or agents may be in excess of those customary in the types of transactions involved). In connection with sales of the shares of common stock or otherwise, the selling shareholders may enter into hedging transactions with broker-dealers, which may in turn engage in short sales of the shares of common stock in the course of hedging in positions they assume. The selling shareholders may also sell shares of common stock short and deliver shares of common stock covered by this prospectus to close out short positions and to return borrowed shares in connection with such short sales. The selling shareholders may also loan or pledge shares of common stock to broker-dealers that in turn may sell such shares.

The selling shareholders may pledge or grant a security interest in some or all of the warrants or shares of common stock owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of common stock from time to time pursuant to this prospectus or any amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act amending, if necessary, the list of selling shareholders to include the pledgee, transferee or other successors in interest as selling shareholders under this prospectus. The selling shareholders also may transfer and donate the shares of common stock in other circumstances in which case the transferees, donees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

To the extent required by the Securities Act and the rules and regulations thereunder, the selling shareholders and any broker-dealer participating in the distribution of the shares of common stock may be deemed to be "underwriters" within the meaning of the Securities Act, and any commission paid, or any discounts or concessions allowed to, any such broker-dealer may be deemed to be underwriting commissions or discounts under the Securities Act. At the time a particular offering of the shares of common stock is made, a prospectus supplement, if required, will be distributed, which will set forth the aggregate amount of shares of common stock being offered and the terms of the offering, including the name or names of any broker-dealers or agents, any discounts, commissions and other terms constituting compensation from the selling shareholders and any discounts, commissions or concessions allowed or re-allowed or paid to broker-dealers.

Under the securities laws of some states, the shares of common stock may be sold in such states only through registered or licensed brokers or dealers. In addition, in some states the shares of common stock may not be sold unless such shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with.

There can be no assurance that any selling shareholder will sell any or all of the shares of common stock registered pursuant to the registration statement, of which this prospectus forms a part.

The selling shareholders and any other person participating in such distribution will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, including, without limitation, to the extent applicable, Regulation M of the Exchange Act, which may limit the timing of purchases and sales of any of the shares of common stock by the selling shareholders and any other participating person. To the extent applicable, Regulation M may also restrict the ability of any person engaged in the distribution of the shares of common stock to engage in market-making activities with respect to the shares of common stock. All of the foregoing may affect the marketability of the shares of common stock and the ability of any person or entity to engage in market-making activities with respect to the shares of common stock.

We will pay all expenses of the registration of the shares of common stock pursuant to the registration rights agreement, estimated to be $[_____] in total, including, without limitation, Securities and Exchange Commission filing fees and expenses of compliance with state securities or "blue sky" laws; provided, however, a selling shareholder will pay all underwriting discounts and selling commissions, if any. We will indemnify the selling shareholders against liabilities, including some liabilities under the Securities Act in accordance with the registration rights agreements or the selling shareholders will be entitled to contribution. We may be indemnified by the selling shareholders against civil liabilities, including liabilities under the Securities Act that may arise from any written information furnished to us by the selling shareholder specifically for use in this prospectus, in accordance with the related registration rights agreements or we may be entitled to contribution.

Once sold under the registration statement, of which this prospectus forms a part, the shares of common stock will be freely tradable in the hands of persons other than our affiliates.

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY OTHER JURISDICTION. BY ACQUIRING THIS NOTE, THE HOLDER REPRESENTS THAT THE HOLDER WILL NOT SELL OR OTHERWISE DISPOSE OF THIS NOTE WITHOUT REGISTRATION OR COMPLIANCE WITH AN EXEMPTION FROM REGISTRATION UNDER THE AFORESAID ACTS AND THE RULES AND REGULATIONS THEREUNDER.

THE SECURITIES REPRESENTED HEREBY MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE TERMS OF A SECURITIES PURCHASE AGREEMENT BETWEEN THE COMPANY AND THE SECURITY HOLDER DATED JULY 29, 2013, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

IDEAL POWER INC.

SENIOR SECURED CONVERTIBLE PROMISSORY NOTE

$[_____] July 29, 2013

FOR VALUE RECEIVED, Ideal Power Inc. (the "Maker") hereby promises to pay to the order of [_____] or his successors or assigns (the "Holder") the principal amount of [_____] Dollars ($[_____]) (the "Principal Amount"). This Senior Secured Convertible Promissory Note shall be referred to herein as the "Note".

1. Purpose. This Note is made and delivered by the Maker to the Holder pursuant to the terms of that certain Securities Purchase Agreement, dated as of July 29, 2013 (the "Original Issue Date"), by and among the Maker, the Escrow Agent, the Holder, and the other Purchasers of the Maker's Notes (the "Purchase Agreement"). This Note is one of a series of substantially identical Notes issued by the Maker under the Purchase Agreement. All capitalized terms used and not defined herein shall have the meanings ascribed to them in the Purchase Agreement.

2. Interest. Interest on the Principal Amount from time-to-time remaining unpaid shall accrue from the date of this Note at the higher of: (i) the rate of one percent (1%) per annum, simple interest; or (ii) at the lowest rate that may accrue without causing the imputation of interest under the Internal Revenue Code. Interest shall be computed on the basis of a 360 day year and a 30 day month.

3. Maturity Date. All amounts payable hereunder shall be due and payable on the earlier to occur of (i) July 29, 2014 (the "Calendar Due Date"), (ii) the occurrence of an Event of Default (as defined below) or (iii) the closing of an IPO Financing (as defined below).

4. Method of Repayment.

4.1 Mandatory Conversion Upon Initial Public Offering. If, prior to the Calendar Due Date, the Maker closes a firm commitment underwritten initial public offering of its common stock that raises gross proceeds of at least $10 million (the "IPO Financing"), the amounts payable hereunder shall be repaid with shares of the Maker's Common Stock in accordance with the terms of paragraph 5.1 of this Note.

4.2 Other Optional Conversions. At any time after March 31, 2014 or sooner in the event that the Maker consummates a Change of Control, at the option of the Holder all amounts payable under this Note may be converted into shares of the Maker's Common Stock in accordance with Section 5.1 below. In the event of a conversion for any reason other than the closing of an IPO Financing or a Change of Control, this Note shall be converted into that number of shares of Common Stock determined by dividing (x) the Principal Amount and accrued interest by (y) the lower of (i) $1.46 or (ii) 0.70 of the per share consideration paid in the most recent Private Equity Financing to occur prior to the Holder's election (as appropriately adjusted to reflect stock dividends, stock splits, combinations, recapitalizations and the like with respect to the Maker's capital stock after the date hereof).

4.3 Repayment Election. If this Note is not repaid prior to the Calendar Due Date in accordance with paragraphs 4.1 or 4.2 above, or if, by the Calendar Due Date this Note is not cancelled and replaced in accordance with the terms of Section 5.8 below, the Holder may elect to be repaid on the Calendar Due Date in one of the following ways: (i) the Holder may elect to receive, and the Maker shall repay, all amounts payable hereunder in a lump sum, in lawful money of the United States, which payment shall be equal to the Principal Amount and all accrued interest or (ii) the Holder may elect to receive the lump sum payment in shares of the Maker's Common Stock in accordance with subparagraph 5.2 below.

4.4 Prepayment Right. The Maker has the right to prepay this Note in lawful money of the United States with the written consent of the Holder. If this Note is prepaid in lawful money of the United States prior to an IPO, the payment amount shall equal 110% of the Principal Amount.

5. Conversion of Note. The following provisions shall govern the conversion of any and all amounts due under this Note.

5.1 Conversion in Conjunction with an IPO Financing or a Change of Control. In the event of an IPO Financing which closes prior to the Calendar Due Date, the Note shall have a conversion price equal to the lower of 0.70 times the IPO Price or $1.46 (the "IPO Conversion Price"). The "IPO Price" means the price per share paid by public investors in the IPO, without regard to any underwriting discount or expense (as appropriately adjusted to reflect stock dividends, stock splits, combinations, recapitalizations and the like with respect to the Maker's capital stock after the date hereof). In the event of a Change of Control which closes prior to the Calendar Due Date, the Note shall have a conversion price equal to the lower of 0.70 times the per share consideration paid in the Change of Control transaction or $1.46 per share (the "Change of Control Price").

5.2 Conversion in Conjunction with an Election. In the event that the Holder elects to receive payment of this Note in shares of the Maker's Common Stock in accordance with subparagraph 4.3(ii) above, the Note shall have a conversion price equal to the lower of 0.70 times the price per share paid by investors in the most recent Private Equity Financing to occur prior to the Calendar Due Date or $1.46, after giving effect to adjustments that reflect stock dividends, stock splits, combinations, recapitalizations and the like with respect to the Maker's capital stock after the date hereof) (the "Private Financing Conversion Price").

5.3 Conversion Rate. The number of shares of Common Stock issuable upon conversion pursuant to subparagraphs 5.1 or 5.2 shall be determined by dividing (x) the Principal Amount and accrued interest (the "Conversion Amount") by (y) the IPO Conversion Price, the Change of Control Price, the Private Financing Conversion Price or $1.46, as applicable.

5.4 No Fractional Shares. The Maker shall not issue any fraction of a share of Common Stock upon any conversion. If the issuance would result in the issuance of a fraction of a share of Common Stock, the Maker shall round up such fraction of a share of Common Stock up to the nearest whole share. The Maker shall pay any and all transfer, stamp and similar taxes that may be payable with respect to the issuance and delivery of Common Stock upon conversion.

5.5 Mechanics of Conversion.

5.5.1 Conversion upon an IPO Financing or Change of Control. The closing of an IPO Financing or a Change of Control prior to the Calendar Due Date will be the "Conversion Date". Within 20 days of the Conversion Date, the Maker shall transmit to the Holder a certificate for the number of shares of Common Stock representing full repayment of the Conversion Amount on the Conversion Date, together with an explanation of the calculation. Upon receipt of such notice, the Holder shall surrender this Note to a common carrier for delivery to the Maker as soon as practicable on or following such date (or an indemnification undertaking with respect to this Note in the case of its loss, theft or destruction). The person or persons entitled to receive the shares of Common Stock issuable upon a conversion of this Note shall be treated for all purposes as the record holder or holders of such shares of Common Stock on the Conversion Date.

5.5.2 Voluntary Conversion. If this Note is voluntarily converted pursuant to paragraphs 4.2 or 4.3, the Holder shall give written notice to the Maker notifying the Maker of its election to convert. Before the Holder shall be entitled to voluntarily convert this Note, the Holder shall surrender this Note at the Maker's principal executive office, or, if this Note has been lost, stolen, destroyed or mutilated, then, in the case of loss, theft or destruction, the Holder shall deliver an indemnity agreement reasonably satisfactory in form and substance to the Maker (without the requirement of a bond) or, in the case of mutilation, the Holder shall surrender and cancel this Note. The Maker shall, as soon as practicable thereafter, issue and deliver to such Holder at such principal executive office a certificate or certificates for the number of shares of Common Stock to which the Holder shall be entitled upon such conversion (bearing such legends as are required by applicable state and federal securities laws in the opinion of counsel to the Maker), together with a replacement Note (if any principal amount or interest is not converted). Such conversion shall be deemed to have been made immediately prior to the close of business on the date of the surrender of this Note or the delivery of an indemnification agreement (or such later date requested by the Holder or such earlier date agreed to by the Maker and the Holder). The person or persons entitled to receive securities issuable upon such conversion shall be treated for all purposes as the record holder or holders of such securities on such date.

5.6 Reservation of Common Stock. Until the Notes are paid in full, the Maker shall at all times keep reserved for issuance under this Note a number of shares of Common Stock as shall be necessary to satisfy the Maker's obligation to issue shares of Common Stock hereunder (without regard to any limitation otherwise contained herein with respect to the number of shares of Common Stock that may be acquirable upon exercise of this Note). If, notwithstanding the foregoing, and not in limitation thereof, at any time while any of the Notes remain outstanding the Maker does not have a sufficient number of authorized and unreserved shares of Common Stock to satisfy its obligation to reserve for issuance upon exercise of the Notes at least a number of shares of Common Stock equal to the number of shares of Common Stock as shall from time to time be necessary to effect the exercise of the Notes then outstanding (the "Required Reserve Amount") (an "Authorized Share Failure"), then the Maker shall immediately take all action necessary to increase the Maker's authorized shares of Common Stock to an amount sufficient to allow the Maker to maintain the Required Reserve Amount for all the Notes then outstanding. Without limiting the generality of the foregoing sentence, as soon as practicable after the date of the occurrence of an Authorized Share Failure, but in no event later than 60 days after the occurrence of such Authorized Share Failure, the Company shall hold a meeting of its shareholders for the approval of an increase in the number of authorized shares of Common Stock. In connection with such meeting, the Maker shall provide each shareholder with a proxy statement and shall use its best efforts to solicit its shareholders' approval of such increase in authorized shares of Common Stock and to cause its board of directors to recommend to the shareholders that they approve such proposal.

5.7 Adjustments. The Conversion Price and number and kind of shares or other securities to be issued upon conversion determined pursuant to Section 5 hereof, shall be subject to adjustment from time to time upon the happening of certain events while this conversion right remains outstanding, as follows:

5.7.1 Merger, Sale of Assets, etc. If the Maker at any time shall consolidate with or merge into or sell or convey all or substantially all its assets to any other corporation, this Note, as to the unpaid Principal Amount thereof and accrued interest thereon, shall thereafter be deemed to evidence the right to purchase such number and kind of shares or other securities and property as would have been issuable or distributable on account of such consolidation, merger, sale or conveyance, upon or with respect to the securities subject to the conversion or purchase right immediately prior to such consolidation, merger, sale or conveyance. The foregoing provision shall similarly apply to successive transactions of a similar nature by any such successor or purchaser. Without limiting the generality of the foregoing, the anti-dilution provisions of this Section shall apply to such securities of such successor or purchaser after any such consolidation, merger, sale or conveyance.

5.7.2 Reclassification, etc. If the Maker at any time shall, by reclassification or otherwise, change the Common Stock into the same or a different number of securities of any class or classes that may be issued or outstanding, this Note, as to the unpaid principal portion thereof and accrued interest thereon, shall thereafter be deemed to evidence the right to purchase an adjusted number of such securities and kind of securities as would have been issuable as the result of such change with respect to the Common Stock immediately prior to such reclassification or other change.

5.7.3 Notice of Adjustment. Whenever the applicable Conversion Price is adjusted pursuant to this Section 5.7, the Maker shall promptly mail to the Holder a notice setting forth the applicable Conversion Price after such adjustment and setting forth a statement of the facts requiring such adjustment.

5.8 Consent Required for Certain Corporate Actions. Without the consent of at least a majority in interest of the Holders of the Notes (including the holders of the senior secured convertible promissory notes sold by the Maker on August 31, 2012 in the total principal amount of $750,000 (the "August 2012 Notes") and holders of the senior secured convertible promissory notes sold by the Maker on November 21, 2012 in the total principal amount of $3,250,000 (the "November 2012 Notes")), the Maker will not enter into any transaction that results in a merger, sale of assets or other corporate reorganization or acquisition; results in the distribution of a dividend or the repurchase of outstanding shares of Common Stock (except in accordance with the provisions of the Company's equity incentive plan); causes a liquidation proceeding or bankruptcy proceeding; results in a change to the Company's corporate status; or results in the incurrence of debt outside of normal trade debt. For purposes of this Section 5.8 only, the term "normal trade debt" will include the payment of legal fees to the law firm of Richardson & Patel LLP with one or more promissory notes.

6. Registration; Book-Entry. The Company shall maintain a register (the "Register") for the recordation of the names and addresses of the holders of each Note and the Principal Amount of the Notes held by such holders (the "Registered Notes"). The entries in the Register shall be conclusive and binding for all purposes absent manifest error. The Maker and the holders of the Notes shall treat each person whose name is recorded in the Register as the owner of a Note for all purposes, including, without limitation, the right to receive payments of the Principal Amount and interest, if any, hereunder, notwithstanding notice to the contrary. A Registered Note may be assigned or sold in whole or in part only in accordance with the terms of paragraph 12.3 of this Note and by registration of such assignment or sale on the Register.

7. Defaults; Remedies.

7.1 Events of Default. The occurrence of any one or more of the following events shall constitute an event of default hereunder (each, an "Event of Default"):

7.1.1 The Maker fails to make any payment when due under this Note;

7.1.2 The Maker fails to observe and perform any of its covenants or agreements on its part to be observed or performed under the Purchase Agreement or any other Transaction Document, and such failure shall continue for more than 20 days after notice of such failure has been delivered to the Maker;

7.1.3 Any representation or warranty made by the Maker in the Purchase Agreement or any other Transaction Document is untrue in any material respect as of the date of such representation or warranty except, in the case of a breach of a covenant which is curable, only if such breach continues for a period of at least 10 consecutive Business Days;

7.1.4 The Maker admits in writing its inability to pay its debts generally as they become due, files a petition in bankruptcy or a petition to take advantage of any insolvency act, makes an assignment for the benefit of its creditors, consents to the appointment of a receiver of itself or of the whole or any substantial part of its property, on a petition in bankruptcy filed against it be adjudicated a bankrupt, or files a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any State thereof;

7.1.5 A court of competent jurisdiction enters an order, judgment, or decree appointing, without the consent of the Maker, a receiver of the Maker or of the whole or any substantial part of its property, or approving a petition filed against the Maker seeking reorganization or arrangement of the Maker under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any State thereof, and such order, judgment, or decree shall not be vacated or set aside or stayed within 60 days from the date of entry thereof;

7.1.6 Any court of competent jurisdiction assumes custody or control of the Maker or of the whole or any substantial part of its property under the provisions of any other law for the relief or aid of debtors, and such custody or control is not be terminated or stayed within 60 days from the date of assumption of such custody or control;

7.1.7. The Notes shall cease to be, or be asserted by the Maker not to be, a legal, valid and binding obligation of the Maker enforceable in accordance with their terms;

7.1.8 A judgment or judgments for the payment of money aggregating in excess of $75,000 are rendered against the Maker which judgments are not, within 60 days after the entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within 60 days after the expiration of such stay; provided, however, that any judgment which is covered by insurance or an indemnity from a credit worthy party shall not be included in calculating the $75,000 amount set forth above so long as the Maker provides the Holder a written statement from such insurer or indemnity provider (which written statement shall be reasonably satisfactory to the Holder) to the effect that such judgment is covered by insurance or an indemnity and the Maker will receive the proceeds of such insurance or indemnity within 30 days of the issuance of such judgment;

7.1.9 Any Event of Default occurs with respect to any of the Notes or with respect to any of the August 2012 Notes or November 2012 Notes;

7.1.10 A default by the Maker under any one or more obligations in an aggregate monetary amount in excess of $50,000 for more than 30 days after the due date, unless the Maker is contesting the validity of such obligation in good faith and has segregated cash funds equal to not less than one-half of the disputed amount;

7.1.11 A default by the Maker under the Texas Emerging Technology Fund Award and Security Agreement dated October 1, 2010 or the Investment Unit dated October 1, 2010, each between the Maker and the Office of the Governor Economic Development and Tourism of the State of Texas, which default continues for more than 30 days after notice of such default has been delivered to the Maker;

7.1.12 The Maker fails to deliver the shares of Common Stock to the Holder pursuant to and in the form required by this Note or, if required, a replacement Note more than five Business Days after the required delivery date of such Common Stock or Note;

7.1.13 The Maker fails to have reserved for issuance upon conversion of the Note the amount of Common Stock as set forth in this Note; or

7.1.14 The security interest created in the Collateral, as defined in the Security Agreement, is not a perfected first lien.

7.2 Notice by the Maker. The Maker shall notify the Holder in writing as soon as reasonably practicable but in no event more five days after the occurrence of any Event of Default of which the Maker acquires knowledge.

7.3 Remedies. Upon the occurrence of any Event of Default, all other sums due and payable to the Holder under this Note shall, at the option of the Holder, become due and payable immediately without presentment, demand, notice of nonpayment, protest, notice of protest, or other notice of dishonor, all of which are hereby expressly waived by the Maker. Any payment under this Note (i) not paid within 10 days following the Calendar Due Date or (ii) due immediately following acceleration by the Holder shall bear interest at the rate of 15% from the date of the Note until paid, subject to paragraph 7.5. To the extent permitted by law, the Maker waives the right to and stay of execution and the benefit of all exemption laws now or hereafter in effect. In addition to the foregoing, upon the occurrence of any Event of Default, the Holder may forthwith exercise singly, concurrently, successively, or otherwise any and all rights and remedies available to the Holder by law, equity, or otherwise.

7.4 Remedies Cumulative, etc. No right or remedy conferred upon or reserved to the Holder under this Note, or now or hereafter existing at law or in equity or by statute or other legislative enactment, is intended to be exclusive of any other right or remedy, and each and every such right or remedy shall be cumulative and concurrent, and shall be in addition to every other such right or remedy, and may be pursued singly, concurrently, successively, or otherwise, at the sole discretion of the Holder, and shall not be exhausted by any one exercise thereof but may be exercised as often as occasion therefor shall occur. No act of the Holder shall be deemed or construed as an election to proceed under any one such right or remedy to the exclusion of any other such right or remedy; furthermore, each such right or remedy of the Holder shall be separate, distinct, and cumulative and none shall be given effect to the exclusion of any other.

7.5 Usury Compliance. All agreements between the Maker and the Holder are expressly limited, so that in no event or contingency whatsoever, whether by reason of the consideration given with respect to this Note, the acceleration of maturity of the unpaid Principal Amount and interest thereon, or otherwise, shall the amount paid or agreed to be paid to the Holder for the use, forbearance, or detention of the indebtedness which is the subject of this Note exceed the highest lawful rate permissible under the applicable usury laws. If, under any circumstances whatsoever, fulfillment of any provision of this Note shall involve transcending the highest interest rate permitted by law which a court of competent jurisdiction deems applicable, then the obligations to be fulfilled shall be reduced to such maximum rate, and if, under any circumstances whatsoever, the Holder shall ever receive as interest an amount that exceeds the highest lawful rate, the amount that would be excessive interest shall be applied to the reduction of the unpaid Principal Amount under this Note and not to the payment of interest, or, if such excessive interest exceeds the unpaid balance of the Principal Amount under this Note, such excess shall be refunded to the Maker. This provision shall control every other provision of all agreements between the Maker and the Holder.

8. Replacement of Note. Upon receipt by the Maker of evidence satisfactory to it of the loss, theft, destruction, or mutilation of this Note and (in case of loss, theft, or destruction) of indemnity satisfactory to it, and upon surrender and cancellation of this Note, if mutilated, the Maker will make and deliver a new Note of like tenor in lieu of this Note.

9. Intentionally omitted.

10. Maker's Covenants.

10.1 Rank. All payments due under this Note (a) shall rank *pari passu* with all other Notes, including the August 2012 Notes and the November 2012 Notes and (b) shall be senior to all other indebtedness of the Maker.

10.2 Security. This Note and the other Notes are secured to the extent and in the manner set forth in the Security Agreement of even date herewith.

10.3 Existence of Liens. So long as this Note is outstanding, the Maker shall not, and the Maker shall not permit any of its subsidiaries (if any) to, directly or indirectly, allow or suffer to exist any mortgage, lien, pledge, charge, security interest or other encumbrance upon or in any property or assets (including accounts and contract rights) owned by the Maker or any of its subsidiaries (collectively, "Liens") other than Permitted Liens.

10.4 Restricted Payments. The Maker shall not, and the Maker shall not permit any of its subsidiaries (is any) to, directly or indirectly, redeem, defease, repurchase, repay or make any payments in respect of, by the payment of cash or cash equivalents (in whole or in part, whether by way of open market purchases, tender offers, private transactions or otherwise), all or any portion of any indebtedness, whether by way of payment in respect of principal of (or premium, if any) or interest on, such indebtedness if at the time such payment is due or is otherwise made or, after giving effect to such payment, an event constituting, or that with the passage of time and without being cured would constitute, an Event of Default has occurred and is continuing.

10.5 Valid Issuance of Securities. The Maker covenants that the securities issuable upon the conversion of this Note will, upon conversion of this Note, be validly issued, fully paid and nonassessable and free from all taxes, liens and charges in respect of the issue thereof.

10.6 Timely Notice. The Maker shall deliver to the Holder at least 10 days' advance written notice of (i) a proposed financing which would permit the Holder to convert the Principal Amount, accrued interest, and any other amount due under this Note in accordance with paragraph 4.3 or (ii) a proposed Change of Control, provided that the Holder agrees to be bound by any applicable confidentiality agreement or agreements as the Maker reasonably shall deem necessary or appropriate.

11. Certain Definitions.

11.1 "Business Days" shall mean any day that is not a Saturday, Sunday or a federal holiday.

