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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number: 000-30939

ACTIVE POWER, INC.

(Exact name of registrant as specified in its charter)

Delaware

74-2961657

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

2128 W. Braker Lane, BK 12, Austin, Texas

78758

(Address of principal executive offices)

(Zip Code)

(512) 836-6464

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes No

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 (Do not check if a smaller reporting company)

Smaller reporting company

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

The number of shares of common stock, par value of \$0.001 per share, outstanding at April 20, 2016 was 23,110,059.

ACTIVE POWER, INC.
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PART I – FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements.

Active Power, Inc.
Condensed Consolidated Balance Sheets
(in thousands, except par value)

	<u>March 31, 2016</u>	<u>December 31, 2015</u>
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,220	\$ 12,260
Restricted cash	38	36
Accounts receivable, net of allowance for doubtful accounts of \$71 and \$70 at March 31, 2016 and December 31, 2015, respectively	5,066	8,849
Inventories, net	8,353	6,466
Prepaid expenses and other	726	792
Total current assets	25,403	28,403
Property and equipment, net	1,599	1,914
Deposits and other	275	278
Total assets	<u>\$ 27,277</u>	<u>\$ 30,595</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,411	\$ 2,852
Accrued expenses	3,673	4,494
Deferred revenue	5,383	3,576
Revolving line of credit	5,535	5,535
Total current liabilities	17,002	16,457
Long-term liabilities	465	583
Commitments and contingencies		
Stockholders' equity:		
Preferred stock - \$0.001 par value; 2,000 shares authorized	—	—
Common stock - \$0.001 par value; 40,000 shares authorized; 23,173 and 23,171 shares issued and 23,110 and 23,109 shares outstanding at March 31, 2016 and December 31, 2015, respectively	23	23
Treasury stock	(241)	(240)
Additional paid-in capital	304,461	304,094
Accumulated deficit	(294,509)	(290,454)
Other accumulated comprehensive income	76	132
Total stockholders' equity	9,810	13,555
Total liabilities and stockholders' equity	<u>\$ 27,277</u>	<u>\$ 30,595</u>

See accompanying notes.

Active Power, Inc.
Condensed Consolidated Statement of Operations and Comprehensive Loss
(in thousands, except per share amounts; unaudited)

	Three Months Ended March 31,	
	2016	2015
Revenues:		
Product revenue	\$ 2,840	\$ 9,548
Service and other revenue	2,825	3,581
Total revenue	<u>5,665</u>	<u>13,129</u>
Cost of goods sold:		
Cost of product revenue	3,141	6,971
Cost of service and other revenue	1,706	1,851
Total cost of goods sold	<u>4,847</u>	<u>8,822</u>
Gross profit	818	4,307
Operating expenses:		
Research and development	1,196	1,516
Selling and marketing	2,173	2,706
General and administrative	1,362	1,558
Total operating expenses	<u>4,731</u>	<u>5,780</u>
Loss from operations	(3,913)	(1,473)
Interest expense	(85)	(79)
Other expense, net	(57)	(7)
Net loss	<u>\$ (4,055)</u>	<u>\$ (1,559)</u>
Net loss per share, basic and diluted	\$ (0.18)	\$ (0.07)
Shares used in computing net loss per share, basic and diluted	23,139	23,130
Comprehensive loss:		
Net loss	\$ (4,055)	\$ (1,559)
Translation loss on subsidiaries denominated in foreign currencies	(56)	(160)
Comprehensive loss	<u>\$ (4,111)</u>	<u>\$ (1,719)</u>

See accompanying notes.

Active Power, Inc.
Condensed Consolidated Statement of Stockholders' Equity
(in thousands; unaudited)

	<u>Common Stock</u>		<u>Treasury Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Other Accumulated Comprehensive Income (Loss)</u>	<u>Total Stockholders' Equity</u>
	<u>Number of Shares</u>	<u>Par Value</u>	<u>Number of Shares</u>	<u>At Cost</u>				
Balance at December 31, 2015	23,171	\$ 23	62	\$ (240)	\$ 304,094	\$ (290,454)	\$ 132	\$ 13,555
Release of Restricted Stock	2	—	—	—	—	—	—	—
Shares held in treasury	—	—	1	(1)	—	—	—	(1)
Net translation loss on foreign subsidiaries	—	—	—	—	—	—	(56)	(56)
Stock-based compensation	—	—	—	—	367	—	—	367
Net loss	—	—	—	—	—	(4,055)	—	(4,055)
Balance at March 31, 2016	<u>23,173</u>	<u>\$ 23</u>	<u>63</u>	<u>\$ (241)</u>	<u>\$ 304,461</u>	<u>\$ (294,509)</u>	<u>\$ 76</u>	<u>\$ 9,810</u>

See accompanying notes.