11.2 "Change of Control" means any liquidation, dissolution or winding up of the Maker, either voluntary or involuntary, and shall be deemed to be occasioned by, or to include, (i) the acquisition of the Maker by another entity by means of any transaction or series of related transactions (including, without limitation, any stock acquisition, reorganization, merger or consolidation) unless the Maker's shareholders of record as constituted immediately prior to such acquisition or sale will, immediately after such acquisition or sale (by virtue of securities issued as consideration for the Maker's acquisition or sale or otherwise) hold at least a majority of the voting power of the surviving or acquiring entity, or its direct or indirect parent entity (except that any bona fide equity or debt financing transaction for capital raising purposes shall not be deemed a Change of Control for this purpose) or (ii) a sale, exclusive license or other disposition of all or substantially all of the assets of the Maker, including a sale, exclusive license or other disposition of all or substantially all of the assets of the Maker's subsidiaries, if such assets constitute substantially all of the assets of the Maker and such subsidiaries taken as a whole.

11.3 "Permitted Liens" shall have the meaning included in the Security Agreement of even date herewith.

12.1 Amendments, Waivers, and Consents.

12.1 Amendment and Waiver by the Holders. The Notes, including this Note, may be amended, modified, or supplemented, and waivers or consents to departures from the provisions of the Notes may be given, if the Maker and holders of an aggregate majority of the Principal Amount of the Notes then outstanding, consent to the amendment; provided, however, that no term of this Note may be amended or waived in such a way as to adversely affect the Holder disproportionately to the holder or holders of any other Notes without the written consent of the Holder and neither the principal balance or interest rate of the Note may be amended or modified without the consent of the Holder. Such consent may not be effected orally, but only by a signed statement in writing. Any such amendment or waiver shall apply to and be binding upon the Holder of this Note, upon each future holder of this Note, and upon the Maker, whether or not this Note shall have been marked to indicate such amendment or waiver. No such amendment or waiver shall extend to or affect any obligation not expressly amended or waived or impair any right consequent thereon.

12.2 Severability. In the event that for any reason one or more of the provisions of this Note or their application to any person or circumstance shall be held to be invalid, illegal, or unenforceable in any respect or to any extent, such provision shall nevertheless remain valid, legal, and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality, or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal, or unenforceable provision had never been contained herein.

12.3 Assignment; Binding Effect. The Maker may not assign this Note without the prior written consent of the Holder. Any attempted assignment in violation of this Section 12.3 shall be null and void. Subject to the foregoing, this Note inures to the benefit of the Holder, its successors and assigns, and binds the Maker, and their respective successors and permitted assigns, and the words "Holder" and "Maker" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

12.4 Notice Generally. All notices required to be given to any of the parties hereunder shall be given as set forth in the Purchase Agreement.

12.5 Governing Law; Jurisdiction; Jury Trial. This Note shall be construed and enforced in accordance with, and all questions concerning the construction, validity, interpretation and performance of this Note shall be governed by, the internal laws of the State of New York, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of New York or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of New York. The Maker hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in The City of New York, Borough of Manhattan, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. The Maker hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address it set forth on the signature page hereto and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. In the event that any provision of this Note is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of this Note. Nothing contained herein shall be deemed or operate to preclude the Holder from bringing suit or taking other legal action against the Maker in any other jurisdiction to collect on the Maker's obligations to the Holder, to realize on any collateral or any other security for such obligations, or to enforce a judgment or other court ruling in favor of the Holder. THE MAKER HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION WITH OR ARISING OUT OF THIS NOTE OR ANY TRANSACTION CONTEMPLATED HEREBY. **This Note shall be deemed an unconditional obligation of Maker for the payment of money and, without limitation to any other remedies of Holder, may be enforced against Maker by summary proceeding pursuant to New York Civil Procedure Law and Rules Section 3213 or any similar rule or statute in the jurisdiction where enforcement is sought. For purposes of such rule or statute, any other document or agreement to which Holder and Maker are parties or which Maker delivered to Holder, which may be convenient or necessary to determine Holder's rights hereunder or Maker's obligations to Holder are deemed a part of this Note, whether or not such other document or agreement was delivered together herewith or was executed apart from this Note.**

12.6 Section Headings, Construction. The headings of paragraphs in this Note are provided for convenience only and will not affect its construction or interpretation. All words used in this Note will be construed to be of such gender or number as the circumstances require. Unless otherwise expressly provided, the words "hereof" and "hereunder" and similar references refer to this Note in its entirety and not to any specific section or subsection hereof.

12.7 Payment of Collection, Enforcement and Other Costs. If (a) this Note is placed in the hands of an attorney for collection or enforcement or is collected or enforced through any legal proceeding or the Holder otherwise takes action to collect amounts due under this Note or to enforce the provisions of this Note, or (b) there occurs any bankruptcy, reorganization, receivership of the Maker or other proceedings affecting the Maker's creditors' rights and involving a claim under this Note, then the Maker shall pay the costs incurred by the Holder for such collection, enforcement or action or in connection with such bankruptcy, reorganization, receivership or other proceeding, including, but not limited to, attorneys' fees and disbursements.

12.8 Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to the Holder, upon any breach or default of the Maker under this Note shall impair any such right, power, or remedy of the Holder nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default therefore or thereafter occurring. Any waiver, permit, consent, or approval of any kind or character on the part of the Holder of any breach or default under this Note or any waiver on the part of the Holder of any provisions or conditions of this Note must be made in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Note or by law or otherwise afforded to the Holders, shall be cumulative and not alternative.

[EXECUTION PAGE FOLLOWS]

IN WITNESS WHEREOF, Ideal Power Inc. has caused this Senior Secured Convertible Promissory Note to be executed and delivered on the date set forth above on the cover page of this Note.

IDEAL POWER INC.

By: _____
Paul Bundschuh, Chief Executive Officer

Exhibit 10.33

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (the "Agreement"), dated as of July 29, 2013, is entered into by and among IDEAL POWER INC., a Delaware corporation ("Debtor"), the Subscribers identified on **Schedule 1** hereto (the "Subscribers"), who are parties to the Securities Purchase Agreement dated of even date herewith by and among Debtor and such Subscribers, and Anthony DiGiandomenico ("Collateral Agent").

RECITALS

WHEREAS, Subscribers have made senior secured loans in the principal amount of $750,000 to the Debtor (the "July 2013 Loans") and, together with senior secured loans in the amount of $750,000 and $3,250,000 made by the Debtor on August 31, 2012 and November 21, 2012, respectively, (collectively with the July 2013 Loans, the "Loans") are, collectively, intended to be secured by a first-priority senior security interest in all assets of the Debtor.

WHEREAS, the July 2013 Loans are evidenced by one or more senior secured convertible promissory notes (each a "Note" and collectively the "Notes") issued by the Debtor. The Notes have been executed by the Debtor as borrower, in favor of and to document indebtedness to, the Subscribers (each, a "Holder" and collectively the "Holders").

WHEREAS, to assist the Debtor with its capital raising efforts, The Office of the Governor Economic Development and Tourism of the State of Texas ("Subordinated Lender") agreed to subordinate to the holders of the senior secured convertible promissory notes documenting the Loans (including the Holders of the July 2013 Loans) its rights, priority and claims under that certain Texas Emerging Technology Fund Award and Security Agreement dated October 1, 2010.

WHEREAS, in consideration of the July 2013 Loans made by the Subscribers to the Debtor and for other good and valuable consideration, and as security for the performance by the Debtor of its obligations under the Notes, and as security for the repayment of the July 2013 Loans and all other sums due from the Debtor to the Subscribers arising under the Transaction Documents (as defined in the Purchase Agreement, the Notes, and any other agreement between or among them (collectively, the "Obligations")), the Debtor, for good and valuable consideration, receipt of which is acknowledged, has agreed to grant to the Subscribers and to the Collateral Agent on behalf of the Subscribers a security interest in the Collateral (as such term is hereinafter defined), on the terms and conditions hereinafter set forth.

WHEREAS, the following terms which are defined in the Uniform Commercial Code in effect in the State of New York on the date hereof are included on **Schedule 2** and are used herein as so defined: Account, Chattel Paper, Documents, Equipment, General Intangible, Goods, Instrument, Inventory and Proceeds.

AGREEMENT

1. Definitions; Interpretation. All capitalized terms used in this Agreement and not otherwise defined herein shall have the meanings assigned to them in the Note and Purchase Agreement. As used in this Agreement, the following terms shall have the following meanings:

"Agreement" means this Security Agreement, including any amendments hereto.

"Collateral Agent" shall have the meaning as set forth in the Preamble.

"Collateral" shall have the meaning as set forth in Section 2.2.

"Debtor" shall have the meaning as set forth in the Preamble.

"Event of Default" shall have the meaning as set forth in Section 8.

"Holder" or "Holders" shall have the meaning as set forth in the Recitals.

"Majority in Interest" shall have the meaning as set forth in Section 12.3.

"Note" and "Notes" shall have the meanings as set forth in the Recitals.

"Obligations" shall have the meaning as set forth in the Recitals.

"Permitted Liens" shall have the meaning as set forth in Section 5.1.

"Senior Debt" shall mean the senior secured convertible promissory notes issued by the Debtor on August 31, 2012 and November 21, 2012.

"Subscribers" shall have the meaning as set forth in the Preamble.

2. Grant of General Security Interest in Collateral.

2.1 As security for the Obligations of the Debtor, the Debtor hereby grants to each of the Subscribers a security interest in the Collateral, which security interest shall be in pari passu with the security interest granted to the holders of the Senior Debt.

2.2 "Collateral" shall mean all of the following property of the Debtor:

(A) All now owned and hereafter acquired right, title and interest of the Debtor in, to and in respect of all Accounts, Goods, real or personal property, all present and future books and records relating to the foregoing and all products and Proceeds of the foregoing, and as set forth below:

(i) all now owned and hereafter acquired right, title and interest of the Debtor in, to and in respect of all: Accounts, interests in goods represented by Accounts, returned, reclaimed or repossessed goods with respect thereto and rights as an unpaid vendor; contract rights; Chattel Paper; investment property; General Intangibles (including but not limited to, tax and duty claims and refunds, registered and unregistered patents, trademarks, service marks, certificates, copyrights, trade names, applications for the foregoing, trade secrets, goodwill, processes, drawings, blueprints, customer lists, licenses, whether as licensor or licensee, choses in action and other claims, and existing and future leasehold interests and claims in and to equipment, real estate and fixtures); Documents; Instruments; letters of credit, bankers' acceptances or guaranties; cash moneys, deposits including but not limited to the deposit accounts identified on **Schedule 3**; securities, bank accounts, deposit accounts, credits and other property now or hereafter owned or held in any capacity by Debtors, as well as agreements or property securing or relating to any of the items referred to above;

(ii) Goods. All now owned and hereafter acquired right, title and interest of Debtors in, to and in respect of goods, including, but not limited to:

(a) All Inventory, wherever located, whether now owned or hereafter acquired, of whatever kind, nature or description, including all raw materials, work-in-process, finished goods, and materials to be used or consumed in the Debtor's business; finished goods, timber cut or to be cut, oil, gas, hydrocarbons, and minerals extracted or to be extracted, and all names or marks affixed to or to be affixed thereto for purposes of selling same by the seller, manufacturer, lessor or licensor thereof and all Inventory which may be returned to the Debtor by its customers or repossessed by the Debtor and all of the Debtor's right, title and interest in and to the foregoing (including all of the Debtor's rights as a seller of goods);

(b) All Equipment and fixtures, wherever located, whether now owned or hereafter acquired, including, without limitation, all machinery, furniture and fixtures, and any and all additions, substitutions, replacements (including spare parts), and accessions thereof and thereto (including, but not limited to the Debtor's rights to acquire any of the foregoing, whether by exercise of a purchase option or otherwise);

(iii) Property. All now owned and hereafter acquired right, title and interests of the Debtor in, to and in respect of any other personal property in or upon which the Debtor has or may hereafter have a security interest, lien or right of setoff;

(iv) Books and Records. All present and future books and records relating to any of the above including, without limitation, all computer programs, printed output and computer readable data in the possession or control of the Debtor, any computer service bureau or other third party; and

(v) Products and Proceeds. All products and Proceeds of the foregoing in whatever form and wherever located, including, without limitation, all insurance proceeds and all claims against third parties for loss or destruction of or damage to any of the foregoing.

(B) All now owned and hereafter acquired right, title and interest of the Debtor in, to and in respect of the following:

(i) all additional shares of stock, partnership interests, member interests or other equity interests from time to time acquired by the Debtor, in any subsidiary of the Debtor, the certificates representing such additional shares, and other rights, contractual or otherwise, in respect thereof and all dividends, distributions, cash, instruments, investment property and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such additional shares, interests or equity; and

(ii) all security entitlements of the Debtor in, and all Proceeds of any and all of the foregoing in each case, whether now owned or hereafter acquired by the Debtor and howsoever its interest therein may arise or appear (whether by ownership, security interest, lien, claim or otherwise).

Notwithstanding anything to the contrary set forth in Section 2.2 above, the types or items of Collateral described in such Section shall not include any rights or interests in any contract, lease, permit, license, charter or license agreement covering real or personal property, as such, if under the terms of such contract, lease, permit, license, charter or license agreement, or applicable law with respect thereto, the valid grant of a security interest or lien therein to the Subscribers is prohibited or would result in a breach and such prohibition or breach has not been or is not waived or the consent of the other party to such contract, lease, permit, license, charter or license agreement has not been or is not otherwise obtained or under applicable law such prohibition or breach cannot be waived.

Notwithstanding anything to the contrary set forth in Section 2.2 above, the types or items of Collateral described in such Section shall not include any Equipment which is, or at the time of the Debtor's acquisition thereof shall be, subject to a purchase money mortgage or other purchase money lien or security interest (including capitalized or finance leases) permitted hereunder if: (a) the valid grant of a security interest or lien therein to the Subscribers in such Equipment is prohibited by the terms of the agreement between the Debtor and the holder of such purchase money mortgage or other purchase money lien or security interest or under applicable law and such prohibition has not been or is not waived, or the consent of the holder of the purchase money mortgage or other purchase money lien or security interest has not been or is not otherwise obtained, or under applicable law such prohibition cannot be waived and (b) the purchase money mortgage or other purchase money lien or security interest on such item of Equipment is or shall become valid and perfected. To the extent each of the foregoing conditions is satisfied, the Subscribers shall, through the Collateral Agent, at the request of the Debtor and at the Debtor's expense, execute and deliver a UCC-3 partial release with respect to any such Equipment subject to such a purchase money security interest or lien, provided, that, such partial release shall be in form and substance satisfactory to the Collateral Agent.

"Equipment" shall include all of the Debtor's now owned and hereafter acquired equipment, machinery, laboratory and research equipment and tools, computers and computer hardware and software (whether owned or licensed), vehicles, tools, furniture, fixtures, all attachments, accessions and property now or hereafter affixed thereto or used in connection therewith, and substitutions and replacements thereof, wherever located.

2.3 The Subscribers and the Collateral Agent are hereby specifically authorized, after the Maturity Date (defined in the Note) accelerated or otherwise, and after the occurrence of an Event of Default (as defined herein) and the expiration of any applicable cure period, to transfer any Collateral into the name of the Collateral Agent and to take any and all action deemed advisable to the Subscribers to remove any transfer restrictions affecting the Collateral.

3. Perfection of Security Interest.

3.1 The Debtor shall prepare, execute and deliver to the Collateral Agent UCC-1 Financing Statements or other instruments necessary to perfect a security interest in any item of the Collateral (collectively, the "Lien Documents") in form and substance acceptable to the Collateral Agent. The Collateral Agent is instructed to prepare and file or cause to be filed at the Debtor's cost and expense, the Lien Documents in such United States and foreign jurisdictions deemed advisable to the Collateral Agent, including but not limited to the States of Texas or Delaware, as appropriate.

3.2 All other certificates and instruments constituting Collateral from time to time required to be pledged to the Subscribers pursuant to the terms hereof (the "Additional Collateral") shall be delivered to the Collateral Agent promptly upon receipt thereof by or on behalf of the Debtor. All such certificates and instruments shall be held by or on behalf of the Subscribers pursuant hereto and shall be delivered in suitable form for transfer by delivery, or shall be accompanied by duly executed instruments of transfer or assignment or undated stock powers executed in blank, all in form and substance satisfactory to the Collateral Agent. If any Collateral consists of uncertificated securities, unless the immediately following sentence is applicable thereto, the Debtor shall cause the Collateral Agent to become the registered holder thereof, or cause each issuer of such securities to agree that it will comply with instructions originated by the Collateral Agent with respect to such securities. If any Collateral consists of security entitlements, the Debtor shall transfer such security entitlements to the Collateral Agent or cause the applicable securities intermediary to agree that it will comply with entitlement orders by the Collateral Agent.

3.3 If the Debtor shall receive, by virtue of the Debtor being or having been an owner of any Collateral, any (i) stock certificate (including, without limitation, any certificate representing a stock dividend or distribution in connection with any increase or reduction of capital, reclassification, merger, consolidation, sale of assets, combination of shares, stock split, spin-off or split-off), promissory note or other instrument, (ii) option or right, whether as an addition to, substitution for, or in exchange for, any Collateral, or otherwise, (iii) dividends payable in cash or in securities or other property or (iv) dividends or other distributions in connection with a partial or total liquidation or dissolution or in connection with a reduction of capital, capital surplus or paid-in surplus, the Debtor shall receive such stock certificate, promissory note, instrument, option, right, payment or distribution in trust for the benefit of the Subscribers, shall segregate it from the Debtor's other property and shall deliver it forthwith to the Subscribers, in the exact form received, with any necessary endorsement and/or appropriate stock powers duly executed in blank, to be held by the Subscribers as Collateral and as further collateral security for the Obligations.

4. Voting Power Relating to Collateral/Dividends and Distributions.

4.1 So long as an Event of Default does not exist, the Debtor shall be entitled to exercise all voting power pertaining to any of the Collateral, provided such exercise is not contrary to the interests of the Subscribers and does not impair the Collateral.

4.2. At any time an Event of Default exists or has occurred and is continuing, all rights of the Debtor, upon notice given by the Collateral Agent, to exercise the voting power shall cease and all such rights shall thereupon become vested in the Collateral Agent for the benefit of the Subscribers, which shall thereupon have the sole right to exercise such voting power and receive such payments.

4.3 All dividends, distributions, interest and other payments which are received by Debtor contrary to the provisions of Section 4.2 shall be received in trust for the benefit of the Subscribers as security and Collateral for payment of the Obligations, shall be segregated from other funds of Debtor, and shall be forthwith paid over to the Collateral Agent as Collateral in the exact form received with any necessary endorsement and/or appropriate stock powers duly executed in blank, to be held by the Collateral Agent as Collateral and as further collateral security for the Obligations.

5. Further Action By Debtors; Covenants and Warranties.

5.1 The Subscribers, along with the holders of the senior secured convertible promissory notes evidencing the Senior Debt, at all times shall have a perfected security interest in the Collateral. The Debtor represents that other than the security interests described on **Schedule 5.1,** it has and will continue to have full title to the Collateral free from any liens, leases, encumbrances, judgments or other claims, except for "Permitted Liens" (defined below). The Subscribers' security interest in the Collateral, together with the security interests of the holders of the senior secured convertible promissory notes evidencing the Senior Debt, constitutes and will continue to constitute a first, prior and indefeasible security interest in favor of the Subscribers, subject only to the security interests described on **Schedule 5.1**. The Debtor will do all acts and things, and will execute and file all instruments (including, but not limited to, security agreements, financing statements, continuation statements, etc.) reasonably requested by the Collateral Agent to establish, maintain and continue the perfected security interest of the Subscribers and the holders of the senior secured convertible promissory notes evidencing the Senior Debt in the perfected Collateral, and will promptly on demand, pay all costs and expenses of filing and recording, including the costs of any searches reasonably deemed necessary by the Collateral Agent from time to time to establish and determine the validity and the continuing priority of the security interest of the Subscribers and the holders of the senior secured convertible promissory notes evidencing the Senior Debt, and also pay all other claims and charges that, in the opinion of the Subscribers and the holders of the senior secured convertible promissory notes evidencing the Senior Debt are reasonably likely to materially prejudice, imperil or otherwise affect the Collateral or their security interests therein. For purposes of this Agreement, "Permitted Liens" shall include:

(a) liens for the payment of taxes which are not yet due and payable;

(b) liens arising by statute in connection with worker's compensation, unemployment insurance, old age benefits, social security obligations, taxes, assessments, statutory obligations or other similar charges (other than Liens arising under ERISA), good faith cash deposits in connection with tenders, contracts or leases to which the the Debtor is a party or other cash deposits required to be made in the ordinary course of business, provided in each case that the obligation is not for borrowed money and that the obligation secured is not overdue or, if overdue, is being contested in good faith by appropriate proceedings which prevent enforcement of the matter under contest and adequate reserves have been established therefor;

(c) mechanics', workmen's, materialmen's, landlords', carriers' or other similar liens arising in the ordinary course of business with respect to obligations which are not due or which are being contested in good faith by appropriate proceedings which prevent enforcement of the matter under contest;

(d) any interest or title of a lessor under any operating lease or capital lease; and

(e) liens on real property of the Debtor or created solely for the purpose of securing indebtedness incurred to finance the purchase price of such real property;

(f) cash deposits to secure performance bonds and other obligations of a like nature (in each case, other than for Indebtedness) incurred in the ordinary course of business for obligations not yet due or which are being contested in good faith by appropriate proceedings which prevent enforcement of the matter under contest and adequate reserves have been established therefor;

(g) easements, rights-of-way, zoning and similar restrictions, building codes, reservations, covenants, conditions, waivers, survey exceptions and other similar encumbrances or title defects and, with respect to any interests in real property held or leased by the Debtor or any of its subsidiaries, mortgages, deeds of trust and other encumbrances incurred, created, assumed or permitted to exist and arising by, through or under a landlord or owner of such property encumbering solely such landlord's or owner's interest in such real property, with or without the consent of the lessee;

(h) liens in existence on the date hereof;

(i) any interest of a licensor under a license entered into in the ordinary course of the Debtor's business; and

(j) any lien existing on any part of any business acquired by the Debtor, prior to the acquisition thereof by the Debtor.

5.2 Except in connection with sales of Collateral in the ordinary course of business, for fair value and in cash, and except for Collateral which is substituted by assets of identical or greater value (subject to the consent of the Collateral Agent) or which is not material to the Debtor's business, the Debtor will not sell, transfer, assign or pledge those items of Collateral (or allow any such items to be sold, transferred, assigned or pledged), without the prior written consent of the Collateral Agent other than a transfer of the Collateral to a wholly-owned United States formed and located subsidiary of the Debtor with prior notice to the Collateral Agent, and provided the Collateral remains subject to the security interest herein described. Although Proceeds of Collateral are covered by this Agreement, this shall not be construed to mean that the Collateral Agent or the Subscribers consent to any sale of the Collateral, except as provided herein. Sales of Collateral in the ordinary course of business as described above shall be free of the security interest of the Subscribers and the Collateral Agent shall promptly execute such documents (including without limitation releases and termination statements) as may be required by the Debtor to evidence or effectuate the same.

5.3 The Debtor will, at all reasonable times during regular business hours and upon reasonable notice, allow the Collateral Agent or its representatives free and complete access to the Collateral and all of the Debtor's records that in any way relate to the Collateral, for such inspection and examination as the Collateral Agent reasonably deems necessary.

5.4 The Debtor, at its sole cost and expense, will protect and defend the Collateral against the claims and demands of all persons other than the Subscribers and the holders of the senior secured convertible promissory notes evidencing the Senior Debt.

5.5 The Debtor will promptly notify the Collateral Agent of any levy, distraint or other seizure by legal process or otherwise of any part of the Collateral, and of any threatened or filed claims or proceedings that are reasonably likely to affect or impair any of the rights of the Subscribers under this Security Agreement in any material respect.

5.6 The Debtor will, at its own expense, make, execute, endorse, acknowledge, file and/or deliver to the Collateral Agent from time to time such vouchers, invoices, schedules, confirmatory assignments, conveyances, financing statements, transfer endorsements, powers of attorney, certificates, reports and other reasonable assurances or instruments and take further steps relating to the Collateral and other property or rights covered by the security interest hereby granted, as the Collateral Agent may reasonably require to perfect the security interest of the Subscribers hereunder.

5.7 The Debtor represents and warrants that it is the true and lawful exclusive owner of the Collateral, free and clear of any liens, encumbrances and claims other than those listed on Schedule 5.1.