Active Power, Inc.
Condensed Consolidated Statement of Cash Flows
(in thousands; unaudited)

	Three Months Ended March	
	31,	
	2016	2015
Operating activities		
Net loss	\$ (4,055)	\$ (1,559)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation expense	217	293
Net change to allowance for doubtful accounts	1	33
Loss (gain) on disposal of fixed assets	20	—
Stock-based compensation	367	323
Changes in operating assets and liabilities:		
Restricted cash	(2)	(498)
Accounts receivable	3,782	(613)
Inventories	(1,778)	(552)
Prepaid expenses and other assets	69	(53)
Accounts payable	(441)	58
Accrued expenses	(821)	(494)
Deferred revenue	1,807	297
Long term liabilities	(118)	(61)
Net cash used in operating activities	(952)	(2,826)
Investing activities		
Purchases of property and equipment	(28)	(140)
Net cash used in investing activities	(28)	(140)
Financing activities		
Taxes paid related to net share settlement of equity awards	(1)	(3)
Net cash used in financing activities	(1)	(3)
Effects of exchange rates on cash	(59)	(128)
Change in cash and cash equivalents	(1,040)	(3,097)
Cash and cash equivalents, beginning of period	12,260	14,824
Cash and cash equivalents, end of period	<u>\$ 11,220</u>	<u>\$ 11,727</u>

See accompanying notes.

Active Power, Inc.
Notes to Condensed Consolidated Financial Statements
March 31, 2016
(unaudited)

1. Basis of Presentation

Active Power, Inc. and its subsidiaries (collectively, “we”, “us”, “Active Power” or “Company”) design, manufacture, sell, and service flywheel-based uninterruptible power supply (“UPS”) products that use kinetic energy to provide short-term power as a cleaner alternative to conventional electrochemical battery-based energy storage. We also design, manufacture, sell, and service modular infrastructure solutions (“MIS”) that integrate critical power components into a pre-packaged, purpose-built enclosure that may include our UPS products as a component. In the first quarter of 2016, 94% of our product revenue came from the sale of UPS systems and 6% from the sale of MIS products. Our products and solutions are based on our patented flywheel and power electronics technology and are designed to ensure continuity for data centers and other mission critical operations in the event of power disturbances.

Our products and solutions are designed to deliver continuous conditioned power during power disturbances such as voltage sags and surges, and to provide ride-through power in the event of a brief utility failure, supporting operations until utility power is restored or a longer term alternative power source, such as a diesel generator, is started. We sell our products globally through our direct sales force, manufacturer’s representatives, distributors, original equipment manufacturers (“OEM”), and IT partners in the Americas, in Europe, the Middle East, and Africa (“EMEA”), and in the Asia Pacific region (“APAC”).

We also offer services, including hardware and software maintenance, on all Active Power products, and other professional services such as assessment and implementation, for our customers’ infrastructure projects.

We were founded as a Texas corporation in 1992 and reincorporated in Delaware in 2000. Our headquarters are in Austin, Texas, with international offices in the United Kingdom, Germany, and China.

The accompanying condensed consolidated balance sheet as of December 31, 2015, which has been derived from our audited financial statements, and the unaudited condensed consolidated financial statements as of March 31, 2016, have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) for interim financial statements and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim reporting, and include the accounts of the Company and its consolidated subsidiaries. All intercompany transactions and balances have been eliminated upon consolidation. Certain information and note disclosures normally included in annual financial statements prepared in accordance with US GAAP have been condensed or omitted pursuant to those rules and regulations, although we believe the disclosures made are adequate to make the information not misleading. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring items) necessary to present fairly the consolidated financial position of the Company and its consolidated results of operations and cash flows. These interim financial statements should be read in conjunction with the financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2015.