6. Power of Attorney.

At any time an Event of Default has occurred, and only after the applicable cure period as set forth in this Agreement and the other Transaction Documents, and is continuing, the Debtor hereby irrevocably constitutes and appoints the Collateral Agent as the true and lawful attorney of the Debtor, with full power of substitution, in the place and stead of Debtor and in the name of the Debtor or otherwise, at any time or times, in the discretion of the Collateral Agent, to take any action and to execute any instrument or document which is reasonably and prudently necessary to protect the Subscribers' rights in the Collateral as set forth in this Agreement. This power of attorney is coupled with an interest and is irrevocable until the Obligations are satisfied.

7. Performance by the Subscribers.

If the Debtor fails to perform any material covenant, agreement, duty or obligation of the Debtor under this Agreement or the Purchase Agreements, the Collateral Agent may, after any applicable cure period and notice required hereunder, at any time or times in its discretion, take action to effect performance of such obligation. All reasonable expenses of the Subscribers incurred in connection with the foregoing authorization shall be payable by the Debtor as provided in Paragraph 10.1 hereof. No discretionary right, remedy or power granted to the Subscribers under any part of this Agreement shall be deemed to impose any obligation whatsoever on the Subscribers with respect thereto, such rights, remedies and powers being solely for the protection of the Subscribers.

8. Event of Default.

An event of default ("Event of Default") shall be deemed to have occurred hereunder upon the occurrence of any event of default as defined and described in this Agreement, in the Note, the Purchase Agreements, Transaction Documents (as defined in the Purchase Agreements), and any other agreement to which the Debtor and the Subscribers are parties. Upon and after any Event of Default, after the applicable cure period, if any, any or all of the Obligations shall become immediately due and payable at the option of the Collateral Agent, and the Collateral Agent may dispose of Collateral as provided herein. A default by the Debtor of any of its material obligations pursuant to this Agreement, the Purchase Agreements and any of the other Transaction Documents shall be an Event of Default hereunder and an "Event of Default" as defined in the Notes, and the Purchase Agreements.

9. Disposition of Collateral.

Upon and after any Event of Default which is then continuing,

9.1 The Collateral Agent may exercise its rights with respect to each and every component of the Collateral, without regard to the existence of any other security or source of payment, in order to satisfy the Obligations. In addition to other rights and remedies provided for herein or otherwise available to it, the Subscribers shall have all of the rights and remedies of a secured party on default under the Uniform Commercial Code then in effect in the State of New York.

9.2 If any notice to the Debtor of the sale or other disposition of Collateral is required by then applicable law, 5 business days prior written notice (which the Debtor agrees is reasonable notice within the meaning of Section 9.612(a) of the Uniform Commercial Code) shall be given to the Debtor of the time and place of any sale of Collateral which the Debtor hereby agrees may be by private sale. The rights granted in this Section are in addition to any and all rights available to the Subscribers under the Uniform Commercial Code.

9.3 The Collateral Agent is authorized, at any such sale, if the Collateral Agent deems it advisable to do so, in order to comply with any applicable securities laws, to restrict the prospective bidders or purchasers to persons who will represent and agree, among other things, that they are purchasing the Collateral for their own account for investment, and not with a view to the distribution or resale thereof, or otherwise to restrict such sale in such other manner as the Subscribers deem advisable to ensure such compliance. Sales made subject to such restrictions shall be deemed to have been made in a commercially reasonable manner.

9.4 All proceeds received by the Subscribers in respect of any sale, collection or other enforcement or disposition of Collateral, shall be applied (after deduction of any amounts payable to the Subscribers pursuant to Paragraph 10.1 hereof) against the Obligations. Upon payment in full of all Obligations, the Debtor shall be entitled to the return of all Collateral, including cash, which has not been used or applied toward the payment of the Obligations or used or applied to any and all costs or expenses of the Subscribers incurred in connection with the liquidation of the Collateral (unless another person is legally entitled thereto). Any assignment of Collateral by the Collateral Agent to the Debtor shall be without representation or warranty of any nature whatsoever and wholly without recourse. To the extent allowed by law, the Collateral Agent may purchase the Collateral and pay for such purchase by offsetting the purchase price with sums owed to the Subscribers by the Debtor arising under the Obligations or any other source.

9.5 Without limiting, and in addition to, any other rights, options and remedies the Subscribers have under the Transaction Documents, the UCC, at law or in equity, or otherwise, upon the occurrence and continuation of an Event of Default, the Collateral Agent shall have the right to apply for and have a receiver appointed by a court of competent jurisdiction. The Debtor expressly agrees that such a receiver will be able to manage, protect and preserve the Collateral and continue the operation of the business of the Debtor to the extent necessary to collect all revenues and profits thereof and to apply the same to the payment of all expenses and other charges of such receivership, including the compensation of the receiver, until a sale or other disposition of such Collateral shall be finally made and consummated.

9.6 Provided an Event of Default or an event, which with the passage of time or the giving of notice could become an Event of Default is not pending, then from and after the date the Subscriber has exercised its conversion rights with respect to not less than one-half of the Principal Amount of the Subscriber's Note and the Debtor has complied with its obligations with respect to all such conversions, then the Subscriber's security interest granted pursuant to this Agreement shall be automatically released.

10. Miscellaneous.

10.1 Expenses. The Debtor shall pay to the Collateral Agent for the benefit of the Subscribers, on demand, the amount of any and all reasonable expenses, including, without limitation, attorneys' fees, legal expenses and brokers' fees, which the Collateral Agent may incur in connection with (a) exercise or enforcement of any the rights, remedies or powers of the Subscribers hereunder or with respect to any or all of the Obligations upon breach; or (b) failure by the Debtor to perform and observe any agreements of the Debtor contained herein which are performed by Collateral Agent.

10.2 Waivers, Amendment and Remedies. No course of dealing by the Collateral Agent or the Subscribers and no failure by the Collateral Agent or the Subscribers to exercise, or delay by the Collateral Agent or the Subscribers in exercising, any right, remedy or power hereunder shall operate as a waiver thereof, and no single or partial exercise thereof shall preclude any other or further exercise thereof or the exercise of any other right, remedy or power of the Collateral Agent or the Subscribers. No amendment, modification or waiver of any provision of this Agreement and no consent to any departure by the Debtor therefrom shall, in any event, be effective unless contained in a writing signed by the Collateral Agent, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. The rights, remedies and powers of the Collateral Agent, not only hereunder, but also under any instruments and agreements evidencing or securing the Obligations and under applicable law are cumulative, and may be exercised by the Collateral Agent for the benefit of the Subscribers from time to time in such order as the Collateral Agent may elect.

10.3 Notices. All notices or other communications given or made hereunder shall be in writing and shall be personally delivered or deemed delivered the first business day after being faxed (provided that a copy is delivered by first class mail) to the party to receive the same at its address set forth below or to such other address as either party shall hereafter give to the other by notice duly made under this Section:

To Debtors:	Ideal Power Inc. 5004 Bee Creek Rd., Suite 600 Spicewood, Texas 78669 Attention: Chief Executive Officer Paul.Bundschuh@idealpowerconverters.com
With a copy by facsimile only to:	Richardson & Patel LLP 1100 Glendon Avenue, Suite 850 Los Angeles, CA 90024 Fax: (310) 208-1154 Tel: (310) 208-1182 Attention: Erick Richardson
To Holders:	To the addresses specified in the Subscription Purchase Agreement for each Holder
To Collateral Agent:	Anthony DiGiandomenico 401 Wilshire Boulevard, Suite 1020 Santa Monica, California 90401
With a copy (not constituting notice) to:	Scott Bartel, Esq. Eric Stiff, Esq. Locke Lord LLP 500 Capitol Mall, Suite 1800 Sacramento, California 95814 Telephone: (916) 930-2500 sbartel@lockelord.com estiff@lockelord.com

Any party may change its address by written notice in accordance with this paragraph.

10.4 Term; Binding Effect. This Agreement shall (a) remain in full force and effect until payment and satisfaction in full of all of the Obligations; (b) be binding upon the Debtor, and its successors and permitted assigns; and (c) inure to the benefit of the Subscribers and its successors and assigns.

10.5 Captions. The captions of Paragraphs, Articles and Sections in this Agreement have been included for convenience of reference only, and shall not define or limit the provisions of this agreement and have no legal or other significance whatsoever.

10.6 Governing Law; Venue; Severability. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to conflicts of laws principles that would result in the application of the substantive laws of another jurisdiction, except to the extent that the perfection of the security interest granted hereby in respect of any item of Collateral may be governed by the law of another jurisdiction. Any legal action or proceeding against the Debtor with respect to this Agreement must be brought only in the courts in the State of New York or United States federal courts located within the State of New York, and, by execution and delivery of this Agreement, the Debtor hereby irrevocably accepts for itself and in respect of its property, generally and unconditionally, the jurisdiction of the aforesaid courts. The Debtor hereby irrevocably waives any objection which it may now or hereafter have to the laying of venue of any of the aforesaid actions or proceedings arising out of or in connection with this Agreement brought in the aforesaid courts and hereby further irrevocably waives and agrees not to plead or claim in any such court that any such action or proceeding brought in any such court has been brought in an inconvenient forum. If any provision of this Agreement, or the application thereof to any person or circumstance, is held invalid, such invalidity shall not affect any other provisions which can be given effect without the invalid provision or application, and to this end the provisions hereof shall be severable and the remaining, valid provisions shall remain of full force and effect.

10.7 Entire Agreement. This Agreement contains the entire agreement of the parties and supersedes all other agreements and understandings, oral or written, with respect to the matters contained herein.

10.8 Counterparts/Execution. This Agreement may be executed in any number of counterparts and by the different signatories hereto on separate counterparts, each of which, when so executed, shall be deemed an original, but all such counterparts shall constitute but one and the same instrument. This Agreement may be executed by facsimile signature and delivered by electronic transmission.

11. Termination; Release. When the Obligations have been indefeasibly paid and performed in full or all outstanding Notes have been converted to Common Stock pursuant to the terms of the Note and the Purchase Agreements, this Agreement shall terminate, and the Subscribers or the Collateral Agent, as appropriate, at the request and sole expense of the Debtor, will execute and deliver to the Debtor the proper instruments (including UCC termination statements) acknowledging the termination of the Security Agreement, and duly assign, transfer and deliver to the Debtor, without recourse, representation or warranty of any kind whatsoever, such of the Collateral, as may be in the possession of the Collateral Agent or Subscribers.

12. Subscribers' Powers.

12.1 Subscribers' Powers. The powers conferred on the Subscribers hereunder are solely to protect Subscribers' interest in the Collateral and shall not impose any duty on the Subscribers to exercise any such powers.

12.2 Reasonable Care. The Collateral Agent is required to exercise reasonable care in the custody and preservation of any Collateral in its possession.

12.3 Majority in Interest. The rights of the Subscribers hereunder, except as otherwise set forth herein shall be exercised upon the approval of Subscribers (including the holders of the senior secured convertible promissory notes evidencing the Senior Debt) holding no less than 51% of the outstanding principal amount of the Loans ("Majority in Interest") at the time such approval is sought or given. Any tangible or physical Collateral shall be delivered to and be held by the Collateral Agent pursuant to this Agreement and on behalf of all Subscribers as to their respective rights.

12.4 Authority of Collateral Agent. By executing this Agreement the Subscribers appoint the Collateral Agent as their agent to exercise all of the rights, benefits and remedies granted to them as secured parties under this Agreement. The Collateral Agent agrees to exercise all of the rights, benefits and remedies conveyed by this Agreement solely for the benefit of the Subscribers and, unless a delay would cause irreparable damage to the Collateral or any part of it, only after consultation with the Majority in Interest. In accordance with its role as the agent for the Subscribers, the Lien Documents will identify the Collateral Agent as the secured party.

12.5 Duties of the Collateral Agent. The Collateral Agent agrees to hold and dispose of the Collateral in accordance with and subject only to the terms of this Agreement.

12.6 Appointment of Attorney-in-Fact. The Debtor hereby irrevocably appoints the Collateral Agent as the Debtor's attorney-in-fact to arrange for the transfer of the Collateral and to do and perform all actions that are necessary or appropriate in order to effect the terms of this Agreement.

12.7 Matters Pertaining to Collateral Agent.

12.7.1 The Collateral Agent shall not be personally liable for any act it may do or omit to do under this Agreement while acting in good faith and in the exercise of its best judgment, and any act done or omitted by the Collateral Agent pursuant to the advice of the Collateral Agent's attorney shall be conclusive evidence of such good faith. Except as expressly provided herein, the Collateral Agent is expressly authorized and directed to disregard any and all notices or warnings given by any of the parties, or by any other person or corporation, excepting only orders or process of court, and is hereby expressly authorized to comply with and obey any and all orders, judgments or decrees of any court. If the Collateral Agent obeys or complies with any such order, judgment or decree of any court, the Collateral Agent shall not be liable to the Subscribers or the Debtor or to any other person, firm or corporation by reason of such compliance, notwithstanding that any such order, judgment or decree be subsequently reversed, modified, annulled, set aside or vacated, or found to have been entered without jurisdiction.

12.7.2 The Subscribers and the Debtor expressly agree the Collateral Agent has the absolute right at the Collateral Agent's election, if the Collateral Agent considers it appropriate, to file an action in interpleader in a court of proper jurisdiction requiring the parties to answer and litigate their claims and rights among themselves, and the Collateral Agent is authorized to deposit with the clerk of the court all documents and funds held by him pursuant to this Agreement. In the event such action is filed, the Debtor agrees to pay all costs, expenses and reasonable attorneys' fees that the Collateral Agent incurs in such interpleader action. Upon filing of such action the Collateral Agent shall thereupon be fully released and discharged from all obligations to further perform any duties or obligations otherwise imposed by the terms of this Agreement.

12.7.3 The Collateral Agent shall not be bound in any way by any other agreement between the Subscribers and the Debtor as to which the Collateral Agent is not a party, whether or not the Collateral Agent has knowledge thereof, nor by any notice of a claim or demand with respect to this Agreement or the Collateral. The Collateral Agent shall have no duties or responsibilities except as expressly set forth in this Agreement. The Collateral Agent may rely conclusively on any certificate, statement, request, waiver, receipt, agreement or other instrument that the Collateral Agent believes to be genuine and to have been signed and presented by an appropriate person or persons.

12.7.4 The retention and distribution of the Collateral in accordance with the terms and provisions of this Agreement shall fully and completely release the Collateral Agent from any obligation or liability assumed by the Collateral Agent hereunder as to the Collateral.

12.7.5 The Collateral Agent, while in possession of the Collateral prior to or following the occurrence of an Event of Default, as hereinabove provided, and while acting in accordance with the terms of this Agreement or applicable law, is not responsible for any fluctuations in value or delays in disposing of the Collateral.

12.7.6 The Collateral Agent shall not be liable in any respect for verifying the identity, authority or rights of the parties executing or delivering or purporting to execute and/or deliver this Agreement.

12.7.7 Notwithstanding anything herein to the contrary, the Collateral Agent shall have no duty with respect to the Collateral other than the duty to use reasonable care in the custody and preservation of the Collateral if it is in the Collateral Agent's possession. The Collateral Agent shall be under no obligation to take any steps necessary to preserve rights in the Collateral against any other parties, to sell the Collateral if it threatens to decline in value, or to exercise any rights represented thereby, except as directed by the Majority in Interest pursuant to the terms of this Agreement.

12.7.8 The Debtor and the Subscribers agree to and each does hereby indemnify, defend (with counsel acceptable to the Collateral Agent) and hold the Collateral Agent harmless against any and all losses, damages, claims and expenses, including reasonable attorneys' fees, that may be incurred by the Collateral Agent by reason of it compliance with the terms of this Agreement. If, as a result of any disagreement between the parties and/or adverse demands and claims being made by any or all of them upon the Collateral Agent, the Collateral Agent shall become involved in litigation, including any interpleader brought by the Collateral Agent as provided in this Agreement, the Debtor agrees that it shall be liable to the Collateral Agent on demand for all costs, expenses and attorneys' fees that the Collateral Agent shall incur and/or be compelled to pay by reason of such litigation.

12.8 Replacement of Collateral Agent. In the event the Collateral Agent is or becomes unwilling or unable to act in such capacity for any reason, the Majority in Interest shall appoint a successor. The Majority in Interest (but not the Debtor) shall have the right, after delivery of written notice signed by the Majority in Interest to the Collateral Agent, to terminate the Collateral Agent and to name the Collateral Agent's successor.

[THIS SPACE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the undersigned have executed and delivered this Security Agreement, as of the date first written above.

"DEBTOR"

IDEAL POWER INC.
a Delaware corporation

By: _____
Paul Bundschuh
Chief Executive Officer

Agreed and Accepted by:

"COLLATERAL AGENT"

Anthony DiGiandomenico

By:/s/ Anthony DiGiandomenico

Name:/s/ Anthony DiGiandomenico

Title: _____

This Security Agreement may be signed by facsimile signature and delivered by confirmed facsimile transmission.

OMNIBUS SUBSCRIBER SIGNATURE PAGE TO
SECURITY AGREEMENT

The undersigned, in its capacity as a Subscriber, hereby executes and delivers the Security Agreement to which this signature page is attached and agrees to be bound by the Security Agreement on the date set forth on the first page of the Security Agreement. This counterpart signature page, together with all counterparts of the Security Agreement and signature pages of the other parties named therein, shall constitute one and the same instrument in accordance with the terms of the Security Agreement.

_____	_____
[Print Name of Subscriber]	[Name of Co-Subscriber, if applicable]
_____	_____
[Signature]	[Signature]
Name:	Name:_____
Title:_____	Title: _____
Mailing Address:	Telephone No.:_____
_____	Facsimile No:_____
_____	Email Address:_____
_____	
(City, State and Zip)	

IDEAL POWER INC.
SECURITY AGREEMENT EXHIBITS AND SCHEDULES

Schedule 1 – Subscribers

Schedule 2 - Provisions of the New York Uniform Commercial Code

Schedule 3 – Deposit Accounts

Schedule 5.1 – Security Interests

SCHEDULE 1

SUBSCRIBERS

SCHEDULE 2

UNIFORM COMMERCIAL CODE OF NEW YORK

Definitions from § 9.102 of the New York Uniform Commercial Code

(2) "Account", except as used in "account for", means a right to payment of a monetary obligation, whether or not earned by performance, (i) for property that has been or is to be sold, leased, licensed, assigned, or otherwise disposed of, (ii)for services rendered or to be rendered, (iii) for a policy of insurance issued or to be issued, (iv) for a secondary obligation incurred or to be incurred, (v) for energy provided or to be provided, (vi) for the use or hire of a vessel under a charter or other contract, (vii) arising out of the use of a credit or charge card or information contained on or for use with the card, or (viii) as winnings in a lottery or other game of chance operated or sponsored by a state, governmental unit of a State, or person licensed or authorized to operate the game by a State or governmental unit of a State. The term includes health-care-insurance receivables. The term does not include (i) rights to payment evidenced by chattel paper or an instrument, (ii) commercial tort claims, (iii) deposit accounts, (iv) investment property, (v) letter-of-credit rights or letters of credit, or (vi) rights to payment for money or funds advanced or sold, other than rights arising out of the use of a credit or charge card or information contained on or for use with the card.

(11) "Chattel paper" means a record or records that evidence both a monetary obligation and a security interest in specific goods, a security interest in specific goods and software used in the goods, a security interest in specific goods and license of software used in the goods, a lease of specific goods, or a lease of specific goods and license of software used in the goods. In this paragraph, "monetary obligation" means a monetary obligation secured by the goods or owed under a lease of the goods and includes a monetary obligation with respect to software used in the goods. The term does not include (i) charters or other contracts involving the use or hire of a vessel or (ii) records that evidence a right to payment arising out of the use of a credit or charge card or information contained on or for use with the card. If a transaction is evidenced by records that include an instrument or series of instruments, the group of records taken together constitutes chattel paper.

(30) "Document" means a document of title or a receipt of the type described in Section 7--201(2).

7-201(2): Where goods including distilled spirits and agricultural commodities are stored under a statute requiring a bond against withdrawal or a license for the issuance of receipts in the nature of warehouse receipts, a receipt issued for the goods has like effect as a warehouse receipt even though issued by a person who is the owner of the goods and is not a warehouseman.

(33) "Equipment" means goods other than inventory, farm products, or consumer goods.

(42) "General intangible" means any personal property, including things in action, other than accounts, chattel paper, commercial tort claims, deposit accounts, documents, goods, instruments, investment property, letter-of-credit rights, letters of credit, money, and oil, gas, or other minerals before extraction. The term includes payment intangibles and software.

(44) "Goods" means all things that are movable when a security interest attaches. The term includes (i) fixtures, (ii) standing timber that is to be cut and removed under a conveyance or contract for sale, (iii) the unborn young of animals, (iv) crops grown, growing, or to be grown, even if the crops are produced on trees, vines, or bushes, and (v) manufactured homes. The term also includes a computer program embedded in goods and any supporting information provided in connection with a transaction relating to the program if (i) the program is associated with the goods in such a manner that it customarily is considered part of the goods, or (ii) by becoming the owner of the goods, a person acquires a right to use the program in connection with the goods. The term does not include a computer program embedded in goods that consists solely of the medium in which the program is embedded. The term also does not include accounts, chattel paper, commercial tort claims, deposit accounts, documents, general intangibles, instruments, investment property, letter-of-credit rights, letters of credit, money, or oil, gas, or other minerals before extraction.

(47) "Instrument" means a negotiable instrument or any other writing that evidences a right to the payment of a monetary obligation, is not itself a security agreement or lease, and is of a type that in ordinary course of business is transferred by delivery with any necessary indorsement or assignment. The term does not include (i) investment property, (ii) letters of credit, or (iii) writings that evidence a right to payment arising out of the use of a credit or charge card or information contained on or for use with the card.

(48) "Inventory" means goods, other than farm products, which:

(A) are leased by a person as lessor;

(B) are held by a person for sale or lease or to be furnished under a contract of service;

(C) are furnished by a person under a contract of service; or

(D) consist of raw materials, work in process, or materials used or consumed in a business.

(64) "Proceeds", except as used in Section 9--609(b), means the following property:

(A) Whatever is acquired upon the sale, lease, license, exchange, or other disposition of collateral;

(B) whatever is collected on, or distributed on account of, collateral;

(C) rights arising out of collateral;

(D) to the extent of the value of collateral, claims arising out of the loss, nonconformity, or interference with the use of, defects or infringement of rights in, or damage to, the collateral; or

(E) to the extent of the value of collateral and to the extent payable to the debtor or the secured party, insurance payable by reason of the loss or nonconformity of, defects or infringement of rights in, or damage to, the collateral.

SCHEDULE 3

DEPOSIT ACCOUNTS

Bank	Account No.	Bank Address

SCHEDULE 5.1

SECURITY INTERESTS

Not applicable.

The security interests granted to the Subscribers herein are identical to and in pari passu with the security interests granted to the holders of the senior secured convertible promissory notes evidencing the Senior Debt.

Interest of the Officer of the Governor, Economics Development and Tourism, has been subordinated.

PATENTS AND PATENT APPLICATIONS SUBJECT TO THE IDEAL POWER CONVERTERS INC. SECURITY AGREEMENT DATED JULY 29, 2013 BETWEEN IDEAL POWER CONVERTERS INC. THE COLLATERAL AGENT AND THE SUBSCRIBERS

Dkt#	Status	where?	App No	File d	Priority	Pat No?	Issue/*est.*
IPC-011.P	expired	USpr	6 0/811,19 1	6-Jun-06	6-Jun-06		
IPC-011~CN	pending	CN	2 007 8002 9 2 08.4	6-Feb-09	**6-Jun-06**		
IPC-011~EP	pending	EP	7 7 9591 5.3		6-Jun-06		
IPC-012	issued	US	1 1 /7 59 ,006	6-Jun-07	6-Jun-06	7,599,196	**6-Oct-09**
IPC-012A	issued	US	12 /4 79 ,2 07	5-Jun-09	6-Jun-06	8,300,426	**30-Oct-12**
IPC-012E	issued	US	13 /2 05,2 4 3	8-Aug-11	6-Jun-06	8,400,800	**19-Mar-13**
IPC-012F	issued	US	13 /2 05,2 50	8-Aug-11	6-Jun-06	8,395,910	**12-Mar-13**
IPC-012G	issued	US	13 /2 05,2 6 3	8-Aug-11	6-Jun-06	8,345,452	**1-Jan-13**
IPC-013	issued	US	11 /7 58,9 70	6-Jun-07	6-Jun-06	7,778,045	**17-Aug-10**
IPC-013C	pending	US	13 /859 ,2 6 5	9-Apr-13	6-Jun-06		
IPC-020~BR	pending	BR	PI1011551 -0	28-Dec-11	29-Jun-09		
IPC-020~CN	pending	CN	201 08003 87 04 8	29-Feb-12	29-Jun-09		
IPC-020~EP	pending	EP	108003 1 0.4	13-Jan-12	29-Jun-09		
IPC-020~KR	pending	KR	2 01 2 -7 0007 2 0	10-Jan-12	29-Jun-09		
IPC-020A	issued	US	13 /2 05,2 1 2	8-Aug-11	29-Jun-09	8,391,033	**5-Mar-13**
IPC-020B	issued	US	13 /54 1 ,9 02	5-Jul-12	29-Jun-09	8,441,819	**14-May-13**
IPC-020C	issued	US	13 /54 1 ,9 05	5-Jul-12	29-Jun-09	8,432,711	**30-Apr-13**
IPC-020D	issued	US	13 /54 1 ,9 1 0	5-Jul-12	29-Jun-09	8,446,705	**21-May-13**
IPC-020E	issued	US	13 /54 1 ,9 1 4	5-Jul-12	29-Jun-09	8,451,637	**28-May-13**
IPC-020F	pending	US	13 /84 7 ,7 03	20-Mar-13	29-Jun-09		
IPC-021~BR	pending	BR	BR11 2 012 003 6 12 -2	16-Feb-12	17-Aug-09		
IPC-021~CA	pending	CA	28084 9 0				
IPC-021A	issued	US	1 3 /2 05,225	8-Aug-11	17-Aug-09	8,295,069	**23-Oct-12**
IPC-021B	issuing	US	1 3 /54 2 ,223	5-Jul-12	17-Aug-09		*13-Aug-13*
IPC-021C	issued	US	1 3 /54 2 ,225	5-Jul-12	17-Aug-09	8,406,025	**26-Mar-13**
IPC-021D	auth	US			17-Aug-09		
IPC-022	issued	US	1 3 /3 08,2 00	30-Nov-11	30-Nov-10	8,446,042	**21-May-13**
IPC-022A	issued	US	13 /7 05,2 3 0	5-Dec-12	30-Nov-10	8,446,043	**21-May-13**
IPC-022A	pending	US	13 /872 ,9 73	29-Apr-13	30-Nov-10		
IPC-022WO	*expiring*	PCT	PCT/US1 1 /62689	30-Nov-11	30-Nov-10		
IPC-023	pending	US	13 /4 01 ,771	21-Feb-12	18-Feb-11		
IPC-024	pending	US	13 /4 00,56 7	20-Feb-12	18-Feb-11		*27-Aug-13*
IPC-028	issued	US	13 /3 08,3 56	30-Nov-11	30-Nov-10	8,461,718	**11-Jun-13**
IPC-028~IN	pending	IN	49 55/DELNPi2 01 3				
IPC-028~MY	pending	MY					
IPC-028~PH	pending	PH					
IPC-028~SG	pending	SG	2 01 3 04 01 9 -1	21-May-13			
IPC-028A	issued	US	13 /7 05,2 4 0	5-Dec-12	30-Nov-10	8,471,408	**25-Jun-13**
IPC-028B	pending	US	13 /872 ,9 79	29-Apr-13	30-Nov-10		
IPC-029.P	expiring	USpr	61 /7 00,1 3 1	12-Sep-12	12-Sep-12		
IPC-029.P2	expiring	USpr	6 1 /7 84 ,001	14-Mar-13	12-Sep-12		
IPC-030.P	pending	USpr	6 1 /81 4 ,993	23-Apr-13	23-Apr-13		
IPC-036.P	pending	USpr	61 /83 8,7 58	24-Jun-13	24-Jun-13		
IPC-037.P	pending	USpr	61 /84 1 ,6 1 8	1-Jul-13	1-Jul-13		
IPC-038.P	pending	USpr	61 /84 1 ,6 21	1-Jul-13	1-Jul-13		

Dkt #	St atus	where?	A pp No	Filed	Priority	Pat No?	Issue/*est.*
IPC-039.P	pending	USpr	61 /841 ,6 2 4	1-Jul-13	1-Jul-13		
IPC-PCCS-001	proposed						
IPC-PCCS-002	proposed						
IPC-PCCS-003	pending	USpr	61 /7 65,098	15-Feb-13	15-Feb-13		
IPC-PCCS-004	pending	USpr	61 /7 65,1 29	15-Feb-13	15-Feb-13		
IPC-PCCS-005	proposed						
IPC-PCCS-006	proposed						
IPC-PCCS-007	pending	USpr	61 /7 65,099	15-Feb-13	15-Feb-13		
IPC-PCCS-008	proposed						
IPC-PCCS-009	proposed						
IPC-PCCS-011	pending	USpr	61 /7 65,1 00	15-Feb-13	15-Feb-13		
IPC-PCCS-012	pending	USpr	61 /7 65,1 3 1	15-Feb-13	15-Feb-13		
IPC-PCCS-013	pending	USpr	61 /7 65,1 02	15-Feb-13	15-Feb-13		
IPC-PCCS-014	proposed						
IPC-PCCS-015	pending	USpr	61 /7 65,1 04	15-Feb-13	15-Feb-13		
IPC-PCCS-018	proposed						
IPC-PCCS-019	proposed						
IPC-PCCS-021	pending	USpr	61 /7 65,1 07	15-Feb-13	15-Feb-13		
IPC-PCCS-022	proposed						
IPC-PCCS-025	proposed						
IPC-PCCS-026	pending	USpr	61 /7 65,1 3 2	15-Feb-13	15-Feb-13		
IPC-PCCS-029	pending	USpr	6 1 /778,6 4 8	13-Mar-13	13-Mar-13		
IPC-PCCS-030	proposed						
IPC-PCCS-031	proposed						
IPC-PCCS-032	pending	USpr	61 /7 65,1 1 0	15-Feb-13	15-Feb-13		
IPC-PCCS-034	proposed						
IPC-PCCS-035	pending	USpr	61 /7 65,1 1 2	15-Feb-13	15-Feb-13		
IPC-PCCS-036	pending	USpr	61 /7 65,1 1 4	15-Feb-13	15-Feb-13		
IPC-PCCS-037	pending	USpr	6 1 /778,6 6 1	13-Mar-13			
IPC-PCCS-038	proposed						
IPC-PCCS-040	pending	USpr	61 /7 65,1 1 6	15-Feb-13	15-Feb-13		
IPC-PCCS-041	pending	USpr	61 /7 65,1 1 8	15-Feb-13	15-Feb-13		
IPC-PCCS-043	pending	USpr	61 /7 65,1 1 9	15-Feb-13	15-Feb-13		
IPC-PCCS-044	pending	USpr	61 /7 65,1 22	15-Feb-13	15-Feb-13		
IPC-PCCS-045	proposed						
IPC-PCCS-046	pending	USpr	61 /7 65,1 3 7	15-Feb-13	15-Feb-13		
IPC-PCCS-046	proposed		61 /7 65,1 3 7	15-Feb-13			
IPC-PCCS-047	proposed						
IPC-PCCS-051	proposed						
IPC-PCCS-052	proposed						
IPC-PCCS-053	pending	USpr	61 /7 65,1 23	15-Feb-13	15-Feb-13		
IPC-PCCS-054	pending	USpr	61 /7 65,1 26	15-Feb-13	15-Feb-13		
IPC-PCCS-055	proposed						
IPC-PCCS-057	pending	USpr	61 /7 65,1 3 9	15-Feb-13	15-Feb-13		
IPC-PCCS-059	pending	USpr	61 /7 65,1 4 4	15-Feb-13	15-Feb-13		
IPC-PCCS-060	pending	USpr	61 /7 65,1 4 6	15-Feb-13	15-Feb-13		
IPC-PCCS-061	pending	USpr	6 1 /778,6 80	13-Mar-13	13-Mar-13		
IPC-PCCS-062	pending	USpr	61 /81 7 ,092	29-Apr-13	29-Apr-13		
IPC-PCCS-063	pending	USpr	6 1 /817 ,012	29-Apr-13	29-Apr-13		
IPC-PCCS-064	pending	USpr	6 1 /817 ,019	29-Apr-13	29-Apr-13		
IPC-PCCS-065	proposed						
IPC-PCCS-066	proposed						
IPC-PCCS-067	proposed						

Exhibit 10.34

No. D-1 Issue Date: July 29, 2013

THIS WARRANT AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT TO THE SECURITIES UNDER SUCH ACT AND/OR APPLICABLE STATE SECURITIES LAWS,OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED OR UNLESS SOLD PURSUANT TO RULE 144 OF SUCH ACT.

THE SECURITIES REPRESENTED HEREBY MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE TERMS OF A SECURITIES PURCHASE AGREEMENT BETWEEN THE COMPANY AND THE SECURITY HOLDER DATED JULY 29, 2013, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

IDEAL POWER INC.
STOCK PURCHASE WARRANT

THIS CERTIFIES that _____ (the "***Holder***") is entitled, upon the terms and subject to the conditions hereinafter set forth in this Warrant (this "***Warrant***"), at any time on or after (except as otherwise limited below) the date of the applicable event specified in Section 2 below setting forth the Exercise Price and on or prior to the Expiration Date, but not thereafter, to subscribe for and to purchase from Ideal Power Inc., a Delaware corporation (the "***Company***"), shares of the Company's common stock, $0.001 par value (the "***Common Stock***").

This Warrant is issued pursuant to a Securities Purchase Agreement and in connection with the issuance to the Holder of a Convertible Promissory Note (the "***Note***") of even date herewith, and is one of the Warrants (collectively, the "***Warrants***") being issued in connection with the issuance of a series of Senior Secured Convertible Promissory Notes of like tenor (collectively, "***Notes***") being issued by the Company to raise interim financing of up to $750,000 (the "***Offering***"). Capitalized terms used herein, but not otherwise defined, shall have the meanings ascribed to such terms in the Securities Purchase Agreement.

The following is a statement of the rights of the Holder of this Warrant and the conditions to which this Warrant is subject, to which the Holder, by the acceptance of this Warrant, agrees:

1. **Certain Definitions**

1.1 "***Calendar Due Date***" means July 29, 2014.

1.2 "***Change of Control***" means any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, and shall be deemed to be occasioned by, or to include, (i) the acquisition of the Company by another entity by means of any transaction or series of related transactions (including, without limitation, any stock acquisition, reorganization, merger or consolidation) unless the Company's shareholders of record as constituted immediately prior to such acquisition or sale will, immediately after such acquisition or sale (by virtue of securities issued as consideration for the Company's acquisition or sale or otherwise) hold at least a majority of the voting power of the surviving or acquiring entity, or its direct or indirect parent entity (except that the sale by the Company of shares of its capital stock to investors in bona fide equity financing transactions shall not be deemed a Change of Control for this purpose) or (ii) a sale, exclusive license or other disposition of all or substantially all of the assets of the Company, including a sale, exclusive license or other disposition of all or substantially all of the assets of the Company's subsidiaries, if such assets constitute substantially all of the assets of the Company and such subsidiaries taken as a whole.

1.3 "***Exercise Price***" is defined in Section 2 below.

1.4 "***Expiration Date***" means that date that is seven years after the issue date set forth above, provided, however, if the Company closes the IPO after the fifth anniversary date of the deemed issue date but prior to the Expiration Date, then the Expiration Date shall be extended for an additional five years following the close of the IPO.

1.5 "***IPO***" means a firm commitment underwritten initial public offering of the Company's Common Stock pursuant to a registration statement declared effective by the Securities and Exchange Commission which closes before the Calendar Due Date and results in gross proceeds to the Company of at least $10 million.

1.6 "***IPO Price***" means the price per share of the Company's Common Stock offered to public investors in an IPO, without regard to any underwriting discount or expense (as appropriately adjusted to reflect stock dividends, stock splits, combinations, recapitalizations and the like with respect to the Company's capital stock after the date hereof).

1.7 "***Private Equity Financing***" means a privately marketed equity financing resulting in gross proceeds in excess of $250,000 which closes before the Calendar Due Date; provided, however, that none of the following issuances of securities shall constitute a "Private Equity Financing": (i) the Offering and any subsequent offerings of senior secured convertible promissory notes or any other debt offering; (ii) securities issued without consideration in connection with any stock split or stock dividend on, the Company's Common Stock; (iii) securities issued to the Company's employees, officers, directors, consultants, advisors or service providers pursuant to any plan, agreement or similar arrangement unanimously approved by the Company's board of directors; (iv) securities issued to banks or equipment lessors; (v) securities issued in connection with sponsored research, collaboration, technology license, development, original equipment manufacturing (OEM), marketing or other similar agreements or strategic partnerships; (vi) securities issued in connection with a bona fide business acquisition of or by the Company (whether by merger, consolidation, sale of assets, sale or exchange of stock or otherwise); (vii) the Investment Unit dated October 1, 2010, issued by the Company to the Office of the Governor Economic Development and Tourism, and any securities relating to the conversion or exercise thereof; or (viii) any right, option or warrant to acquire any security convertible into or exercisable for the securities listed in clauses (i) through (vii) above.

1.8 "***Private Equity Financing Price***" means the price per share of Common Stock paid by investors in the Private Equity Financing, which shall be determined by dividing (a) the total consideration received or to be received by each investor assuming exercise in full of all warrants or similar securities, divided by (b) the total number of shares of Common Stock acquirable either directly or by conversion or exercise of instruments, by the Holder, on a fully diluted basis.

1.9 "***Shares***" means the shares of Common Stock issuable under this Warrant, computed in accordance with Section 2 below.

2. **Number of Shares and Exercise Price**

The number of shares of Common Stock (the "***Shares***") covered by this Warrant and the per share Exercise Price shall be determined as follows (subject to appropriate adjustments pursuant to Section 10):

(i) in the event of an IPO that occurs prior to the Calendar Due Date, one-half the principal amount of the Holder's Note divided by the lower of 0.70 of the IPO Price or $1.46 shall determine the number of shares covered by the Warrant while the per-share exercise price shall be equal to the lower of 0.70 times the IPO Price or $1.46, in which case this Warrant will become exercisable; or

(ii) in the event of a Private Equity Financing that occurs prior to the Calendar Due Date, one-half of the principal amount of the Holder's Note divided by the lower of 0.70 of the Private Equity Financing Price or $1.46 shall determine the number of shares covered by the Warrant, with a per-share exercise price equal to the lower of 0.70 times the Private Equity Financing Price or $1.46, in which case this Warrant will become exercisable; provided, however, that (A) if the Company undertakes first, a Private Equity Financing and secondly, an IPO prior to the Calendar Due Date and (B) the Private Equity Financing Price is higher than the IPO Price, then the number of shares of Common Stock covered by the Warrant and the per share exercise price shall be adjusted to equal the number of shares of Common Stock and the exercise price calculated in accordance with subsection (i) above; or

(iii) If the Company does not undertake either a Private Equity Financing or an IPO prior to the Calendar Due Date, then the number of Shares covered by this Warrant shall equal one-half the original principal amount of the Holder's Note divided by $1.46, and the exercise price shall be $1.46 per share, in which case this Warrant will become exercisable.

3. **Exercise of Warrant**

3.1 The purchase rights represented by this Warrant are exercisable by the Holder, in whole or in part, by the surrender of this Warrant and the Notice of Exercise annexed hereto duly executed at the Company's principal executive office (or such other office or agency of the Company as it may designate by notice in writing to the Holder at the address of the Holder appearing on the books of the Company), and upon payment of the aggregate Exercise Price of the Shares thereby purchased (by cash or by check or bank draft payable to the order of the Company); whereupon the Holder shall be entitled to receive a certificate for the number of Shares so purchased. The Company agrees that if at the time of the surrender of this Warrant and purchase of the Shares, the Holder shall be entitled to exercise this Warrant, the Shares so purchased shall be issued to the Holder as the record owner of such Shares as of the close of business on the date on which this Warrant shall have been exercised as aforesaid or on such later date requested by the Holder or on such earlier date agreed to by the Holder and the Company.

3.2 In lieu of exercising this Warrant by payment of cash or check or bank draft payable to the order of the Company pursuant to subsection 3.1 above, the Holder may elect to receive Shares equal to the value of this Warrant (or the portion thereof being exercised), at any time after the date hereof and before the close of business on the Expiration Date, by surrender of this Warrant at the principal executive office of the Company, together with the Notice of Cashless Exercise annexed hereto, in which event the Company will issue to the Holder Shares in accordance with the following formula:

$$X = \frac{Y(A-B)}{A}$$

Where,
X = The number of Shares to be issued to Holder;
Y = The number of Shares for which the Warrant is being exercised;
A = The fair market value of one Share; and
B = The Exercise Price.

(a) For purposes of this subsection 3.2, the fair market value of a Share is defined as follows:

(i) if the Holder exercises within three days of the closing of the IPO, then the fair market value shall be the IPO Price;

(ii) if the Holder exercises after receipt of a notice of a Change of Control but before a Change of Control, then the fair market value shall be the value to be received in such Change of Control by the holders of the Company's Common Stock;

(iii) if the exercise occurs more than three days after the closing of the IPO, and:

(1) if the Common Stock is traded on a securities exchange or the Nasdaq Stock Market, the fair market value shall be the last sale price on the trading day immediately prior to the Company's receipt of the Notice of Conversion or, if no sale of the Company's Common Stock took place on the trading day immediately prior to the receipt of the Notice of Conversion, then the fair market value shall be the last sale price on the most recent day prior to the receipt of the Notice of Conversion on which trades were made and reported; or

(2) if the Common Stock is traded over-the-counter, the value shall be deemed to be the last sale price on the trading day immediately prior to the Company's receipt of the Notice of Conversion or, if no sale of the Company's Common Stock took place on the trading day immediately prior to the receipt of the Notice of Conversion, then the fair market value shall be the last sale price on the most recent day prior to the receipt of the Notice of Conversion on which trades were made and reported;

(iv) if there is no active public market for the Common Stock, the fair market value thereof shall be determined in good faith by the Company's Board of Directors.

3.3 The exercise or conversion of this Warrant in connection with a Change of Control may, at the election of the Holder, be conditioned upon the closing of such Change of Control, in which event the Holder shall not be deemed to have exercised or converted this Warrant until immediately prior to the closing of such Change of Control.

4. **Nonassessable**

The Company covenants that all Shares which may be issued upon the exercise of this Warrant will be validly issued, fully paid and nonassessable and free from all taxes, liens and charges in respect of the issue thereof. Certificates for Shares purchased hereunder shall be delivered to the Holder promptly after the date on which this Warrant shall have been exercised.

5. **Fractional Shares**

No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. With respect to any fraction of a share called for upon the exercise of this Warrant, such fractional share shall be rounded down to the nearest whole share, and the Company shall pay to the Holder the amount of such fractional share multiplied by an amount equal to such fraction multiplied by the then current fair market value (determined in accordance with Section 3.2(a)) of a Share shall be paid in cash to the Holder.

6. **Charges, Taxes and Expenses**

Issuance of certificates for Shares upon the exercise of this Warrant shall be made without charge to the Holder hereof for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the Holder.

7. **No Rights as Shareholders**

This Warrant does not entitle the Holder to any voting rights or other rights as a shareholder of the Company prior to the exercise hereof.

8 **Saturdays, Sundays, Holidays, Etc.**

If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday, a Sunday or a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day that is not a Saturday, Sunday or legal holiday.

9. **Intentionally Omitted**

10. **Adjustments**

The Exercise Price and the number of Shares purchasable hereunder are subject to adjustment from time to time as set forth in this Section 10.

10.1 Reclassification, etc. If the Company, at any time while this Warrant, or any portion hereof, remains outstanding and unexpired by reclassification of securities or otherwise, shall change any of the securities as to which purchase rights under this Warrant exist into the same or a different number of securities or any other class or classes, this Warrant shall thereafter represent the right to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities that were subject to the purchase rights under this Warrant immediately prior to such reclassification or other change and the Exercise Price therefor shall be appropriately adjusted, all subject to further adjustment as provided in this Section 10.

10.2 Subdivision or Combination of Shares. In the event that the Company shall at any time subdivide the outstanding securities as to which purchase rights under this Warrant exist, or shall issue a stock dividend on the securities as to which purchase rights under this Warrant exist, the number of securities as to which purchase rights under this Warrant exist immediately prior to such subdivision or to the issuance of such stock dividend shall be proportionately increased, and the Exercise Price shall be proportionately decreased, and in the event that the Company shall at any time combine the outstanding securities as to which purchase rights under this Warrant exist, the number of securities as to which purchase rights under this Warrant exist immediately prior to such combination shall be proportionately decreased, and the Exercise Price shall be proportionately increased, effective at the close of business on the date of such subdivision, stock dividend or combination, as the case may be.

10.3 Cash Distributions. No adjustment on account of cash dividends or interest on the securities as to which purchase rights under this Warrant exist will be made to the Exercise Price under this Warrant.

11. Notice of Certain Events

The Company will provide notice to the Holder with at least 20 days notice prior to the closing of a Change of Control or an IPO. Such notice shall be in accordance with the notice provision included at Section 12(e) of the Securities Purchase Agreement of even date herewith.

12. Purchase Rights; Fundamental Transactions

In addition to any adjustments pursuant to Section 10 above, if at any time the Company grants, issues or sells any options, convertible securities or rights to purchase stock, warrants, securities or other property pro rata to the record holders of Common Stock ("Purchase Rights"), then the Holder will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the Holder could have acquired if the Holder had held the number of shares of Common Stock acquirable upon complete exercise of this Warrant immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights.

13. Put Right

In conjunction with the Offering, the Holder has received certain registration rights relating to the Shares pursuant to the terms of a Registration Rights Agreement of even date herewith. If the right to have the Shares registered pursuant to the Registration Rights Agreement terminates in accordance with Section 2(f) of the Registration Rights Agreement (the "Registration Rights Termination"), the Holder will have the right to require the Company to purchase the Warrant from the Holder (the "Put Right") at a price equal to 20% of the principal amount of the Holder's Note (the "Put Price"). The Company shall pay the Holder the Put Price as promptly as practicable but in any event not later than 10 days after the Holder delivers notice to the Company of exercise of the Put Right. The Put Right will expire 12 months from the Registration Rights Termination.

14. Miscellaneous

14.1 Loss, Theft, Destruction or Mutilation of Warrant. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, delivery of an indemnity agreement reasonably satisfactory in form and substance to the Company or, in the case of mutilation, on surrender and cancellation of this Warrant, the Company shall execute and deliver, in lieu of this Warrant, a new Warrant executed in the same manner as this Warrant and of like tenor and amount.

14.2 Waivers and Amendments. This Warrant and the obligations of the Company and the rights of the Holder under this Warrant may be amended, waived, discharged or terminated (either generally or in a particular instance, either retroactively or prospectively and either for a specified period of time or indefinitely) with the written consent of the Company (which shall not be required in connection with a waiver of rights in favor of the Company) and the holders of at least a majority of the then-outstanding aggregate principal amount under the Notes; *provided*, *however*, that no such amendment or waiver shall reduce the number of Shares represented by this Warrant without the consent of the Holder hereof; and *provided further, however*, that nothing shall prevent the Holder from individually agreeing to waive the observation of any term of this Warrant. Any amendment, waiver, discharge or termination effected in accordance with this Section14.2 shall be binding upon the Company, the Holder, and except pursuant to a waiver by an individual holder of another Warrant pursuant to the final proviso in the immediately preceding sentence, each other holder of Warrants.

14.3 Notices. Any notice, request or other communication required or permitted hereunder shall be given in accordance with the Purchase Agreement.

14.4 Severability. If one or more provisions of this Warrant are held to be unenforceable under applicable law, such provision(s) shall be excluded from this Warrant and the balance of this Warrant shall be interpreted as if such provision(s) were so excluded and shall be enforceable in accordance with its terms.

14.5 Successors and Assigns. Neither this Warrant nor any rights hereunder are transferable without the prior written consent of the Company. Notwithstanding the foregoing, the Holder shall be permitted to transfer this Warrant to any affiliate (as that term is defined in the Securities Act of 1933) of the Holder. If a transfer is permitted pursuant to this Section, the transfer shall be recorded on the books of the Company upon the surrender of this Warrant, properly endorsed, to the Company at its principal offices, and the payment to the Company of all transfer taxes and other governmental charges imposed on such transfer. In the event of a partial transfer, the Company shall issue to the holders one or more appropriate new warrants. Subject to the foregoing, the provisions of this Warrant shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the Company and the Holder.

14.6 Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to the Holder, upon any breach or default of the Company under this Warrant shall impair any such right, power, or remedy of the Holder nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default therefore or thereafter occurring. Any waiver, permit, consent, or approval of any kind or character on the part of the Holder of any breach or default under this Warrant or any waiver on the part of the Holder of any provisions or conditions of this Warrant must be made in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Warrant or by law or otherwise afforded to the Investors, shall be cumulative and not alternative.

14.7 Titles and Subtitles. The titles of the paragraphs and subparagraphs of this Warrant are for convenience of reference only and are not to be considered in construing this Warrant.

14.8 Construction. The language used in this Warrant will be deemed to be the language chosen by the parties to express their mutual intent and no rules of strict construction will be applied against any party.