2. Significant Accounting Policies and Supplemental Balance Sheet Information

For a complete description of our principal accounting policies see Note 1. “Summary of Significant Accounting Policies,” to our Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015. Shown below are certain of our principal accounting policies.

Restricted Cash

Our restricted cash balance of \$38,000 as of March 31, 2016, consists of a \$6,000 deposit guarantee for our building lease in Germany, which renews every six months through the term of the lease agreement and a \$32,000 performance guarantee to a customer that was secured with a letter of credit, which expires in June 2017. As of December 31, 2015, our restricted cash balance was \$36,000, which consisted of secured performance and deposit guarantees.

Receivables

Accounts receivable consist of the following (in thousands):

	March 31, 2016	December 31, 2015
Trade receivables	\$ 5,137	\$ 8,919
Less: Allowance for doubtful accounts	(71)	(70)
	<u>\$ 5,066</u>	<u>\$ 8,849</u>

We estimate an allowance for doubtful accounts based on factors related to the credit risk of each customer. Historically, credit losses have been minimal, primarily because the majority of our revenues were generated from large customers, such as Caterpillar, Inc. (“Caterpillar”) and Hewlett Packard Enterprise. We perform credit evaluations of new customers and when necessary we require deposits, prepayments or use of bank instruments such as trade letters of credit to mitigate our credit risk. We write off uncollectable trade receivables, and record any recoveries of previous write offs against the allowance. Our standard payment terms are net 30 days; however, we may have agreements with certain larger customers and certain distributors that allow for more extended terms at or above net 60 days.

Inventories, net

Inventories are stated at the lower of cost or market, using the first-in-first-out method, and consist of the following (in thousands, net of allowances of \$0.8 million at both March 31, 2016 and December 31, 2015):

	March 31, 2016	December 31, 2015
Raw materials	\$ 5,704	\$ 4,748
Work in process	1,916	1,425
Finished goods	733	293
	<u>\$ 8,353</u>	<u>\$ 6,466</u>

Accrued Expenses

Accrued expenses consist of the following (in thousands):

	March 31, 2016	December 31, 2015
Compensation, severance and benefits	\$ 1,036	\$ 727
Management incentive bonus	1,200	1,282
Warranty liability	431	531
Taxes, other than income	171	518
Professional fees	259	441
Deferred Rent and other	576	995
	<u>\$ 3,673</u>	<u>\$ 4,494</u>

Warranty Liability

Generally, the warranty period for our products is 12 months from the date of commissioning or 18 months from the date of shipment from Active Power, whichever period is shorter. Occasionally, we provide longer warranty periods to certain customers. The warranty period for products sold to our primary OEM customer, Caterpillar, is 12 months from the date of shipment to the end-user, or up to 36 months from shipment from Active Power, whichever period is shorter. This is dependent upon Caterpillar complying with our storage requirements for our products in order to preserve this warranty period beyond the standard 18-month

limit. We provide for the estimated cost of product warranties at the time revenue is recognized, and this accrual is included in accrued expenses and long-term liabilities on the accompanying consolidated balance sheet. Changes in our warranty liability are as follows (in thousands):

Balance at December 31, 2015	\$	572
Warranty expense		14
Payments		(145)
Balance at March 31, 2016	\$	441
Warranty liability included in accrued expenses	\$	431
Warranty liability included in long-term liabilities		10
Balance at March 31, 2016	\$	441

Revenue Recognition

We recognize revenue when four criteria are met: (i) persuasive evidence that an arrangement exists; (ii) delivery has occurred or services have been rendered; (iii) the sales price is fixed or determinable; and (iv) collectability is reasonably assured. In general, revenue is recognized when revenue-generating transactions fall into one of the following categories of revenue recognition:

- We recognize product revenue at the time of shipment for a significant portion of all products sold directly to customers and through distributors because title and risk of loss pass on delivery to the common carrier. Our customers and distributors do not have the right to return products. We may enter into bill-and-hold arrangements and when this occurs delivery may not be present, but other criteria are reviewed to determine proper timing of revenue recognition.
- Unless performed under a maintenance contract, we recognize installation, service and maintenance revenue at the time the service is performed.
- We recognize revenue associated with maintenance agreements over the life of the contracts using the straight-line method, which approximates the expected timing in which applicable services are performed. Amounts collected in advance of revenue recognition are recorded as a current liability in the deferred revenue line of the consolidated balance sheet or as a long-term liability based on the time from the balance sheet date to the future date of revenue recognition.
- We recognize revenue on certain rental programs over the life of the rental agreements using the straight-line method. Amounts collected in advance of revenue recognition are recorded as a current or long-term liability based on the time from the balance sheet date to the future date of revenue recognition.

When collectability is not reasonably assured, we defer revenue and will recognize revenue as payments are received.

Multiple element arrangements (“MEAs”) are arrangements to sell products to customers that frequently include multiple deliverables. Our most significant MEAs include the sale of one or more of our CleanSource® UPS or CleanSource PowerHouse products, combined with one or more of the following products or services: design services, project management, commissioning and installation services, spare parts or consumables, and maintenance agreements. Delivery of the various products or performance of services within the arrangement may or may not coincide. Certain services related to design and consulting may occur prior to product delivery. Commissioning and installation typically take place within six months of product delivery, depending upon customer requirements. Maintenance agreements, consumables, and repair, maintenance or consulting services are generally delivered over a period of one to five years.

When arrangements include multiple elements, we allocate revenue to each element based on the relative selling price and recognize revenue when the elements have standalone value and the four criteria for revenue recognition have been met. We establish the selling price of each element based on Vendor Specific Objective Evidence (“VSOE”) if available, Third Party Evidence (“TPE”) if VSOE is not available, or best estimate of selling price if neither VSOE nor TPE is available. We generally determine selling price based on amounts charged separately for the delivered and undelivered elements to similar customers in standalone sales of the specific elements. When arrangements include a maintenance agreement, we recognize revenue related to the maintenance agreement at the relative selling price on a straight-line basis over the life of the agreement.

Any taxes imposed by governmental authorities on our revenue-producing transactions with customers are shown in our consolidated statements of operations on a net-basis; that is, excluded from our reported revenues.

Recently issued accounting pronouncements not yet adopted

In March 2016, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2016-09, (“ASU 2016-09”), Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments in this update simplify several aspects of the accounting for share-based payment award transactions including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. For public entities, ASU 2016-09 is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. We do not expect the adoption of this standard will have a material effect on our consolidated financial statements.

In February 2016, FASB issued ASU No. 2016-02, (“ASU 2016-02”), Leases (Topic 842). The amendments in this update require lessees to recognize a lease liability measured on a discounted basis and a right-of-use asset for all leases at the commencement date. For public entities, ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, and is to be applied using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. We are evaluating the new guidelines to see if they will have a significant impact on our consolidated results of operation, financial condition or cash flows.

In November 2015, the FASB issued ASU No. 2015-17, (“ASU 2015-17”), Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. The amendments in this update simplify the presentation of deferred income taxes and require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. This update applies to all entities that present a classified statement of financial position. These amendments may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. If the guidance is applied prospectively, disclosure is made in the first interim and first annual period of change, the nature of and reason for the change in accounting principle and a statement that prior periods were not retrospectively adjusted. If the guidance is applied retrospectively, disclosure is made in the first interim and first annual period of change, the nature of and reason for the change in accounting principle and quantitative information about the effects of the accounting change on prior periods. ASU 2015-17 is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. We do not expect the adoption of this standard will have a material effect on our consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, (“ASU 2015-11”), “Inventory (Topic 330): Simplifying the Measurement of Inventory.” ASU 2015-11 requires an entity to measure in scope inventory at the lower of cost and net realizable value. The amendment does not apply to inventory that is measured using the last-in, first-out or the retail inventory method. For public entities, ASU 2015-11 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, and is to be applied prospectively. We do not expect the adoption of this standard will have a material effect on our consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, “Disclosure of Uncertainties About an Entity’s Ability to Continue as a Going Concern”. ASU 2014-15 requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year of the date the financial statements are issued and provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. Certain disclosures will be required if conditions give rise to substantial doubt about an entity’s ability to continue as a going concern. ASU 2014-15 applies to all entities and is effective for annual and interim reporting periods ending after December 15, 2016, with early adoption permitted. We are evaluating the new guidelines to see if they will have a significant impact on our consolidated results of operation, financial condition or cash flows.