14.9 Governing Law. THIS WARRANT SHALL BE GOVERNED IN ALL RESPECTS BY THE LAWS OF THE STATE OF NEW YORK AS SUCH LAWS ARE APPLIED TO AGREEMENTS BETWEEN NEW YORK RESIDENTS ENTERED INTO AND TO BE PERFORMED ENTIRELY WITHIN NEW YORK.

[*Remainder of Page Intentionally Left Blank*]

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer thereunto duly authorized.

Ideal Power Inc.

By: _____
Paul Bundschuh
Chief Executive Officer

Address: 5004 Bee Creek Road, Suite 600
Spicewood Texas 78669

Attn: Paul Bundschuh

NOTICE OF EXERCISE

TO: Ideal Power Inc.
5004 Bee Creek Road, Suite 600
Spicewood, Texas 78669
Attn: Secretary

The undersigned hereby elects to purchase _____ shares (the "***Shares***") of the Common Stock of Ideal Power Inc. pursuant to the terms of the attached Warrant and tenders herewith payment of the purchase price in full.

Please issue a certificate or certificates representing the Shares in the name of the undersigned or in such other name as is specified below:

_____
(Print Name)

Address: _____
_____

The undersigned confirms that the undersigned is an "accredited investor," and that the Shares are being acquired for the account of the undersigned for investment only and not with a view to, or for resale in connection with, the distribution thereof, and that the undersigned has no present intention of distributing or selling the Shares.

_____
(Date)

_____
(Signature)

_____
(Print Name)

NOTICE OF CASHLESS EXERCISE

TO: Ideal Power Inc.
5004 Bee Creek Road, Suite 600
Spicewood, Texas 78669
Attn: Secretary

The undersigned hereby elects to purchase _____ shares (the "***Shares***") of the Common Stock of Ideal Power Inc. pursuant to the cashless exercise provision of Section 3 of the attached Warrant.

Please issue a certificate or certificates representing the Shares in the name of the undersigned or in such other name as is specified below:

_____
(Print Name)

Address: _____
_____

The undersigned represents that the undersigned is an "accredited investor," and that the Shares are being acquired for the account of the undersigned for investment and not with a view to, or for resale in connection with, the distribution thereof, and that the undersigned has no present intention of distributing or reselling such shares.

_____ _____
(Date) (Signature)

_____
(Print Name)

IDEAL POWER CONVERTERS, INC.

2013 EQUITY INCENTIVE PLAN

As Adopted May 17, 2013

1. PURPOSE.

The purpose of this Plan is to provide incentives to attract, retain and motivate eligible persons whose present and potential contributions are important to the success of the Company, and its Parent and Subsidiaries (if any), by offering them an opportunity to participate in the Company's future performance through awards of Options, the right to purchase Common Stock and Stock Bonuses. Capitalized terms not defined in the text are defined in Section 2.

2. DEFINITIONS.

As used in this Plan, the following terms will have the following meanings:

"*AWARD*" means any award under this Plan, including any Option, Stock Award or Stock Bonus.

"*AWARD AGREEMENT*" means, with respect to each Award, the signed written agreement between the Company and the Participant setting forth the terms and conditions of the Award.

"*BOARD*" means the Board of Directors of the Company.

"*CAUSE*" means (i) an intentional act of fraud, financial embezzlement, theft or any other material violation of law that occurs during or in the course of the Participant's employment with the Company; (ii) intentional damage to the Company's assets; (iii) intentional disclosure of the Company's confidential and/or proprietary secrets and information contrary to the Company's policies; (iv) intentional engagement in any competitive activity which would constitute a breach of the Participant's duty of loyalty or obligations to the Company; (v) an intentional breach of any of the Company's policies; (vi) the willful and continued failure to substantially perform the Participant's duties for the Company (other than as a result of Disability); or (vii) willful conduct by the Participant that is materially injurious to the Company, monetarily or otherwise.

"*CODE*" means the Internal Revenue Code of 1986, as amended.

"*COMMON STOCK*" means the common stock, $0.001 par value, of Ideal Power Converters, Inc., a Texas corporation, or any successor corporation.

"*COMPANY*" means Ideal Power Converters, Inc., a Texas corporation, or any successor corporation.

"*COMMITTEE*" means the Compensation Committee of the Board of Directors which shall administer and interpret the Plan as more particularly described in Section 5 of the Plan; *provided, however*, that the term Committee will refer to the Board of Directors during such times as the Board of Directors has no Compensation Committee.

"*DISABILITY*" means a disability, whether temporary or permanent, partial or total, as determined by the Committee, provided that with respect to any individual who is an employee or other "service provider", disability shall be determined in accordance with Section 409A of the Code and related regulations.

"*EXCHANGE ACT*" means the Securities Exchange Act of 1934, as amended.

"*EXERCISE PRICE*" means the price at which a holder of an Option may purchase the Shares issuable upon exercise of the Option.

"*FAIR MARKET VALUE*" means, as of any date, the value of a share of the Company's Common Stock determined as follows:

(a) if such Common Stock is publicly traded and is then listed on a national securities exchange or on Nasdaq, its official closing price on the date of determination on the principal national securities exchange on which the Common Stock is listed or admitted to trading or on Nasdaq;

(b) if such Common Stock is quoted on the Over-the-Counter Bulletin Board, its last sale price on the Over-the-Counter Bulletin Board on the date of determination, provided, however, if no sale takes place on the date of determination then the Fair Market Value will be the last sale price on the Over-the-Counter Bulletin Board on the last trading day prior to the determination date on which a sale was recorded; or

(c) if neither of the foregoing is applicable, by the Committee in good faith and in accordance with requirements under Section 409A of the Code and related regulations.

"*INSIDER*" means an officer or director of the Company or a Ten Percent Shareholder, as defined in Section 6.3.

"*OPTION*" means an award of an option to purchase Shares pursuant to Section 6.

"*PARENT*" means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company if each of such corporations other than the Company owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

"*PARTICIPANT*" means a person who receives an Award under this Plan.

"*PERFORMANCE FACTORS*" means the factors selected by the Committee, in its sole and absolute discretion, which may be from among, but are not limited to, the following measures to determine whether the performance goals applicable to Awards have been satisfied:

(a) Net revenue and/or net revenue growth;

(b) Earnings before income taxes and amortization and/or earnings before income taxes and amortization growth;

(c) Operating income and/or operating income growth;

(d) Net income and/or net income growth;

(e) Earnings per share and/or earnings per share growth;

(f) Total shareholder return and/or total shareholder return growth;

(g) Return on equity;

(h) Operating cash flow return on income;

(i) Adjusted operating cash flow return on income;

(j) Economic value added; and

(k) Individual business objectives.

"*PERFORMANCE PERIOD*" means the period of service determined by the Committee, not to exceed five years, during which years of service or performance is to be measured for Stock Awards or Stock Bonuses, if such Awards are restricted.

"*PLAN*" means this Ideal Power Converters, Inc. 2013 Equity Incentive Plan, as amended from time to time.

"PURCHASE PRICE" means the price at which the Participant of a Stock Award may purchase the Shares.

"*SHARES*" means shares of the Company's Common Stock reserved for issuance under this Plan, as adjusted pursuant to Sections 3 and 18, and any successor security.

"*STOCK AWARD*" means an award of Shares pursuant to Section 7.

"*STOCK BONUS*" means an award of Shares pursuant to Section 8.

"*SUBSIDIARY*" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

"*TERMINATION*" or "*TERMINATED*" means, for purposes of this Plan with respect to a Participant, that the Participant has for any reason ceased to provide services as an employee, officer, director, consultant, independent contractor or advisor to the Company or a Parent or Subsidiary of the Company. An employee will not be deemed to have ceased to provide services in the case of (i) sick leave, (ii) military leave, or (iii) any other leave of absence approved by the Company, provided that such leave is for a period of not more than 90 days, unless reemployment upon the expiration of such leave is guaranteed by contract or statute or unless provided otherwise pursuant to a formal policy adopted from time to time by the Company and issued and promulgated to employees in writing. In the case of any employee on an approved leave of absence, the Committee may make such provisions respecting suspension of vesting of the Award while on leave from the employ of the Company or a Subsidiary as it may deem appropriate, except that in no event may an Option be exercised after the expiration of the term set forth in the Option agreement. The Committee will have sole discretion to determine whether a Participant has ceased to provide services and the effective date on which the Participant ceased to provide services (the "Termination Date").

3. SHARES SUBJECT TO THE PLAN.

3.1 Number of Shares Available. Subject to Sections 3.2, 3.3 and 18, the total aggregate number of Shares reserved and available for grant and issuance pursuant to this Plan, shall be 1,161,767 Shares and will include Shares that are subject to: (a) issuance upon exercise of an Option but cease to be subject to such Option for any reason other than exercise of such Option; (b) an Award granted hereunder but forfeited or repurchased by the Company at the original issue price; and (c) an Award that otherwise terminates without Shares being issued. At all times the Company shall reserve and keep available a sufficient number of Shares as shall be required to satisfy the requirements of all outstanding Options granted under this Plan and all other outstanding but unvested Awards granted under this Plan.

3.2 Increase in Number of Shares Available. The maximum aggregate 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, beginning with the fiscal quarter commencing April 1, 2013, (the "Adjustment Date") by an amount equal to the lesser of:

(i) 10% of the difference between the number of shares of fully diluted Common Stock outstanding on the applicable Adjustment Date and the number of shares of fully diluted Common Stock outstanding at the beginning of the fiscal quarter immediately preceding the Adjustment Date; or

(ii) such lesser number of Shares as may be determined by the Board,

provided, however, that the number of Shares that may be granted under the Plan may not exceed 2,000,000 Shares.

3.3 Adjustment of Shares. In the event that the number of outstanding shares of Common Stock is changed by a stock dividend, recapitalization, stock split, reverse stock split, subdivision, combination, reclassification or similar change in the capital structure of the Company without consideration, then (a) the number of Shares reserved for issuance under this Plan, (b) the Exercise Prices of and number of Shares subject to outstanding Options, and (c) the number of Shares subject to other outstanding Awards will be proportionately adjusted, subject to any required action by the Board or the shareholders of the Company and compliance with applicable securities laws; provided, however, that fractions of a Share will not be issued but will either be replaced by a cash payment equal to the Fair Market Value of such fraction of a Share or will be rounded up to the nearest whole Share, as determined by the Committee.

4. ELIGIBILITY.

ISOs (as defined in Section 6 below) may be granted only to employees (including officers and directors who are also employees) of the Company or of a Parent or Subsidiary of the Company. All other Awards may be granted to employees, officers, directors, consultants, independent contractors and advisors of the Company or any Parent or Subsidiary of the Company, provided such consultants, independent contractors and advisors are natural persons who render bona-fide services not in connection with the offer and sale of securities in a capital-raising transaction or promotion of the Company's securities. A person may be granted more than one Award under this Plan.

5. ADMINISTRATION.

5.1 Committee.

(a) The Plan shall be administered and interpreted by a Committee consisting of two or more members of the Board. So long as the Company has a class of its equity securities registered under Section 12 of the Exchange Act, any Committee administering the Plan will consist solely of two or more members of the Board who are "non-employee directors" within the meaning of Rule 16b-3 under the Exchange Act and, if the Board so determines in its sole discretion, who are "outside directors" within the meaning of Section 162(m) of the Code. To the extent consistent with corporate law, the Committee may delegate to any officers of the Company the duties, power and authority of the Committee under the Plan pursuant to such conditions or limitations as the Committee may establish; provided, however, that only the Committee may exercise such duties, power and authority with respect to Participants who are subject to Section 16 of the Exchange Act.

(b) Members of the Committee may resign at any time by delivering written notice to the Board. The Board shall fill vacancies in the Committee. The Committee shall act by a majority of its members in office. The Committee may act either by vote at a meeting or by a memorandum or other written instrument signed by a majority of the Committee.

(c) If the Board, in its discretion, does not appoint a Committee, the Board itself will administer and interpret the Plan and take such other actions as the Committee is authorized to take hereunder; provided that the Board may take such actions hereunder in the same manner as the Board may take other actions under the Certificate of Formation and bylaws of the Company generally.

5.2 Committee Authority. Without limitation, the Committee will have the authority to:

(a) construe and interpret this Plan, any Award Agreement and any other agreement or document executed pursuant to this Plan;

(b) prescribe, amend and rescind rules and regulations relating to this Plan or any Award;

(c) select persons to receive Awards;

(d) determine the form and terms of Awards;

(e) determine the number of Shares or other consideration subject to Awards;

(f) determine whether Awards will be granted singly, in combination with, in tandem with, in replacement of, or as alternatives to, other Awards under this Plan or any other incentive or compensation plan of the Company or any Parent or Subsidiary of the Company;

(g) grant waivers of Plan or Award conditions;

(h) determine the vesting, exercisability and payment of Awards;

(i) correct any defect, supply any omission or reconcile any inconsistency in this Plan, any Award or any Award Agreement;

(j) determine whether an Award has been earned; and

(k) make all other determinations necessary or advisable for the administration of this Plan.

5.3 Committee Discretion. Any determination made by the Committee with respect to any Award will be made at the time of grant of the Award or, unless in contravention of any express term of this Plan or Award, at any later time, and such determination will be final and binding on the Company and on all persons having an interest in any Award under this Plan. The Committee may delegate to one or more officers of the Company the authority to grant an Award under this Plan to Participants who are not Insiders of the Company. No member of the Committee shall be personally liable for any action taken or decision made in good faith relating to this Plan, and all members of the Committee shall be fully protected and indemnified to the fullest extent permitted under applicable law by the Company in respect to any such action, determination, or interpretation.

6. OPTIONS.

The Committee may grant Options to eligible persons and will determine whether such Options will be Incentive Stock Options within the meaning of the Code ("ISO") or Nonqualified Stock Options ("NQSOs"), the number of Shares subject to the Option, the Exercise Price of the Option, the period during which the Option may be exercised, and all other terms and conditions of the Option, subject to the following:

6.1 Form of Option Grant. Each Option granted under this Plan will be evidenced by an Award Agreement which will expressly identify the Option as an ISO or an NQSO (hereinafter referred to as the "Stock Option Agreement"), and will be in such form and contain such provisions (which need not be the same for each Participant) as the Committee may from time to time approve, and which will comply with and be subject to the terms and conditions of this Plan.

6.2 Date of Grant. The date of grant of an Option will be the date on which the Committee makes the determination to grant such Option, unless otherwise specified by the Committee. The Stock Option Agreement and a copy of this Plan will be delivered to the Participant within a reasonable time after the granting of the Option.

6.3 Exercise Period. Options may be exercisable within the times or upon the events determined by the Committee as set forth in the Stock Option Agreement governing such Option; provided, however, that no Option will be exercisable after the expiration of 10 years from the date the Option is granted; and provided further that no ISO granted to a person who directly or by attribution owns more than 10% of the total combined voting power of all classes of stock of the Company or of any Parent or Subsidiary of the Company ("Ten Percent Shareholder") will be exercisable after the expiration of five years from the date the ISO is granted. The Committee also may provide for Options to become exercisable at one time or from time to time, periodically or otherwise, in such number of Shares or percentage of Shares as the Committee determines, provided, however, that in all events a Participant will be entitled to exercise an Option at the rate of at least 20% of the full number of shares of the grant per year over five years from the date of grant, subject to reasonable conditions such as continued employment; and further provided that an Option granted to a Participant who is an officer or director may become fully exercisable, subject to reasonable conditions such as continued employment, at any time or during any period established by the Company.

6.4 Exercise Price. The Exercise Price of an Option will be determined by the Committee when the Option is granted and may be not less than 100% of the Fair Market Value of the Shares on the date of grant; provided that the Exercise Price of an ISO granted to a Ten Percent Shareholder will not be less than 110% of the Fair Market Value of the Shares on the date of grant. Payment for the Shares purchased may be made in accordance with Section 9 of this Plan.

6.5 Method of Exercise. Options may be exercised only by delivery to the Company of a written stock option exercise notice (the "Exercise Notice") in a form approved by the Committee, (which need not be the same for each Participant), stating the number of Shares being purchased, the restrictions imposed on the Shares purchased under such Exercise Notice, if any, and such representations and agreements regarding the Participant's investment intent and access to information and other matters, if any, as may be required or desirable by the Company to comply with applicable securities laws, together with payment in full of the Exercise Price for the number of Shares being purchased.

6.6 Termination. Notwithstanding the exercise periods set forth in the Stock Option Agreement, exercise of an Option will always be subject to the following:

(a) If the Participant's service is Terminated for any reason except death or Disability, then the Participant may exercise such Participant's Options only to the extent that such Options would have been exercisable upon the Termination Date no later than 3 months after the Termination Date (or such longer time period not exceeding five years as may be determined by the Committee, with any exercise beyond three months after the Termination Date deemed to be an NQSO).

(b) If the Participant's service is Terminated because of the Participant's death or Disability (or the Participant dies within three months after a Termination other than for Cause or because of Participant's Disability), then the Participant's Options may be exercised only to the extent that such Options would have been exercisable by the Participant on the Termination Date and must be exercised by the Participant (or the Participant's legal representative) no later than 12 months after the Termination Date (or such longer time period not exceeding five years as may be determined by the Committee, with any such exercise beyond (i) three months after the Termination Date when the Termination is for any reason other than the Participant's death or Disability, or (ii) 12 months after the Termination Date when the Termination is for Participant's death or Disability, deemed to be an NQSO).

(c) Notwithstanding the provisions in Section 6.6(a) above, if the Participant's service is Terminated for Cause, neither the Participant, the Participant's estate nor such other person who may then hold the Option shall be entitled to exercise any Option with respect to any Shares whatsoever, after Termination, whether or not after Termination the Participant may receive payment from the Company or a Subsidiary for vacation pay, for services rendered prior to Termination, for services rendered for the day on which Termination occurs, for salary in lieu of notice, or for any other benefits. For the purpose of this paragraph, Termination shall be deemed to occur on the date when the Company dispatches notice or advice to the Participant that his service is Terminated for Cause.

6.7 Limitations on Exercise. The Committee may specify a reasonable minimum number of Shares that may be purchased on any exercise of an Option, provided that such minimum number will not prevent the Participant from exercising the Option for the full number of Shares for which it is then exercisable.

6.8 Limitations on ISO. The aggregate Fair Market Value (determined as of the date of grant) of Shares with respect to which ISO are exercisable for the first time by a Participant during any calendar year (under this Plan or under any other incentive stock option plan of the Company, Parent or Subsidiary of the Company) will not exceed $100,000. If the Fair Market Value of Shares on the date of grant with respect to which ISO are exercisable for the first time by a Participant during any calendar year exceeds $100,000, then the Options for the first $100,000 worth of Shares to become exercisable in such calendar year will be ISO and the Options for the amount in excess of $100,000 that become exercisable in that calendar year will be NQSOs. In the event that the Code or the regulations promulgated thereunder are amended after the Effective Date of this Plan to provide for a different limit on the Fair Market Value of Shares permitted to be subject to ISO, such different limit will be automatically incorporated herein and will apply to any Options granted after the effective date of such amendment.

6.9 Modification, Extension or Renewal. The Committee may modify, extend or renew outstanding Options and authorize the grant of new Options in substitution therefore, provided that any such action may not, without the written consent of a Participant, impair any of such Participant's rights under any Option previously granted. Any outstanding ISO that is modified, extended, renewed or otherwise altered will be treated in accordance with Section 424(h) of the Code. The Committee may reduce the Exercise Price of outstanding Options without the consent of Participants affected by a written notice to them; provided, however, that the Exercise Price may not be reduced below the minimum Exercise Price that would be permitted under Section 6.4 of this Plan for Options granted on the date the action is taken to reduce the Exercise Price.

6.10 No Disqualification. Notwithstanding any other provision in this Plan, no term of this Plan relating to ISO will be interpreted, amended or altered, nor will any discretion or authority granted under this Plan be exercised, so as to disqualify this Plan under Section 422 of the Code or, without the consent of the Participant affected, to disqualify any ISO under Section 422 of the Code.

7. STOCK AWARD.

A Stock Award is an offer by the Company to sell to an eligible person Shares that may or may not be subject to restrictions. The Committee will determine to whom an offer will be made, the number of Shares the person may purchase, the price to be paid (the "Purchase Price"), the restrictions to which the Shares will be subject, if any, and all other terms and conditions of the Stock Award, subject to the following:

7.1 Form of Stock Award. All purchases under a Stock Award made pursuant to this Plan will be evidenced by an Award Agreement (the "Stock Purchase Agreement") that will be in such form (which need not be the same for each Participant) as the Committee will from time to time approve, and will comply with and be subject to the terms and conditions of this Plan. The offer of a Stock Award will be accepted by the Participant's execution and delivery of the Stock Purchase Agreement and payment for the Shares to the Company in accordance with the Stock Purchase Agreement.

7.2 Purchase Price. The Purchase Price of Shares sold pursuant to a Stock Award will be determined by the Committee on the date the Stock Award is granted and may not be less than 100% of the Fair Market Value of the Shares on the grant date, except in the case of a sale to a Ten Percent Shareholder, in which case the Purchase Price will be 110% of the Fair Market Value. Payment of the Purchase Price must be made in accordance with Section 9 of this Plan.

7.3 Terms of Stock Awards. Stock Awards may, but need not be, subject to such restrictions as the Committee may impose. These restrictions may be based upon completion of a specified number of years of service with the Company or upon completion of Performance Factors set out in advance in the Participant's individual Stock Purchase Agreement. Stock Awards may vary from Participant to Participant and between groups of Participants. Prior to the grant of a Stock Award subject to restrictions, the Committee shall: (a) determine the nature, length and starting date of any Performance Period for the Stock Award; (b) select from among the Performance Factors to be used to measure performance goals, if any; and (c) determine the number of Shares that may be awarded to the Participant. Prior to the transfer of any Stock Award, the Committee shall determine the extent to which such Stock Award has been earned. Performance Periods may overlap and Participants may participate simultaneously with respect to Stock Awards that are subject to different Performance Periods and have different performance goals and other criteria.

7.4 Termination During Performance Period. If a Participant is Terminated during a Performance Period for any reason, then any Stock Awards then held by the Participant that have not vested will be terminated and forfeited.

8. STOCK BONUSES.

8.1 Awards of Stock Bonuses. A Stock Bonus is an award of Shares for services rendered to the Company or any Parent or Subsidiary of the Company. A Stock Bonus will be awarded pursuant to an Award Agreement (the "Stock Bonus Agreement") that will be in such form (which need not be the same for each Participant) as the Committee will from time to time approve, and will comply with and be subject to the terms and conditions of this Plan. A Stock Bonus may be awarded for general excellence of service or upon satisfaction of such Performance Factors as are set out in advance in the Participant's individual Award Agreement (the "Performance Stock Bonus Agreement") that will be in such form (which need not be the same for each Participant) as the Committee will from time to time approve, and will comply with and be subject to the terms and conditions of this Plan. Stock Bonuses may vary from Participant to Participant and between groups of Participants, and may be based upon the achievement of the Company, Parent or Subsidiary and/or individual Performance Factors or upon such other criteria as the Committee may determine.

8.2 Terms of Stock Bonuses. The Committee will determine the number of Shares to be awarded to the Participant. If the Stock Bonus is being earned upon the satisfaction of performance goals pursuant to a Performance Stock Bonus Agreement, then the Committee will: (a) determine the nature, length and starting date of any Performance Period for each Stock Bonus; (b) select from among the Performance Factors to be used to measure the performance, if any; and (c) determine the number of Shares that may be awarded to the Participant. Prior to the payment of any Stock Bonus, the Committee shall determine the extent to which such Stock Bonuses have been earned. Performance Periods may overlap and Participants may participate simultaneously with respect to Stock Bonuses that are subject to different Performance Periods and different performance goals and other criteria. The number of Shares may be fixed or may vary in accordance with such performance goals and criteria as may be determined by the Committee. The Committee may adjust the performance goals applicable to the Stock Bonuses to take into account changes in law and accounting or tax rules and to make such adjustments as the Committee deems necessary or appropriate to reflect the impact of extraordinary or unusual items, events or circumstances to avoid windfalls or hardships.

8.3 Form of Payment. The earned portion of a Stock Bonus may be paid to the Participant by the Company either currently or on a deferred basis, with such interest or dividend equivalent, if any, as the Committee may determine. Payment of an interest or dividend equivalent (if any) may be made in the form of cash or whole Shares or a combination thereof, either in a lump sum payment or in installments, all as the Committee will determine.

9. PAYMENT FOR SHARE PURCHASES.

Payment for Shares purchased pursuant to this Plan (including Shares issued from the exercise of an Option) may be made in cash (by check or wire transfer) or, where expressly approved for the Participant by the Committee and where permitted by law:

(a) by cancellation of indebtedness of the Company to the Participant;

(b) by surrender of shares that either: (1) have been owned by the Participant for more than six months and have been paid for within the meaning of Securities and Exchange Commission Rule 144; or (2) were obtained by the Participant in the public market;

(c) by waiver of compensation due or accrued to the Participant for services rendered;

(d) with respect only to purchases upon exercise of an Option, and provided that a public market for the Company's stock exists:

(1) through a "same day sale" commitment from the Participant and a broker-dealer that is a member of the Financial Industry Regulatory Authority (a "FINRA Dealer") whereby the Participant irrevocably elects to exercise the Option and to sell a portion of the Shares so purchased to pay for the Exercise Price, and whereby the FINRA Dealer irrevocably commits upon receipt of such Shares to forward the Exercise Price directly to the Company; or

(2) through a "margin" commitment from the Participant and a FINRA Dealer whereby the Participant irrevocably elects to exercise the Option and to pledge the Shares so purchased to the FINRA Dealer in a margin account as security for a loan from the FINRA Dealer in the amount of the Exercise Price, and whereby the FINRA Dealer irrevocably commits upon receipt of such Shares to forward the Exercise Price directly to the Company; or

(f) by any combination of the foregoing.

10. WITHHOLDING TAXES.

10.1 Withholding Generally. Whenever Shares are to be issued in satisfaction of Awards granted under this Plan, the Company may require the Participant to remit to the Company an amount sufficient to satisfy federal, state and local withholding tax requirements prior to the delivery of any certificate or certificates for such Shares. Whenever, under this Plan, payments in satisfaction of Awards are to be made in cash, such payment will be net of an amount sufficient to satisfy federal, state, and local withholding tax requirements.

10.2 Stock Withholding. When, under applicable tax laws, a participant incurs tax liability in connection with the exercise or vesting of any Award that is subject to tax withholding and the Participant is obligated to pay the Company the amount required to be withheld, the Committee may allow the Participant to satisfy the minimum withholding tax obligation by electing to have the Company withhold from the Shares to be issued that number of Shares having a Fair Market Value equal to the minimum amount required to be withheld, determined on the date that the amount of tax to be withheld is to be determined. All elections by a Participant to have Shares withheld for this purpose will be made in accordance with the requirements established by the Committee and will be in writing in a form acceptable to the Committee.

11. PRIVILEGES OF STOCK OWNERSHIP.

No Participant will have any of the rights of a shareholder with respect to any Shares until the Shares are issued to the Participant. After Shares are issued to the Participant, the Participant will be a shareholder and will have all the rights of a shareholder with respect to such Shares, including the right to vote and receive all dividends or other distributions made or paid with respect to such Shares; provided, that if such Shares are issued pursuant to a Stock Award with restrictions, then any new, additional or different securities the Participant may become entitled to receive with respect to such Shares by virtue of a stock dividend, stock split or any other change in the corporate or capital structure of the Company will be subject to the same restrictions as the Stock Award.

12. NON-TRANSFERABILITY.

Awards of Shares granted under this Plan, and any interest therein, will not be transferable or assignable by the Participant, and may not be made subject to execution, attachment or similar process, other than by will or by the laws of descent and distribution. Awards of Options granted under this Plan, and any interest therein, will not be transferable or assignable by the Participant, and may not be made subject to execution, attachment or similar process, other than by will or by the laws of descent and distribution. During the lifetime of the Participant an Award will be exercisable only by the Participant. During the lifetime of the Participant, any elections with respect to an Award may be made only by the Participant unless otherwise determined by the Committee and set forth in the Award Agreement with respect to Awards that are not ISOs.

13. CERTIFICATES.

All certificates for Shares or other securities delivered under this Plan will be subject to such stop transfer orders, legends and other restrictions as the Committee may deem necessary or advisable, including restrictions under any applicable federal, state or foreign securities law, or any rules, regulations and other requirements of the Securities and Exchange Commission or any stock exchange or automated quotation system upon which the Shares may be listed or quoted.

14. ESCROW; PLEDGE OF SHARES.

To enforce any restrictions on a Participant's Shares, the Committee may require the Participant to deposit all certificates representing Shares, together with stock powers or other instruments of transfer approved by the Committee appropriately endorsed in blank, with the Company or an agent designated by the Company to hold in escrow until such restrictions have lapsed or terminated, and the Committee may cause a legend or legends referencing such restrictions to be placed on the certificates.

15. EXCHANGE AND BUYOUT OF AWARDS.

The Committee may, at any time or from time to time, authorize the Company, with the consent of the respective Participants, to issue new Awards in exchange for the surrender and cancellation of any or all outstanding Awards. The Committee may at any time buy from a Participant an Award previously granted with payment in cash, Shares or other consideration, based on such terms and conditions as the Committee and the Participant may agree.

16. SECURITIES LAW AND OTHER REGULATORY COMPLIANCE.

16.1 Compliance with Securities Laws in Conjunction with Grants of Awards. An Award will not be effective unless such Award is in compliance with all applicable federal and state securities laws, rules and regulations of any governmental body, and the requirements of any stock exchange or automated quotation system upon which the Shares may then be listed or quoted, as they are in effect on the date of grant of the Award and also on the date of exercise or other issuance. Notwithstanding any other provision in this Plan, the Company will have no obligation to issue or deliver certificates for Shares under this Plan prior to: (a) obtaining any approvals from governmental agencies that the Company determines are necessary or advisable; and/or (b) completion of any registration or other qualification of such Shares under any state or federal law or ruling of any governmental body that the Company determines to be necessary or advisable. The Company will be under no obligation to register the Shares with the Securities and Exchange Commission or to effect compliance with the registration, qualification or listing requirements of any state securities laws, stock exchange or automated quotation system, and the Company will have no liability for any inability or failure to do so.

16.2 Compliance with Securities Laws in Conjunction with Exercise, Sale or Disposition of Award Securities. Participants understand that the sale or disposition (including through exercise) of Options, the Shares acquired by exercise of the Options and the Shares granted as Stock Awards and Stock Bonuses (collectively, the "Award Securities") are subject to federal and state securities laws. As such, the sale or disposition (including through the exercise of Options) of Award Securities may be restricted during certain periods ("Blackout Period"). Participants agree that they will promptly notify the Company's Chief Financial Officer or the Chairperson of the Committee of an intent to exercise an Option or to sell or otherwise dispose of Award Securities and will not engage in the exercise, sale or other disposition of Award Securities unless such exercise, sale or other disposition is approved in writing by the Company. If the Company is unable to approve the exercise of an Option, and the Participant's right to exercise the Option will expire or terminate during the Blackout Period, the Committee will, in good faith, review the circumstances relating to the Option exercise and, in its discretion, may extend the exercise period.

17. NO OBLIGATION TO EMPLOY.

Nothing in this Plan or any Award granted under this Plan will confer or be deemed to confer on any Participant any right to continue in the employ of, or to continue any other relationship with, the Company or any Parent or Subsidiary of the Company or limit in any way the right of the Company or any Parent or Subsidiary of the Company to terminate Participant's employment or other relationship at any time, with or without cause.

18. CORPORATE TRANSACTIONS.

18.1 Assumption or Replacement of Awards by Successor. Unless an Award Agreement provides otherwise, in the event of (a) a dissolution or liquidation of the Company, (b) a merger or consolidation in which the Company is not the surviving corporation (other than a merger or consolidation with a wholly-owned subsidiary, a reincorporation of the Company in a different jurisdiction, or other transaction in which there is no substantial change in the shareholders of the Company or their relative stock holdings and the Awards granted under this Plan are assumed, converted or replaced by the successor corporation, which assumption will be binding on all Participants), (c) a merger in which the Company is the surviving corporation but after which the shareholders of the Company immediately prior to such merger (other than any shareholder that merges, or which owns or controls another corporation that merges, with the Company in such merger) cease to own their shares or other equity interest in the Company, (d) the sale of substantially all of the assets of the Company, or (e) the acquisition, sale, or transfer of more than 50% of the outstanding shares of the Company by tender offer or similar transaction, any or all outstanding Awards may be assumed, converted or replaced by the successor corporation (if any), which assumption, conversion or replacement will be binding on all Participants. In the alternative, the successor corporation may substitute equivalent Awards or provide substantially similar consideration to Participants as was provided to shareholders (after taking into account the existing provisions of the Awards). The successor corporation may also issue, in place of outstanding Shares of the Company held by the Participant, substantially similar shares or other property subject to repurchase restrictions no less favorable to the Participant. In the event such successor corporation (if any) refuses to assume or substitute Awards, as provided above, pursuant to a transaction described in this Subsection 18.1, (i) the vesting of any or all Awards granted pursuant to this Plan will accelerate upon a transaction described in this Section 18 and (ii) any or all Options granted pursuant to this Plan will become exercisable in full prior to the consummation of such event at such time and on such conditions as the Committee determines. If such Options are not exercised prior to the consummation of the corporate transaction, they shall terminate at such time as determined by the Committee. Notwithstanding anything to the contrary herein or in any Award Agreement, in any assumptions or replacements of Stock Options, Stock Awards or Stock Bonuses that are subject to Section 409A of the Code, the determination of equal or equivalent value shall be made in accordance with the provisions of Section 409A and related regulations. Similarly, in any assumptions or replacements of ISOs, the determination of equal or equivalent value shall be made in accordance with Section 424 of the Code and related regulations.

18.2 Other Treatment of Awards. Subject to any greater rights granted to Participants under the foregoing provisions of this Section 18, in the event of the occurrence of any transaction described in Section 18.1, any outstanding Awards will be treated as provided in the applicable agreement or plan of merger, consolidation, dissolution, liquidation, or sale of assets.

18.3 Assumption of Awards by the Company. The Company, from time to time, also may substitute or assume outstanding awards granted by another company, whether in connection with an acquisition of such other company or otherwise, by either; (a) granting an Award under this Plan in substitution of such other company's award; or (b) assuming such award as if it had been granted under this Plan if the terms of such assumed award could be applied to an Award granted under this Plan. Such substitution or assumption will be permissible if the holder of the substituted or assumed award would have been eligible to be granted an Award under this Plan if the other company had applied the rules of this Plan to such grant. In the event the Company assumes an award granted by another company, the terms and conditions of such award will remain unchanged (except that the exercise price and the number and nature of Shares issuable upon exercise of any such option will be adjusted appropriately pursuant to Section 424(a) of the Code). In the event the Company elects to grant a new Option rather than assuming an existing option, such new Option may be granted with a similarly adjusted Exercise Price.

19. ADOPTION AND SHAREHOLDER APPROVAL.

This Plan will become effective on the date on which it is adopted by the Board (the "Effective Date"). Upon the Effective Date, the Committee may grant Awards pursuant to this Plan. The Company intends to seek shareholder approval of the Plan within 12 months after the date this Plan is adopted by the Board; provided, however, if the Company fails to obtain shareholder approval of the Plan during such 12-month period, pursuant to Section 422 of the Code, any Option granted as an ISO at any time under the Plan will not qualify as an ISO within the meaning of the Code and will be deemed to be an NQSO.

20. TERM OF PLAN/GOVERNING LAW.

Unless earlier terminated as provided herein, this Plan will terminate 10 years from the date this Plan is adopted by the Board or, if earlier, the date of shareholder approval. This Plan and all agreements thereunder shall be governed by and construed in accordance with the laws of the State of Texas.

21. AMENDMENT OR TERMINATION OF PLAN.

The Board may at any time terminate or amend this Plan in any respect, including without limitation amendment of any form of Award Agreement or instrument to be executed pursuant to this Plan; provided, however, that no amendments to the Plan will be effective without approval of the shareholders of the Company if shareholder approval of the amendment is then required pursuant to Section 422 of the Code or the rules of any stock exchange or quotation system on which the Common Stock is listed.

22. NONEXCLUSIVITY OF THE PLAN.

Neither the adoption of this Plan by the Board, the submission of this Plan to the shareholders of the Company for approval, nor any provision of this Plan will be construed as creating any limitations on the power of the Board to adopt such additional compensation arrangements as it may deem desirable, including, without limitation, the granting of stock options and bonuses otherwise than under this Plan, and such arrangements may be either generally applicable or applicable only in specific cases.

23. ACTION BY COMMITTEE.

Any action permitted or required to be taken by the Committee or any decision or determination permitted or required to be made by the Committee pursuant to this Plan shall be taken or made in the Committee's sole and absolute discretion.

WHEREFORE, this Ideal Power Converters, Inc. 2013 Equity Incentive Plan has been adopted by the Board on the 17th day of May 2013.

IDEAL POWER CONVERTERS, INC.

By:/s/ Paul Bundschuh
Paul Bundschuh, Chief Executive Officer

Exhibit 10.36

No. MDB-1 Issue Date: November 21, 2012

THIS WARRANT AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT TO THE SECURITIES UNDER SUCH ACT AND/OR APPLICABLE STATE SECURITIES LAWS,OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED OR UNLESS SOLD PURSUANT TO RULE 144 OF SUCH ACT.

IDEAL POWER CONVERTERS, INC.
STOCK PURCHASE WARRANT

THIS CERTIFIES that MDB Capital Group, LLC (the "***Holder***") is entitled, upon the terms and subject to the conditions hereinafter set forth in this Warrant (this "***Warrant***"), at any time on or after (except as otherwise limited below) the date of the applicable event specified in Section 2 below setting forth the Exercise Price and on or prior to the Expiration Date, but not thereafter, to subscribe for and to purchase from Ideal Power Converters, Inc., a Texas corporation (the "***Company***"), 477,135 shares of the Company's common stock, $0.001 par value (the "***Common Stock***").

This Warrant is issued in accordance with the terms of that certain Engagement Letter for Strategic Consulting Services dated July 24, 2012.

The following is a statement of the rights of the Holder of this Warrant and the conditions to which this Warrant is subject, to which the Holder, by the acceptance of this Warrant, agrees:

1. **Certain Definitions**.

1.1 "***Calendar Due Date***" shall mean November 21, 2013.

1.2 "***Change of Control***" means any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, and shall be deemed to be occasioned by, or to include, (i) the acquisition of the Company by another entity by means of any transaction or series of related transactions (including, without limitation, any stock acquisition, reorganization, merger or consolidation) unless the Company's shareholders of record as constituted immediately prior to such acquisition or sale will, immediately after such acquisition or sale (by virtue of securities issued as consideration for the Company's acquisition or sale or otherwise) hold at least a majority of the voting power of the surviving or acquiring entity, or its direct or indirect parent entity (except that the sale by the Company of shares of its capital stock to investors in bona fide equity financing transactions shall not be deemed a Change of Control for this purpose) or (ii) a sale, exclusive license or other disposition of all or substantially all of the assets of the Company, including a sale, exclusive license or other disposition of all or substantially all of the assets of the Company's subsidiaries, if such assets constitute substantially all of the assets of the Company and such subsidiaries taken as a whole.

1.3 "***Exercise Price***" is defined in Section 2 below.

1.4 "***Expiration Date***" means, unless earlier terminated pursuant to Section 9 hereof, that date that is seven years after the issue date set forth above.

1.5 "***IPO***" means a firm commitment underwritten initial public offering of the Company's Common Stock pursuant to a registration statement declared effective by the Securities and Exchange Commission which closes before the Calendar Due Date and results in gross proceeds to the Company of at least $10 million.

1.6 "***IPO Price***" means the price per share of the Company's Common Stock offered to public investors in an IPO, without regard to any underwriting discount or expense (as appropriately adjusted to reflect stock dividends, stock splits, combinations, recapitalizations and the like with respect to the Company's capital stock after the date hereof).

1.7 "***Private Equity Financing***" means a privately marketed equity financing resulting in gross proceeds in excess of $250,000 which closes before the Calendar Due Date; provided, however, that none of the following issuances of securities shall constitute a "Private Equity Financing": (i) the offering of senior secured convertible promissory notes or any other debt offering; (ii) securities issued without consideration in connection with any stock split or stock dividend on, the Company's Common Stock; (iii) securities issued to the Company's employees, officers, directors, consultants, advisors or service providers pursuant to any plan, agreement or similar arrangement unanimously approved by the Company's board of directors; (iv) securities issued to banks or equipment lessors; (v) securities issued in connection with sponsored research, collaboration, technology license, development, original equipment manufacturing (OEM), marketing or other similar agreements or strategic partnerships; (vi) securities issued in connection with a bona fide business acquisition of or by the Company (whether by merger, consolidation, sale of assets, sale or exchange of stock or otherwise); (vii) the Investment Unit dated October 1, 2010, issued by the Company to the Office of the Governor Economic Development and Tourism, and any securities relating to the conversion or exercise thereof; or (viii) any right, option or warrant to acquire any security convertible into or exercisable for the securities listed in clauses (i) through (vii) above.

1.8 "***Private Equity Financing Price***" means the price per share of Common Stock paid by investors in the Private Equity Financing, which shall be determined by dividing (a) the total consideration received or to be received by each investor assuming exercise in full of all warrants or similar securities, divided by (b) the total number of shares of Common Stock acquirable either directly or by conversion or exercise of instruments, by the Holder, on a fully diluted basis.

1.9 "***Shares***" means the shares of Common Stock issuable under this Warrant, computed in accordance with Section 2 below.

2. <u>Exercise Price</u>

The Exercise Price shall be determined as follows (subject to appropriate adjustments pursuant to Section 10):

(i) in the event of an IPO that occurs prior to the Calendar Due Date, the per-share exercise price shall be equal to the lower of 0.70 times the IPO Price or $1.46 in which case this Warrant will become exercisable, in whole or in part, one hundred eighty (180) days after the completion of the IPO; or

(ii) in the event of a Private Equity Financing that occurs prior to the Calendar Due Date, the per-share exercise price shall be equal to the lower of 0.70 times the Private Equity Financing Price or $1.46 in which case this Warrant will become exercisable, in whole or in part, on the Calendar Due Date; provided, however, that (A) if the Company undertakes first, a Private Equity Financing and secondly, an IPO prior to the Calendar Due Date and (B) the Private Equity Financing Price is higher than the IPO Price, then the per share exercise price and the period of exercisability shall be adjusted to equal the number of shares of Common Stock, the exercise price and the time period in which this Warrant may be exercised calculated in accordance with subsection (i) above; or

(iii) If the Company does not undertake either a Private Equity Financing or an IPO prior to the Calendar Due Date, and this Warrant will become exercisable, in whole or in part, on the Calendar Due Date, provided however, that if, and for so long as, the Company has on file on the Calendar Due Date a registration statement undertaking an IPO underwritten by the Holder that has not yet become effective, then the Calendar Due Date shall be deemed to have occurred on the earlier of (a) the date the undertaken IPO has been abandoned by the Holder; or (b) one hundred eighty (180) days after the completion of the IPO, as the case may be, then the exercise price shall be $1.46 per share.

3. **Exercise of Warrant**

3.1 The purchase rights represented by this Warrant are exercisable by the Holder, in whole or in part, by the surrender of this Warrant and the Notice of Exercise annexed hereto duly executed at the Company's principal executive office (or such other office or agency of the Company as it may designate by notice in writing to the Holder at the address of the Holder appearing on the books of the Company), and upon payment of the aggregate Exercise Price of the Shares thereby purchased (by cash or by check or bank draft payable to the order of the Company); whereupon the Holder shall be entitled to receive a certificate for the number of Shares so purchased. The Company agrees that if at the time of the surrender of this Warrant and purchase of the Shares, the Holder shall be entitled to exercise this Warrant, the Shares so purchased shall be issued to the Holder as the record owner of such Shares as of the close of business on the date on which this Warrant shall have been exercised as aforesaid or on such later date requested by the Holder or on such earlier date agreed to by the Holder and the Company.

3.2 In lieu of exercising this Warrant by payment of cash or check or bank draft payable to the order of the Company pursuant to subsection 3.1 above, the Holder may elect to receive Shares equal to the value of this Warrant (or the portion thereof being exercised), at any time after the date hereof and before the close of business on the Expiration Date, by surrender of this Warrant at the principal executive office of the Company, together with the Notice of Cashless Exercise annexed hereto, in which event the Company will issue to the Holder Shares in accordance with the following formula:

$$X = \frac{Y(A-B)}{A}$$

Where,
X = The number of Shares to be issued to Holder;
Y = The number of Shares for which the Warrant is being exercised;
A = The fair market value of one Share; and
B = The appropriate Exercise Price.

(a) For purposes of this subsection 3.2, the fair market value of a Share is defined as follows:

(i) if the Holder exercises within three days of the closing of the IPO, then the fair market value shall be the IPO Price;

(ii) if the Holder exercises after receipt of a notice of a Change of Control but before a Change of Control, then the fair market value shall be the value to be received in such Change of Control by the holders of the Company's Common Stock;

(iii) if the exercise occurs more than three days after the closing of the IPO, and:

(1) if the Common Stock is traded on a securities exchange or the Nasdaq Stock Market, the fair market value shall be the last sale price on the trading day immediately prior to the Company's receipt of the Notice of Conversion or, if no sale of the Company's Common Stock took place on the trading day immediately prior to the receipt of the Notice of Conversion, then the fair market value shall be the last sale price on the most recent day prior to the receipt of the Notice of Conversion on which trades were made and reported; or

(2) if the Common Stock is traded over-the-counter, the value shall be deemed to be the last sale price on the trading day immediately prior to the Company's receipt of the Notice of Conversion or, if no sale of the Company's Common Stock took place on the trading day immediately prior to the receipt of the Notice of Conversion, then the fair market value shall be the last sale price on the most recent day prior to the receipt of the Notice of Conversion on which trades were made and reported;

(iv) if there is no active public market for the Common Stock, the fair market value thereof shall be determined in good faith by the Company's Board of Directors.

3.3 The exercise or conversion of this Warrant in connection with a Change of Control may, at the election of the Holder, be conditioned upon the closing of such Change of Control, in which event the Holder shall not be deemed to have exercised or converted thisWarrant until immediately prior to the closing of such Change of Control.

4. **Nonassessable**

The Company covenants that all Shares which may be issued upon the exercise of this Warrant will be validly issued, fully paid and nonassessable and free from all taxes, liens and charges in respect of the issue thereof. Certificates for Shares purchased hereunder shall be delivered to the Holder promptly after the date on which this Warrant shall have been exercised.

5. **Fractional Shares**

No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. With respect to any fraction of a share called for upon the exercise of this Warrant, such fractional share shall be rounded down to the nearest whole share, and the Company shall pay to the Holder the amount of such fractional share multiplied by an amount equal to such fraction multiplied by the then current fair market value (determined in accordance with Section 3.2(a)) of a Share shall be paid in cash to the Holder.

6. **Charges, Taxes and Expenses**

Issuance of certificates for Shares upon the exercise of this Warrant shall be made without charge to the Holder hereof for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the Holder.

7. **No Rights as Shareholders**

. This Warrant does not entitle the Holder to any voting rights or other rights as a shareholder of the Company prior to the exercise hereof.

8. **Saturdays, Sundays, Holidays, etc.**

If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday, a Sunday or a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day that is not a Saturday, Sunday or legal holiday.

9. **Registration of Warrant Shares**

For purposes of this Warrant, the Holder shall be included in the definition of the term "Purchasers" included in that certain Registration Rights Agreement dated November 21, 2012 (the "**Registration Rights Agreement**") executed by the Company and shall have the same rights and obligations as to the registration of the Shares as have been granted to the Purchasers in the Registration Rights Agreement. The Registration Rights Agreement is attached to this Warrant as Exhibit B and made a part of it.

10. **Adjustments** The Exercise Price and the number of Shares purchasable hereunder are subject to adjustment from time to time as set forth in this Section 10.

10.1 Reclassification, etc. If the Company, at any time while this Warrant, or any portion hereof, remains outstanding and unexpired by reclassification of securities or otherwise, shall change any of the securities as to which purchase rights under this Warrant exist into the same or a different number of securities or any other class or classes, this Warrant shall thereafter represent the right to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities that were subject to the purchase rights under this Warrant immediately prior to such reclassification or other change and the Exercise Price therefor shall be appropriately adjusted, all subject to further adjustment as provided in this Section10.

10.2 Subdivision or Combination of Shares. In the event that the Company shall at any time subdivide the outstanding securities as to which purchase rights under this Warrant exist, or shall issue a stock dividend on the securities as to which purchase rights under this Warrant exist, the number of securities as to which purchase rights under this Warrant exist immediately prior to such subdivision or to the issuance of such stock dividend shall be proportionately increased, and the Exercise Price shall be proportionately decreased, and in the event that the Company shall at any time combine the outstanding securities as to which purchase rights under this Warrant exist, the number of securities as to which purchase rights under this Warrant exist immediately prior to such combination shall be proportionately decreased, and the Exercise Price shall be proportionately increased, effective at the close of business on the date of such subdivision, stock dividend or combination, as the case may be.