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In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers”, “Topic 606”. This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance, and creates a Topic 606 Revenue from Contracts with Customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date”, which defers the effective date of its new revenue recognition standard by one year. In March, 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)”, which is intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations by amending certain existing illustrative examples and adding additional illustrative examples. We will adopt this guidance January 1, 2018. We are evaluating the new guidelines to determine if they will have a significant impact on our consolidated results of operation, financial condition or cash flows.

3. Net Loss Per Share

The following table sets forth the computation of basic and diluted net loss per share (in thousands, except per share data):

	Three Months Ended March 31,	
	2016	2015
Net loss	\$ (4,055)	\$ (1,559)
Basic and dilutive:		
Weighted-average shares of common stock outstanding used in computing basic and diluted net loss per share	23,139	23,130
Basic and diluted net loss per share	\$ (0.18)	\$ (0.07)

The calculation of diluted loss per share excludes 3,378,788 and 3,132,744 shares of common stock issuable upon exercise of employee stock options for the three months ended March 31, 2016 and 2015, respectively, and non-vested shares of restricted stock units issuable upon vesting of 480,200 and 17,143 shares for the three months ended March 31, 2016 and 2015, respectively, because their inclusion would be anti-dilutive.

4. Fair Value of Financial Instruments

Fair value is measured based on an exit price, representing the amount that would be received to sell an asset or paid to satisfy a liability in an orderly transaction between market participants. Fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, a fair value hierarchy is established, which categorizes the inputs used in measuring fair value as follows:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Significant observable inputs other than quoted prices in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3—One or more significant inputs that are unobservable and supported by little or no market data.

Highest priority is given for Level 1 input and lower priority to Level 3 inputs. A financial instrument’s level is based on the lowest level of any input that is significant to the fair value measurement. No changes were made to our methodology.

Our Level 1 assets consist of cash equivalents, which are primarily invested in money-market funds. These assets are classified as Level 1 because they are valued using quoted prices in active markets and other relevant information generated by market transactions involving identical assets and liabilities. The fair value was \$3.1 million as of March 31, 2016 and December 31, 2015.

For cash and cash equivalents, accounts receivable, accounts payable and our revolving line of credit, the carrying amount approximates fair value because of the relative short maturity of those instruments.

5. Guarantees

In certain geographical regions, particularly Europe, we are sometimes required to issue performance guarantees to our customers as a condition of sale. These guarantees usually provide financial protection to our customers in the event that we fail to fulfill our delivery or warranty obligations. We secure these guarantees with standby letters of credit through our bank. At March 31, 2016, we had a \$6,000 deposit guarantee for our building lease in Germany, which renews every six months through the term of the lease agreement and a \$32,000 performance guarantee to a customer that was secured with a letter of credit, which expires in June 2017. As of December 31, 2015, our restricted cash balance was \$36,000, which consisted of secured performance and deposit guarantees. There is no foreseeable risk that we will not be able to meet the performance obligations. Our restricted cash, as shown on the balance sheet, is related to these guarantees.

6. Revolving Line of Credit

Our Second Amended and Restated Loan and Security Agreement dated August 5, 2010 (as amended on March 5, 2012, August 15, 2012 and July 28, 2014, the "Loan Agreement") with Silicon Valley Bank ("SVB") gives us flexibility to help fund our business operations and manage our working capital requirements. The Loan Agreement provides for a secured revolving line of credit with a maturity date of August 5, 2017. We may borrow an aggregate amount of up to eighty percent (80%) of the facility amount of \$18.8 million, or \$15.0 million, subject to certain borrowing bases. We may also request that SVB issue letters of credit on our behalf, of up to \$1.5 million, as a portion of the total facility amount. The facility allows us to borrow against our U.S., United Kingdom ("U.K.") and German accounts receivables and also allows us to borrow against our eligible inventory and purchase orders. Purchase orders and eligible inventory are subject to a sublimit of \$3.0 million and \$4.0 million, respectively, and accounts receivable for U.K. and Germany have a \$5.0 million sublimit. However, if we maintain our liquidity ratio at or above 2.50:1.00 for the immediately preceding two reconciliation periods the sublimits will be uncapped. The liquidity ratio is defined as unrestricted cash, cash equivalents and marketable securities on which SVB has a perfected security interest, plus the aggregate amount of eligible accounts receivable accounts divided by all obligations we owe to SVB. The finance charge is a per annum rate equal to SVB's prime rate, subject to a minimum prime rate of 4.00%, plus (a) 0.50% for eligible accounts, inventory and purchase orders when we are Borrowing Base Eligible, or (b) 1.20% for eligible accounts when we are not Borrowing Base Eligible. We are "Borrowing Bases Eligible" when our liquidity ratio is equal to or greater than 1.75:1.00 at all times for at least sixty consecutive days.