10.3 Cash Distributions. No adjustment on account of cash dividends or interest on the securities as to which purchase rights under this Warrant exist will be made to the Exercise Price under this Warrant.

11. **Notice of Certain Events** The Company will provide notice to the Holder with at least 20 days notice prior to the closing of a Change of Control or an IPO. Such notice shall be in accordance with the notice provision included at Section 12(e) of the Securities Purchase Agreement.

12. **Purchase Rights; Fundamental Transactions.** In addition to any adjustments pursuant to Section 10 above, if at any time the Company grants, issues or sells any options, convertible securities or rights to purchase stock, warrants, securities or other property pro rata to the record holders of Common Stock ("Purchase Rights"), then the Holder will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the Holder could have acquired if the Holder had held the number of shares of Common Stock acquirable upon complete exercise of this Warrant immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights.

13. **Intentionally Omitted**

14. **Miscellaneous**

14.1 Loss, Theft, Destruction or Mutilation of Warrant. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, delivery of an indemnity agreement reasonably satisfactory in form and substance to the Company or, in the case of mutilation, on surrender and cancellation of this Warrant, the Company shall execute and deliver, in lieu of this Warrant, a new Warrant executed in the same manner as this Warrant and of like tenor and amount.

14.2 Waivers and Amendments. This Warrant and the obligations of the Company and the rights of the Holder under this Warrant may be amended, waived, discharged or terminated (either generally or in a particular instance, either retroactively or prospectively and either for a specified period of time or indefinitely) with the written consent of the Company (which shall not be required in connection with a waiver of rights in favor of the Company) and the Holder, *provided, however*, that nothing shall prevent the Holder from individually agreeing to waive the observation of any term of this Warrant. Any amendment, waiver, discharge or termination effected in accordance with this Section 14.2 shall be binding upon the Company and the Holder.

14.3 Notices. Any notice required or permitted by this Warrant shall be in writing and shall be deemed sufficient when delivered personally (including two business days after deposit with a reputable overnight courier service, properly addressed to the party to receive the same) or sent by fax or 48 hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the party to be notified at such party's address or fax number as set forth below or as subsequently modified by written notice. Notice shall be given as follows:

If to Holder: MDB Capital Group, LLC
401 Wilshire Boulevard, Suite 1020
Santa Monica, California 90401
Attn.: Anthony DiGiandomenico

If to Company: Ideal Power Converters, Inc.
5004 Bee Creek Road, Suite 600
Spicewood, Texas 78669
Attn.: Chief Executive Officer

14.4 Severability. If one or more provisions of this Warrant are held to be unenforceable under applicable law, such provision(s) shall be excluded from this Warrant and the balance of this Warrant shall be interpreted as if such provision(s) were so excluded and shall be enforceable in accordance with its terms.

14.5 Successors and Assigns. Neither this Warrant nor any rights hereunder are transferable without the prior written consent of the Company. Notwithstanding the foregoing, the Holder shall be permitted to transfer this Warrant to any affiliate (as that term is defined in the Securities Act of 1933) of the Holder. If a transfer is permitted pursuant to this Section, the transfer shall be recorded on the books of the Company upon the surrender of this Warrant, properly endorsed, to the Company at its principal offices, and the payment to the Company of all transfer taxes and other governmental charges imposed on such transfer. In the event of a partial transfer, the Company shall issue to the holders one or more appropriate new warrants. Subject to the foregoing, the provisions of this Warrant shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the Company and the Holder.

14.6 Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to the Holder, upon any breach or default of the Company under this Warrant shall impair any such right, power, or remedy of the Holder nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default therefore or thereafter occurring. Any waiver, permit, consent, or approval of any kind or character on the part of the Holder of any breach or default under this Warrant or any waiver on the part of the Holder of any provisions or conditions of this Warrant must be made in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Warrant or by law or otherwise afforded to the Investors, shall be cumulative and not alternative.

14.7 Titles and Subtitles. The titles of the paragraphs and subparagraphs of this Warrant are for convenience of reference only and are not to be considered in construing this Warrant.

14.8 Construction. The language used in this Warrant will be deemed to be the language chosen by the parties to express their mutual intent and no rules of strict construction will be applied against any party.

14.9 Governing Law. THIS WARRANT SHALL BE GOVERNED IN ALL RESPECTS BY THE LAWS OF THE STATE OF NEW YORK AS SUCH LAWS ARE APPLIED TO AGREEMENTS BETWEEN NEW YORK RESIDENTS ENTERED INTO AND TO BE PERFORMED ENTIRELY WITHIN NEW YORK.

[*Remainder of page intentionally left blank*]

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer thereunto duly authorized.

Ideal Power Converters, Inc.

By: _____
Paul Bundschuh
Chief Executive Officer

Address: 5004 Bee Creek Road, Suite 600
Spicewood Texas 78669

Attn: Paul Bundschuh

NOTICE OF EXERCISE

TO: Ideal Power Converters, Inc.
5004 Bee Creek Road, Suite 600
Spicewood, Texas 78669
Attn: Secretary

The undersigned hereby elects to purchase _____ shares (the "***Shares***") of the Common Stock of Ideal Power Converters, Inc. pursuant to the terms of the attached Warrant and tenders herewith payment of the purchase price in full.

Please issue a certificate or certificates representing the Shares in the name of the undersigned or in such other name as is specified below:

(Print Name)

Address:

The undersigned confirms that the undersigned is an "accredited investor," and that the Shares are being acquired for the account of the undersigned for investment only and not with a view to, or for resale in connection with, the distribution thereof, and that the undersigned has no present intention of distributing or selling the Shares.

(Date) (Signature)

(Print Name)

NOTICE OF CASHLESS EXERCISE

TO: Ideal Power Converters, Inc.
5004 Bee Creek Road, Suite 600
Spicewood, Texas 78669
Attn: Secretary

The undersigned hereby elects to purchase _____ shares (the "***Shares***") of the Common Stock of Ideal Power Converters, Inc. pursuant to the cashless exercise provision of Section 3 of the attached Warrant.

Please issue a certificate or certificates representing the Shares in the name of the undersigned or in such other name as is specified below:

(Print Name)

Address:

The undersigned represents that the undersigned is an "accredited investor," and that the Shares are being acquired for the account of the undersigned for investment and not with a view to, or for resale in connection with, the distribution thereof, and that the undersigned has no present intention of distributing or reselling such shares.

(Date) (Signature)

(Print Name)

Exhibit 10.37

ADDENDUM TO STOCK PURCHASE WARRANT (MDB-1)

THIS ADDENDUM TO STOCK PURCHASE WARRANT (the "Addendum") is entered into by and between Ideal Power Inc., a Delaware corporation (the "Company") and MDB Capital Group, LLC, (the "Holder"), effective as of July __, 2013.

WHEREAS, the Company issued the Holder a Common Stock Purchase Warrant (the "Warrant"), MDB-1, dated November 21, 2012, in consideration of consulting and advisory services rendered by Holder pursuant to an Engagement Letter for Strategic Consulting Services dated July 24, 2012; and

WHEREAS, the Company and the Holder now desire to clarify certain ambiguities contained in the Warrant relating to time period that the Holder may exercise its right to purchase the shares of the Company's common stock underlying the Warrant.

NOW THEREFORE, in consideration of the mutual covenants set forth herein, the Company and the Holder (the Company and the Holder hereinafter referred to as a "Party" and collectively as the "Parties") agree as follows:

1. The first paragraph of the Warrant beginning with the phrase "THIS CERTIFIES that MDB Capital Group, LLC" is hereby amended by inserting the phrase "in Section 2" after the words "applicable event specified" and before the word "below" and then again by inserting the phrase "setting forth the Exercise Price" immediately after the word "below" and before the phrase "and on or prior to the Expiration Date."

2. Section 2(i) of the Warrant is hereby amended by adding the phrase "in which case this Warrant will become exercisable, in whole or in part, one hundred eighty (180) days after the completion of the IPO" immediately after the phrase "IPO Price or $1.46."

3. Section 2(ii) of the Warrant is hereby amended by adding the phrase "in which case this Warrant will become exercisable, in whole or in part, on the Calendar Due Date" after the phrase "Private Equity Financing Price or $1.46" and before the phrase "provided however that" and then again by adding the phrase "and the period of exercisability" after the phrase "per share exercise price" and before the phrase "shall be adjusted" and then again by deleting the word "and" after the phrase "Common Stock" and before the phrase "the exercise price" and thereafter inserting the phrase "and the time period in which this Warrant may be exercised" after the phrase "the exercise price" and before the phrase "calculated in accordance with subsection (i) above."

4. Section 2(iii) of the Warrant is hereby amended by adding the phrase "and this Warrant will become exercisable, in whole or in part, on the Calendar Due Date, provided however, that if, and for so long as, the Company has on file on the Calendar Due Date a registration statement undertaking an IPO underwritten by the Holder that has not yet become effective, then the Calendar Due Date shall be deemed to have occurred on the earlier of (a) the date the undertaken IPO has been abandoned by the Holder; or (b) one hundred eighty (180) days after the completion of the IPO, as the case may be" at the end of the sentence immediately before the phrase "the exercise price shall be $1.46 per share."

IN WITNESS WHEREOF, the Parties have executed this Addendum on the dates indicated next to their signatures below.

Ideal Power Inc.

By: /s/ Paul Bundschuh
Paul Bundschuh, CEO

Date:_____

MDB Capital Group, LLC

By:_____
Anthony DiGiandomenico

Date:_____

No. MDB-2 Issue Date: November 21, 2012

THIS WARRANT AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT TO THE SECURITIES UNDER SUCH ACT AND/OR APPLICABLE STATE SECURITIES LAWS,OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED OR UNLESS SOLD PURSUANT TO RULE 144 OF SUCH ACT.

IDEAL POWER CONVERTERS, INC.
STOCK PURCHASE WARRANT

THIS CERTIFIES that MDB Capital Group, LLC (the "***Holder***") is entitled, upon the terms and subject to the conditions hereinafter set forth in this Warrant (this "***Warrant***"), at any time on or after (except as otherwise limited below) the date of the applicable event specified in Section 2 below setting forth the Exercise Price and on or prior to the Expiration Date, but not thereafter, to subscribe for and to purchase from Ideal Power Converters, Inc., a Texas corporation (the "***Company***"), 222,603 shares of the Company's common stock, $0.001 par value (the "***Common Stock***").

This Warrant is issued in connection with the completion of the offering of Senior Secured Convertible Promissory Notes which raised financing of $3,250,000 (the "***Offering***") and in accordance with the terms of that certain Engagement Agreement dated July 24, 2012. Capitalized terms used herein, but not otherwise defined, shall have the meanings ascribed to such terms in the Securities Purchase Agreement executed by the Company and the investors in the Offering.

The following is a statement of the rights of the Holder of this Warrant and the conditions to which this Warrant is subject, to which the Holder, by the acceptance of this Warrant, agrees:

1. **Certain Definitions**.

1.1 "***Calendar Due Date***" shall mean November 21, 2013, which is a date that is 12 months from the closing date of the Offering.

1.2 "***Change of Control***" means any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, and shall be deemed to be occasioned by, or to include, (i) the acquisition of the Company by another entity by means of any transaction or series of related transactions (including, without limitation, any stock acquisition, reorganization, merger or consolidation) unless the Company's shareholders of record as constituted immediately prior to such acquisition or sale will, immediately after such acquisition or sale (by virtue of securities issued as consideration for the Company's acquisition or sale or otherwise) hold at least a majority of the voting power of the surviving or acquiring entity, or its direct or indirect parent entity (except that the sale by the Company of shares of its capital stock to investors in bona fide equity financing transactions shall not be deemed a Change of Control for this purpose) or (ii) a sale, exclusive license or other disposition of all or substantially all of the assets of the Company, including a sale, exclusive license or other disposition of all or substantially all of the assets of the Company's subsidiaries, if such assets constitute substantially all of the assets of the Company and such subsidiaries taken as a whole.

1.3 "***Exercise Price***" is defined in Section 2 below.

1.4 "***Expiration Date***" means, unless earlier terminated pursuant to Section 9 hereof, that date that is seven years after the issue date set forth above, provided, however, if the Company closes the IPO after the fifth anniversary date of the issue date but prior to the Expiration Date, then the Expiration Date shall be extended for an additional five years following the close of the IPO.

1.5 "***IPO***" means a firm commitment underwritten initial public offering of the Company's Common Stock pursuant to a registration statement declared effective by the Securities and Exchange Commission which closes before the Calendar Due Date and results in gross proceeds to the Company of at least $10 million.

1.6 "***IPO Price***" means the price per share of the Company's Common Stock offered to public investors in an IPO, without regard to any underwriting discount or expense (as appropriately adjusted to reflect stock dividends, stock splits, combinations, recapitalizations and the like with respect to the Company's capital stock after the date hereof).

1.7 "***Private Equity Financing***" means a privately marketed equity financing resulting in gross proceeds in excess of $250,000 which closes before the Calendar Due Date; provided, however, that none of the following issuances of securities shall constitute a "Private Equity Financing": (i) the Offering and any subsequent offerings of senior secured convertible promissory notes or any other debt offering; (ii) securities issued without consideration in connection with any stock split or stock dividend on, the Company's Common Stock; (iii) securities issued to the Company's employees, officers, directors, consultants, advisors or service providers pursuant to any plan, agreement or similar arrangement unanimously approved by the Company's board of directors; (iv) securities issued to banks or equipment lessors; (v) securities issued in connection with sponsored research, collaboration, technology license, development, original equipment manufacturing (OEM), marketing or other similar agreements or strategic partnerships; (vi) securities issued in connection with a bona fide business acquisition of or by the Company (whether by merger, consolidation, sale of assets, sale or exchange of stock or otherwise); (vii) the Investment Unit dated October 1, 2010, issued by the Company to the Office of the Governor Economic Development and Tourism, and any securities relating to the conversion or exercise thereof; or (viii) any right, option or warrant to acquire any security convertible into or exercisable for the securities listed in clauses (i) through (vii) above.

1.8 "***Private Equity Financing Price***" means the price per share of Common Stock paid by investors in the Private Equity Financing, which shall be determined by dividing (a) the total consideration received or to be received by each investor assuming exercise in full of all warrants or similar securities, divided by (b) the total number of shares of Common Stock acquirable either directly or by conversion or exercise of instruments, by the Holder, on a fully diluted basis.

1.9 "***Shares***" means the shares of Common Stock issuable under this Warrant, computed in accordance with Section 2 below.

2. <u>Exercise Price</u>

The Exercise Price shall be determined as follows (subject to appropriate adjustments pursuant to Section 10):

(i) in the event of an IPO that occurs prior to the Calendar Due Date, the per-share exercise price shall be equal to 125% of the lower of 0.70 times the IPO Price or $1.825 in which case this Warrant will become exercisable, in whole or in part, one hundred eighty (180) days after the completion of the IPO; or

(ii) in the event of a Private Equity Financing that occurs prior to the Calendar Due Date, the per-share exercise price shall be equal to 125% of the lower of 0.70 times the Private Equity Financing Price or $1.825 in which case this Warrant will become exercisable, in whole or in part, on the Calendar Due Date; provided, however, that (A) if the Company undertakes first, a Private Equity Financing and secondly, an IPO prior to the Calendar Due Date and (B) the Private Equity Financing Price is higher than the IPO Price, then the per share exercise price and the period of exercisability shall be adjusted to equal the number of shares of Common Stock, the exercise price and the time period in which this Warrant may be exercised calculated in accordance with subsection (i) above; or

(iii) If the Company does not undertake either a Private Equity Financing or an IPO prior to the Calendar Due Date, this Warrant will become exercisable, in whole or in part, on the Calendar Due Date, provided however, that if, and for so long as, the Company has on file on the Calendar Due Date a registration statement undertaking an IPO underwritten by the Holder that has not yet become effective, then the Calendar Due Date shall be deemed to have occurred on the earlier of (a) the date the undertaken IPO has been abandoned by the Holder; or (b) one hundred eighty (180) days after the completion of the IPO, as the case may be, then the exercise price shall be $1.825 per share.

3. **Exercise of Warrant**

3.1 The purchase rights represented by this Warrant are exercisable by the Holder, in whole or in part, by the surrender of this Warrant and the Notice of Exercise annexed hereto duly executed at the Company's principal executive office (or such other office or agency of the Company as it may designate by notice in writing to the Holder at the address of the Holder appearing on the books of the Company), and upon payment of the aggregate Exercise Price of the Shares thereby purchased (by cash or by check or bank draft payable to the order of the Company); whereupon the Holder shall be entitled to receive a certificate for the number of Shares so purchased. The Company agrees that if at the time of the surrender of this Warrant and purchase of the Shares, the Holder shall be entitled to exercise this Warrant, the Shares so purchased shall be issued to the Holder as the record owner of such Shares as of the close of business on the date on which this Warrant shall have been exercised as aforesaid or on such later date requested by the Holder or on such earlier date agreed to by the Holder and the Company.

3.2 In lieu of exercising this Warrant by payment of cash or check or bank draft payable to the order of the Company pursuant to subsection 3.1 above, the Holder may elect to receive Shares equal to the value of this Warrant (or the portion thereof being exercised), at any time after the date hereof and before the close of business on the Expiration Date, by surrender of this Warrant at the principal executive office of the Company, together with the Notice of Cashless Exercise annexed hereto, in which event the Company will issue to the Holder Shares in accordance with the following formula:

$$X = \frac{Y(A-B)}{A}$$

Where,
X = The number of Shares to be issued to Holder;
Y = The number of Shares for which the Warrant is being exercised;
A = The fair market value of one Share; and
B = The Exercise Price.

(a) For purposes of this subsection 3.2, the fair market value of a Share is defined as follows:

(i) if the Holder exercises within three days of the closing of the IPO, then the fair market value shall be the IPO Price;

(ii) if the Holder exercises after receipt of a notice of a Change of Control but before a Change of Control, then the fair market value shall be the value to be received in such Change of Control by the holders of the Company's Common Stock;

(iii) if the exercise occurs more than three days after the closing of the IPO, and:

(1) if the Common Stock is traded on a securities exchange or the Nasdaq Stock Market, the fair market value shall be the last sale price on the trading day immediately prior to the Company's receipt of the Notice of Conversion or, if no sale of the Company's Common Stock took place on the trading day immediately prior to the receipt of the Notice of Conversion, then the fair market value shall be the last sale price on the most recent day prior to the receipt of the Notice of Conversion on which trades were made and reported; or

(2) if the Common Stock is traded over-the-counter, the value shall be deemed to be the last sale price on the trading day immediately prior to the Company's receipt of the Notice of Conversion or, if no sale of the Company's Common Stock took place on the trading day immediately prior to the receipt of the Notice of Conversion, then the fair market value shall be the last sale price on the most recent day prior to the receipt of the Notice of Conversion on which trades were made and reported;

(iv) if there is no active public market for the Common Stock, the fair market value thereof shall be determined in good faith by the Company's Board of Directors.

3.3 The exercise or conversion of this Warrant in connection with a Change of Control may, at the election of the Holder, be conditioned upon the closing of such Change of Control, in which event the Holder shall not be deemed to have exercised or converted thisWarrant until immediately prior to the closing of such Change of Control.

4. **Nonassessable**

The Company covenants that all Shares which may be issued upon the exercise of this Warrant will be validly issued, fully paid and nonassessable and free from all taxes, liens and charges in respect of the issue thereof. Certificates for Shares purchased hereunder shall be delivered to the Holder promptly after the date on which this Warrant shall have been exercised.

5. **Fractional Shares**

No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. With respect to any fraction of a share called for upon the exercise of this Warrant, such fractional share shall be rounded down to the nearest whole share, and the Company shall pay to the Holder the amount of such fractional share multiplied by an amount equal to such fraction multiplied by the then current fair market value (determined in accordance with Section 3.2(a)) of a Share shall be paid in cash to the Holder.

6. **Charges, Taxes and Expenses**

Issuance of certificates for Shares upon the exercise of this Warrant shall be made without charge to the Holder hereof for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the Holder.

7. **No Rights as Shareholders**

. This Warrant does not entitle the Holder to any voting rights or other rights as a shareholder of the Company prior to the exercise hereof.

8. **Saturdays, Sundays, Holidays, etc.**

If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday, a Sunday or a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day that is not a Saturday, Sunday or legal holiday.

9. **Registration of Warrant Shares**

For purposes of this Warrant, the Holder shall be included in the definition of the term "Purchasers" included in that certain Registration Rights Agreement dated November 21, 2012 (the "**Registration Rights Agreement**") executed by the Company in conjunction with the Offering and shall have the same rights and obligations as to the registration of the Shares as have been granted to the Purchasers in the Registration Rights Agreement. The Registration Rights Agreement is attached to this Warrant as Exhibit B and made a part of it.

10. **Adjustments** The Exercise Price and the number of Shares purchasable hereunder are subject to adjustment from time to time as set forth in this Section 10.

10.1 Reclassification, etc. If the Company, at any time while this Warrant, or any portion hereof, remains outstanding and unexpired by reclassification of securities or otherwise, shall change any of the securities as to which purchase rights under this Warrant exist into the same or a different number of securities or any other class or classes, this Warrant shall thereafter represent the right to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities that were subject to the purchase rights under this Warrant immediately prior to such reclassification or other change and the Exercise Price therefor shall be appropriately adjusted, all subject to further adjustment as provided in this Section10.

10.2 Subdivision or Combination of Shares. In the event that the Company shall at any time subdivide the outstanding securities as to which purchase rights under this Warrant exist, or shall issue a stock dividend on the securities as to which purchase rights under this Warrant exist, the number of securities as to which purchase rights under this Warrant exist immediately prior to such subdivision or to the issuance of such stock dividend shall be proportionately increased, and the Exercise Price shall be proportionately decreased, and in the event that the Company shall at any time combine the outstanding securities as to which purchase rights under this Warrant exist, the number of securities as to which purchase rights under this Warrant exist immediately prior to such combination shall be proportionately decreased, and the Exercise Price shall be proportionately increased, effective at the close of business on the date of such subdivision, stock dividend or combination, as the case may be.

10.3 Cash Distributions. No adjustment on account of cash dividends or interest on the securities as to which purchase rights under this Warrant exist will be made to the Exercise Price under this Warrant.

11. **Notice of Certain Events** The Company will provide notice to the Holder with at least 20 days notice prior to the closing of a Change of Control or an IPO. Such notice shall be in accordance with the notice provision included at Section 12(e) of the Securities Purchase Agreement.

12. **Purchase Rights; Fundamental Transactions.** In addition to any adjustments pursuant to Section 10 above, if at any time the Company grants, issues or sells any options, convertible securities or rights to purchase stock, warrants, securities or other property pro rata to the record holders of Common Stock ("Purchase Rights"), then the Holder will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the Holder could have acquired if the Holder had held the number of shares of Common Stock acquirable upon complete exercise of this Warrant immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights.

13. **Intentionally Omitted**

14. **Miscellaneous**

14.1 Loss, Theft, Destruction or Mutilation of Warrant. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, delivery of an indemnity agreement reasonably satisfactory in form and substance to the Company or, in the case of mutilation, on surrender and cancellation of this Warrant, the Company shall execute and deliver, in lieu of this Warrant, a new Warrant executed in the same manner as this Warrant and of like tenor and amount.

14.2 Waivers and Amendments. This Warrant and the obligations of the Company and the rights of the Holder under this Warrant may be amended, waived, discharged or terminated (either generally or in a particular instance, either retroactively or prospectively and either for a specified period of time or indefinitely) with the written consent of the Company (which shall not be required in connection with a waiver of rights in favor of the Company) and the Holder, *provided, however*, that nothing shall prevent the Holder from individually agreeing to waive the observation of any term of this Warrant. Any amendment, waiver, discharge or termination effected in accordance with this Section 14.2 shall be binding upon the Company and the Holder.

14.3 Notices. Any notice required or permitted by this Warrant shall be in writing and shall be deemed sufficient when delivered personally (including two business days after deposit with a reputable overnight courier service, properly addressed to the party to receive the same) or sent by fax or 48 hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the party to be notified at such party's address or fax number as set forth below or as subsequently modified by written notice. Notice shall be given as follows:

If to Holder: MDB Capital Group, LLC
401 Wilshire Boulevard, Suite 1020
Santa Monica, California 90401
Attn.: Anthony DiGiandomenico

If to Company: Ideal Power Converters, Inc.
5004 Bee Creek Road, Suite 600
Spicewood, Texas 78669
Attn.: Chief Executive Officer

14.4 Severability. If one or more provisions of this Warrant are held to be unenforceable under applicable law, such provision(s) shall be excluded from this Warrant and the balance of this Warrant shall be interpreted as if such provision(s) were so excluded and shall be enforceable in accordance with its terms.

14.5 Successors and Assigns. Neither this Warrant nor any rights hereunder are transferable without the prior written consent of the Company. Notwithstanding the foregoing, the Holder shall be permitted to transfer this Warrant to any affiliate (as that term is defined in the Securities Act of 1933) of the Holder. If a transfer is permitted pursuant to this Section, the transfer shall be recorded on the books of the Company upon the surrender of this Warrant, properly endorsed, to the Company at its principal offices, and the payment to the Company of all transfer taxes and other governmental charges imposed on such transfer. In the event of a partial transfer, the Company shall issue to the holders one or more appropriate new warrants. Subject to the foregoing, the provisions of this Warrant shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the Company and the Holder.

14.6 Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to the Holder, upon any breach or default of the Company under this Warrant shall impair any such right, power, or remedy of the Holder nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default therefore or thereafter occurring. Any waiver, permit, consent, or approval of any kind or character on the part of the Holder of any breach or default under this Warrant or any waiver on the part of the Holder of any provisions or conditions of this Warrant must be made in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Warrant or by law or otherwise afforded to the Investors, shall be cumulative and not alternative.

14.7 Titles and Subtitles. The titles of the paragraphs and subparagraphs of this Warrant are for convenience of reference only and are not to be considered in construing this Warrant.

14.8 Construction. The language used in this Warrant will be deemed to be the language chosen by the parties to express their mutual intent and no rules of strict construction will be applied against any party.

14.9 Governing Law. THIS WARRANT SHALL BE GOVERNED IN ALL RESPECTS BY THE LAWS OF THE STATE OF NEW YORK AS SUCH LAWS ARE APPLIED TO AGREEMENTS BETWEEN NEW YORK RESIDENTS ENTERED INTO AND TO BE PERFORMED ENTIRELY WITHIN NEW YORK.

[*Remainder of page intentionally left blank*]

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer thereunto duly authorized.

Ideal Power Converters, Inc.

By: _____
Paul Bundschuh
Chief Executive Officer

Address: 5004 Bee Creek Road, Suite 600
Spicewood Texas 78669

Attn: Paul Bundschuh

NOTICE OF EXERCISE

TO: Ideal Power Converters, Inc.
5004 Bee Creek Road, Suite 600
Spicewood, Texas 78669
Attn: Secretary

The undersigned hereby elects to purchase _____ shares (the "***Shares***") of the Common Stock of Ideal Power Converters, Inc. pursuant to the terms of the attached Warrant and tenders herewith payment of the purchase price in full.

Please issue a certificate or certificates representing the Shares in the name of the undersigned or in such other name as is specified below:

(Print Name)

Address:

The undersigned confirms that the undersigned is an "accredited investor," and that the Shares are being acquired for the account of the undersigned for investment only and not with a view to, or for resale in connection with, the distribution thereof, and that the undersigned has no present intention of distributing or selling the Shares.

(Date) (Signature)

(Print Name)

NOTICE OF CASHLESS EXERCISE

TO: Ideal Power Converters, Inc.
5004 Bee Creek Road, Suite 600
Spicewood, Texas 78669
Attn: Secretary

The undersigned hereby elects to purchase _____ shares (the "***Shares***") of the Common Stock of Ideal Power Converters, Inc. pursuant to the cashless exercise provision of Section 3 of the attached Warrant.

Please issue a certificate or certificates representing the Shares in the name of the undersigned or in such other name as is specified below:

(Print Name)

Address:

The undersigned represents that the undersigned is an "accredited investor," and that the Shares are being acquired for the account of the undersigned for investment and not with a view to, or for resale in connection with, the distribution thereof, and that the undersigned has no present intention of distributing or reselling such shares.

(Date) (Signature)

(Print Name)

Exhibit 10.39

ADDENDUM TO STOCK PURCHASE WARRANT (MDB-2)

THIS ADDENDUM TO STOCK PURCHASE WARRANT (the "Addendum") is entered into by and between Ideal Power Inc., a Delaware corporation (the "Company") and MDB Capital Group, LLC, (the "Holder"), effective as of July __, 2013.

WHEREAS, the Company issued the Holder a Common Stock Purchase Warrant (the "Warrant"), MDB-2, dated November 21, 2012, in connection with the completion of the offering of $3,250,000 in principle amount of Senior Secured Convertible Promissory Notes (the "Private Placement") pursuant to that certain Engagement Letter dated July 24, 2012, wherein the Holder acted as the Placement Agent for the Private Placement; and

WHEREAS, the Company and the Holder now desire to clarify certain ambiguities contained in the Warrant relating to time period that the Holder may exercise its right to purchase the shares of the Company's common stock underlying the Warrant.

NOW THEREFORE, in consideration of the mutual covenants set forth herein, the Company and the Holder (the Company and the Holder hereinafter referred to as a "Party" and collectively as the "Parties") agree as follows:

1. The first paragraph of the Warrant beginning with the phrase "THIS CERTIFIES that MDB Capital Group, LLC" is hereby amended by inserting the phrase "in Section 2" after the words "applicable event specified" and before the word "below" and then again by inserting the phrase "setting forth the Exercise Price" immediately after the word "below" and before the phrase "and on or prior to the Expiration Date."

2. Section 2(i) of the Warrant is hereby amended by adding the phrase "in which case this Warrant will become exercisable, in whole or in part, one hundred eighty (180) days after the completion of the IPO" immediately after the phrase "IPO Price or $1.825."

3. Section 2(ii) of the Warrant is hereby amended by adding the phrase "in which case this Warrant will become exercisable, in whole or in part, on the Calendar Due Date" after the phrase "Private Equity Financing Price or $1.825" and before the phrase "provided however that" and then again by adding the phrase "and the period of exercisability" after the phrase "per share exercise price" and before the phrase "shall be adjusted" and then again by deleting the word "and" after the phrase "Common Stock" and before the phrase "the exercise price" and thereafter inserting the phrase "and the time period in which this Warrant may be exercised" after the phrase "the exercise price" and before the phrase "calculated in accordance with subsection (i) above."

4. Section 2(iii) of the Warrant is hereby amended by adding the phrase "and this Warrant will become exercisable, in whole or in part, on the Calendar Due Date, provided however, that if, and for so long as, the Company has on file on the Calendar Due Date a registration statement undertaking an IPO underwritten by the Holder that has not yet become effective, then the Calendar Due Date shall be deemed to have occurred on the earlier of (a) the date the undertaken IPO has been abandoned by the Holder; or (b) one hundred eighty (180) days after the completion of the IPO, as the case may be" at the end of the sentence immediately before the phrase "the exercise price shall be $1.825 per share."

IN WITNESS WHEREOF, the Parties have executed this Addendum on the dates indicated next to their signatures below.

Ideal Power Inc.

By: /s/ Paul Bundschuh
Paul Bundschuh, CEO

Date:_____

MDB Capital Group, LLC

By:_____
Anthony DiGiandomenico

Date:_____

Exhibit 14.1

CODE OF BUSINESS CONDUCT AND ETHICS

THIS CODE APPLIES TO EVERY DIRECTOR, OFFICER AND EMPLOYEE OF IDEAL POWER CONVERTERS, INC. (THE "COMPANY")

To further the Company's fundamental principles of honesty, loyalty, fairness and forthrightness, the Board of Directors of the Company (the "*Board*:") has established and adopted this Code of Business Conduct and Ethics (this "*Code*").

Below, we discuss situations that require application of our fundamental principles and promotion of our objectives. If you believe there is a conflict between this Code and a specific procedure, please consult the Company's Board of Directors for guidance.

Each of our directors, officers and employees is expected to:

- understand the requirements of your position, including Company expectations and governmental rules and regulations that apply to your position;
- comply with this Code and all applicable laws, rules and regulations;
- report any violation of this Code of which you become aware; and
- be accountable for complying with this Code.

ADMINISTRATOR

All matters concerning this Code shall be heard by the Board of Directors.

ACCOUNTING POLICIES

The Company will make and keep books, records and accounts, which in reasonable detail accurately and fairly present the Company's transactions.

All directors, officers, employees and other persons are prohibited from directly or indirectly falsifying or causing to be false or misleading any financial or accounting book, record or account. You and others are expressly prohibited from directly or indirectly manipulating an audit, and from destroying or tampering with any record, document or tangible object with the intent to obstruct a pending or contemplated audit, review or federal investigation. The commission of, or participation in, one of these prohibited activities or other illegal conduct will subject you to federal penalties, as well as to punishment, up to and including termination of employment.

AMENDMENTS AND MODIFICATIONS OF THIS CODE

There shall be no amendment or modification to this Code except upon approval by the Board of Directors.

ANTI-BOYCOTT AND U.S. SANCTIONS LAWS

The Company must comply with anti-boycott laws of the United States, which prohibit it from participating in, and require us to report to the authorities any request to participate in, a boycott of a country or businesses within a country. If you receive such a request, report it to your immediate superior, our CEO, or to the chairman of the Board of Directors. We will also not engage in business with any government, entity, organization or individual where doing so is prohibited by applicable laws.

ANTITRUST AND FAIR COMPETITION LAWS

The purpose of antitrust laws of the United States and most other countries is to provide a level playing field to economic competitors and to promote fair competition. No director, officer or employee, under any circumstances or in any context, may enter into any understanding or agreement, whether express or implied, formal or informal, written or oral, with an actual or potential competitor, which would illegally limit or restrict in any way either party's actions, including the offers of either party to any third party. This prohibition includes any action relating to prices, costs, profits, products, services, terms or conditions of sale, market share or customer or supplier classification or selection.

It is our policy to comply with all U.S. antitrust laws. This policy is not to be compromised or qualified by anyone acting for or on behalf of our Company. You must understand and comply with the antitrust laws as they may bear upon your activities and decisions. Anti-competitive behavior in violation of antitrust laws can result in criminal penalties, both for you and for the Company. Accordingly, any question regarding compliance with antitrust laws or your responsibilities under this policy should be directed to our CEO or the chairman of the Board of Directors, who may then direct you to our legal counsel. Any director, officer or employee found to have knowingly participated in violating the antitrust laws will be subject to disciplinary action, up to and including termination of employment.

Below are some scenarios that are prohibited and scenarios that could be prohibited for antitrust reasons. These scenarios are not an exhaustive list of all prohibited and possibly prohibited antitrust conduct.

- proposals or agreements or understanding - express or implied, formal or informal, written or oral - with any competitor regarding any aspect of competition between the Company and the competitor for sales to third parties;
- proposals or agreements or understanding with customers which restrict the price or other terms at which the customer may resell or lease any product to a third party; or
- proposals or agreements or understanding with suppliers which restrict the price or other terms at which the Company may resell or lease any product or service to a third party.

BRIBERY

You are strictly forbidden from offering, promising or giving money, gifts, loans, rewards, favors or anything of value to any governmental official, employee, agent or other intermediary (either inside or outside the United States) which is prohibited by law. Those paying a bribe may subject the Company and themselves to civil and criminal penalties. When dealing with government customers or officials, no improper payments will be tolerated. If you receive any offer of money or gifts that is intended to influence a business decision, it should be reported to your supervisor, our CEO or the chairman of the Board of Directors immediately.

The Company prohibits improper payments in all of its activities, whether these activities are with governments or in the private sector.

COMPLIANCE WITH LAWS, RULES AND REGULATIONS

The Company's goal and intention is to comply with the laws, rules and regulations by which we are governed. All illegal activities or illegal conduct are prohibited whether or not they are specifically set forth in this Code.

Where law does not govern a situation or where the law is unclear or conflicting, you should discuss the situation with your supervisor, our CEO or the chairman of the Board of Directors, who may then direct you to our legal counsel. Directors, officers and employees are expected to act according to high ethical standards.

COMPUTER AND INFORMATION SYSTEMS

For business purposes, officers and employees are provided telephones and computer workstations and software, including network access to computing systems such as the Internet and e-mail, to improve personal productivity and to efficiently manage proprietary information in a secure and reliable manner. You must obtain the permission from your supervisor or our CEO to install any software on any Company computer or connect any personal laptop to the Company network. As with other equipment and assets of the Company, we are each responsible for the appropriate use of these assets. Except for limited personal use of the Company's telephones and computer/e-mail, such equipment may be used only for business purposes. Officers and employees should not expect a right to privacy of their e-mail or Internet use. All e-mails or Internet use on Company equipment is subject to monitoring by the Company.

CONFIDENTIAL INFORMATION BELONGING TO OTHERS

You must respect the confidentiality of information, including, but not limited to, trade secrets and other information given in confidence by others, including but not limited to partners, suppliers, contractors, competitors or customers, just as we protect our own confidential information. Directors, officers and employees should coordinate with your supervisor or the CEO to ensure appropriate agreements are in place prior to receiving any confidential third-party information. In addition, any confidential information that you may possess from an outside source, such as a previous employer, must not, so long as such information remains confidential, be disclosed to or used by the Company. Unsolicited confidential information submitted to the Company should be refused, returned to the sender where possible and deleted, if received via the Internet.

CONFIDENTIAL AND PROPRIETARY INFORMATION

It is the Company's policy to ensure that all operations, activities and business affairs of the Company and our business associates are kept confidential to the greatest extent possible. Confidential information includes all non-public information that might be of use to competitors, or that might be harmful to the Company or its customers if disclosed. Confidential and proprietary information about the Company or its business associates belongs to the Company, must be treated with strictest confidence and is not to be disclosed or discussed with others.

Unless otherwise agreed to in writing, confidential and proprietary information includes any and all methods, inventions, improvements or discoveries, whether or not patentable or copyrightable, and any other information of a similar nature disclosed to the directors, officers or employees of the Company or otherwise made known to the Company as a consequence of or through employment or association with the Company (including information originated by the director, officer or employee). This can include, but is not limited to, information regarding the Company's business, products, processes, and services. It also can include information relating to research, development, inventions, trade secrets, intellectual property of any type or description, data, business plans, marketing strategies, engineering, contract negotiations, contents of the Company intranet and business methods or practices.

The following are examples of information that is not considered confidential:

- information that is in the public domain to the extent it is readily available;
- information that becomes generally known to the public other than by disclosure by the Company or a director, officer or employee; or
- information you receive from a party that is under no legal obligation of confidentiality with the Company with respect to such information.

You are responsible for safeguarding Company information and complying with established security controls and procedures. All documents, records, notebooks, notes, memoranda and similar repositories of information containing information of a secret, proprietary, confidential or generally undisclosed nature relating to the Company or our operations and activities made or compiled by the director, officer or employee or made available to you prior to or during the term of your association with the Company, including any copies thereof, unless otherwise agreed to in writing, belong to the Company and shall be held by you in trust solely for the benefit of the Company, and shall be delivered to the Company by you on the termination of your association with us or at any other time we request.

CONFLICTS OF INTEREST

Conflicts of interest can arise in virtually every area of our operations. A “conflict of interest” exists whenever an individual’s private interests interfere or conflict in any way (or even appear to interfere or conflict) with the interests of the Company. We must strive to avoid conflicts of interest. We must each make decisions solely in the best interest of the Company. Any business, financial or other relationship with suppliers, customers or competitors that might impair or appear to impair the exercise of our judgment solely for the benefit of the Company is prohibited.

Here are some examples of conflicts of interest:

- ***Family Members*** - Actions of family members may create a conflict of interest. For example, gifts to family members by a supplier of the Company are considered gifts to you and must be reported. Doing business for the Company with organizations where your family members are employed or that are partially or fully owned by your family members or close friends may create a conflict or the appearance of a conflict of interest. For purposes of this Code “family members” includes any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law, and adoptive relationships.
- ***Gifts, Entertainment, Loans, or Other Favors*** - Directors, officers and employees shall not seek or accept personal gain, directly or indirectly, from anyone soliciting business from, or doing business with the Company, or from any person or entity in competition with us. Examples of such personal gains are gifts, non-business-related trips, gratuities, favors, loans, and guarantees of loans, excessive entertainment or rewards. However, you may accept gifts of a nominal value. Other than common business courtesies, directors, officers, employees and independent contractors must not offer or provide anything to any person or organization for the purpose of influencing the person or organization in their business relationship with us.

Directors, officers and employees are expected to deal with advisors or suppliers who best serve the needs of the Company as to price, quality and service in making decisions concerning the use or purchase of materials, equipment, property or services. Directors, officers and employees who use the Company's advisors, suppliers or contractors in a personal capacity are expected to pay market value for materials and services provided.

Outside Employment—Officers and employees may not participate in outside employment, self-employment, or serve as officers, directors, partners or consultants for outside organizations, if such activity:

- reduces work efficiency;
- interferes with your ability to act conscientiously in our best interest; or
- requires you to utilize our proprietary or confidential procedures, plans or techniques.

You must inform your supervisor or the CEO of any outside employment, including the employer's name and expected work hours.

CORPORATE OPPORTUNITIES AND USE AND PROTECTION OF COMPANY ASSETS

You are prohibited from:

- taking for yourself, personally, opportunities that are discovered through the use of Company property, information or position;
- using Company property, information or position for personal gain; or
- competing with the Company.

You have a duty to the Company to advance its legitimate interests when the opportunity to do so arises.

You are personally responsible and accountable for the proper expenditure of Company funds, including money spent for travel expenses or for customer entertainment. You are also responsible for the proper use of property over which you have control, including both Company property and funds and property that customers or others have entrusted to your custody. Company assets must be used only for proper purposes.

Company property should not be misused. Company property may not be sold, loaned or given away regardless of condition or value, without proper authorization. Each director, officer and employee should protect our assets and ensure their efficient use. Theft, carelessness and waste have a direct impact on the Company's profitability. Company assets should be used only for legitimate business purposes.

DISCIPLINE FOR NONCOMPLIANCE WITH THIS CODE

Disciplinary actions for violations of this Code can include oral or written reprimands, suspension or termination of employment or a potential civil lawsuit against you. The violation of laws, rules or regulations, which can subject the Company to fines and other penalties, may result in your criminal prosecution.

ENVIRONMENT, HEALTH AND SAFETY

The Company is committed to managing and operating our assets in a manner that is protective of human health and safety and the environment. It is our policy to comply, in all material respects, with applicable health, safety and environmental laws and regulations. Each employee is also expected to comply with our policies, programs, standards and procedures.

FILING OF GOVERNMENT REPORTS

Any reports or information provided on our behalf to federal, state, local or foreign governments should be true, complete and accurate. Any omission, misstatement or lack of attention to detail could result in a violation of the reporting laws, rules and regulations.

FOREIGN CORRUPT PRACTICES ACT

The United States Foreign Corrupt Practices Act prohibits giving anything of value, directly or indirectly, to foreign government officials or foreign political candidates in order to obtain, retain or direct business. Accordingly, corporate funds, property or anything of value may not be, directly or indirectly, offered or given by you or an agent acting on our behalf, to a foreign official, foreign political party or official thereof or any candidate for a foreign political office for the purpose of influencing any act or decision of such foreign person or inducing such person to use his influence or in order to assist in obtaining or retaining business for, or directing business to, any person.

You are also prohibited from offering or paying anything of value to any foreign person if it is known or there is a reason to know that all or part of such payment will be used for the above-described prohibited actions. This provision includes situations when intermediaries, such as affiliates, or agents, are used to channel payoffs to foreign officials.

INTELLECTUAL PROPERTY: PATENTS, COPYRIGHTS AND TRADEMARKS

Except as otherwise agreed to in writing between the Company and an officer or employee, all intellectual property you conceive or develop during the course of your employment shall be the sole property of the Company. The term intellectual property includes any invention, discovery, concept, idea, or writing whether protectable or not by any United States or foreign copyright, trademark, patent, or common law including, but not limited to designs, materials, compositions of matter, machines, manufactures, processes, improvements, data, computer software, writings, formula, techniques, know-how, methods, as well as improvements thereof or know-how related thereto concerning any past, present, or prospective activities of the Company. Officers and employees must promptly disclose in writing to the Company any intellectual property developed or conceived either solely or with others during the course of your employment and must render any and all aid and assistance, at our expense, to secure the appropriate patent, copyright, or trademark protection for such intellectual property.

If you are unclear as to the application of this Intellectual Property Policy or if questions arise, please consult with your supervisor or our CEO, who may refer you to our legal counsel.

INVESTOR RELATIONS AND PUBLIC AFFAIRS

It is very important that the information disseminated about the Company be both accurate and consistent. For this reason, all matters relating to the Company's internal and external communications are handled by our CEO (or, if retained for such purpose, a public relations consultant). Our CEO serves as the Company's spokesperson in both routine and crisis situations.

RETALIATION PROHIBITED

We will not allow retaliation against an employee for reporting a possible violation of this Code in good faith. Retaliation for reporting a federal offense is illegal under federal law and prohibited under this Code. Retaliation for reporting any violation of a law, rule or regulation or a provision of this Code is prohibited. Retaliation will result in discipline, up to and including termination of employment, and may also result in criminal prosecution. However, if a reporting individual was involved in improper activity the individual may be appropriately disciplined even if he or she was the one who disclosed the matter to the Company. In these circumstances, we may consider the conduct of the reporting individual in reporting the information as a mitigating factor in any disciplinary decision.

POLITICAL CONTRIBUTIONS

You must refrain from making any use of Company, personal or other funds or resources on behalf of the Company for political or other purposes which are improper or prohibited by the applicable federal, state, local or foreign laws, rules or regulations. Company contributions or expenditures in connection with election campaigns will be permitted only to the extent allowed by federal, state, local or foreign election laws, rules and regulations.

You are encouraged to participate actively in the political process. We believe that individual participation is a continuing responsibility of those who live in a free country.

PROHIBITED SUBSTANCES

We prohibit the use of alcohol, illegal drugs or other prohibited items, including legal drugs which affect the ability to perform one's work duties, while on Company premises. We also prohibit the possession or use of alcoholic beverages, firearms, weapons or explosives on our property unless authorized by our CEO. You are also prohibited from reporting to work while under the influence of alcohol or illegal drugs.

RECORD RETENTION

The alteration, destruction or falsification of corporate documents or records may constitute a criminal act. Destroying or altering documents with the intent to obstruct a pending or anticipated official government proceeding is a criminal act and could result in large fines and a prison sentence. Document destruction or falsification in other contexts can result in a violation of the obstruction of justice laws.

REPORTING VIOLATIONS OF THIS CODE

You should be alert and sensitive to situations that could result in actions that might violate federal, state, or local laws or the standards of conduct set forth in this Code. If you believe your own conduct or that of a fellow employee may have violated any such laws or this Code, you have an obligation to report the matter.

Generally, you should raise such matters first with an immediate supervisor. However, if you are not comfortable bringing the matter up with your immediate supervisor, or do not believe the supervisor has dealt with the matter properly, then you should raise the matter with our CEO who may, if a law, rule or regulation is in question, then refer you to our legal counsel. The most important point is that possible violations should be reported and we support all means of reporting them.

Directors and officers should report any potential violations of this Code to the chairman of the Board of Directors or to our legal counsel.

WAIVERS

There shall be no waiver of any part of this Code for any director or officer except by a vote of the Board of Directors.

CONCLUSION

This Code is an attempt to point all of us at the Company in the right direction, but no document can achieve the level of principled compliance that we are seeking. In reality, each of us must strive every day to maintain our awareness of these issues and to comply with the Code's principles to the best of our abilities. Before we take an action, we must always ask ourselves:

- Does it feel right?
- Is this action ethical in every way?
- Is this action in compliance with the law?
- Could my action create an appearance of impropriety?
- Am I trying to fool anyone, including myself, about the propriety of this action?

If an action would elicit the wrong answer to any of these questions, do not take it. We cannot expect perfection, but we do expect good faith. If you act in bad faith or fail to report illegal or unethical behavior, then you will be subject to disciplinary procedures. We hope that you agree that the best course of action is to be honest, forthright and loyal at all times.

Please acknowledge your receipt of this Code by signing and dating the attached receipt and returning it to Charles De Tarr.

I have received a copy of the Ideal Power Converters, Inc. Code of Business Conduct and Ethics.

Date: _____

Employee Signature

Print Name

Exhibit 23.1

GUMBINER SAVETT INC.
CERTIFIED PUBLIC ACCOUNTANTS
& BUSINESS ADVISORS
Santa Monica, California

CONSENT OF INDEPENDENT REGISTRERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Ideal Power Inc.

We hereby consent to the use in the Prospectus constituting a part of this Registration Statement of our report dated July 16, 2013, except for Notes 17 and 18 for which the date is August 2, 2013, relating to the financial statements of Ideal Power Inc. (the "Company") as of December 31, 2012 and 2011, and the related statements of operations, stockholders' deficit, and cash flows for each of the years in the two-year period ended December 31, 2012, which is contained in the Prospectus. Our report contains an explanatory paragraph regarding the Company's ability to continue as a going concern.

We also consent to the reference to us under the caption "Experts" in the Prospectus.

/s/ Gumbiner Savett Inc.
August 6, 2013

Santa Monica, California