The revolving loans made to us under the Loan Agreement are secured by a lien on substantially all of our assets, including the assets of Active Power Solutions Limited ("Active Power Limited"), our wholly-owned U.K. subsidiary, and the assets of Active Power (Germany) GmbH, our indirect wholly-owned German subsidiary. The only direct or indirect subsidiaries of Active Power, Inc. that are not guarantors under the Loan Agreement are Active Power China (Beijing) Co. Ltd. and immaterial subsidiaries that are not operating companies. There are no restrictions on the ability of any of the subsidiary guarantors to transfer funds to Active Power, Inc. in the form of loans, advances or dividends, except as provided by applicable law.

The Loan Agreement includes customary affirmative covenants for a credit facility of this size and type, including delivery of financial statements, compliance with laws, maintenance of insurance, and protection of intellectual property rights. Further, the Loan Agreement contains customary negative covenants for a credit facility of this size and type, including covenants that limit or restrict our ability, among other things, to dispose of assets, change our business, change our CEO or CFO without replacing such person within 120 days, have a change in control, make acquisitions, be acquired, incur indebtedness, grant liens, make investments, make distributions, repurchase stock, and enter into certain transactions with affiliates.

The Loan Agreement contains customary events of default that include, among other things, non-payment defaults, covenant defaults, material adverse change defaults, insolvency defaults, material judgment defaults and inaccuracy of representations and warranty defaults. The financial covenant requires us to maintain a liquidity ratio equal to or greater than 1.25:1.00. The occurrence of an event of default could result in the acceleration of obligations under the Loan Agreement, in which case we must repay all loans and related charges, fees and amounts then due and payable, and Active Power Limited may be required to pay any such amounts under the Guarantee and Debenture Agreement, dated August 5, 2010 between Active Power Limited and SVB. At the election of SVB, upon the occurrence and during the continuance of an event of default, finance charges or interest rates, as applicable, will increase an additional 5.00% per annum above the rate that is otherwise applicable thereto upon the occurrence of such event of default, and the collateral handling fees will increase by 0.50%.

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We believe we are currently in and expect to remain in compliance with the covenants and restrictions under the Loan Agreement as of the date of this report. If we fail to stay in compliance with our covenants or experience some other event of default, we may be forced to repay the outstanding borrowings under this credit facility.

During 2012, we borrowed \$5.5 million under the Loan Agreement based on our short term liquidity requirements, and have not borrowed any additional amounts after this initial borrowing. As of March 31, 2016, we had outstanding borrowings of \$5.5 million under this Loan Agreement. Based on the borrowing base formula subsequent to the amendment, the additional amount available for use at March 31, 2016 was \$1.5 million. As of December 31, 2015, our additional amount available to us was \$5.9 million. For further information regarding this loan facility, refer to our Annual Report on Form 10-K for the year ended December 31, 2015, and to our Current Report on Form 8-K filed on July 29, 2014.

7. Commitments and Contingencies

We may be involved, either as plaintiff or defendant, in a variety of ongoing claims, demands, suits, investigations, tax matters and proceedings that arise from time to time in the ordinary course of our business. We evaluated all potentially significant litigation, government investigations, claims or assessments in which we are involved and do not believe that any of these matters, individually or in the aggregate, will result in losses that are materially in excess of amounts already recognized, if any.

We record an accrual with respect to a claim, suit, investigation or proceeding when it is reasonably probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Any recorded liabilities, including any changes to such liabilities for the quarter ended March 31, 2016, were not material to the Consolidated Financial Statements.

The following is a summary of the more significant legal matters involving the Company.

SEC Inquiry

As previously disclosed, by letter dated September 30, 2013, the SEC Division of Enforcement notified us that it was conducting an investigation regarding us, including matters relating to our public statements regarding Digital China Information Service Company Limited and our distribution relationships in China. On March 31, 2016, we received notification from the SEC that it had concluded its investigation and that no enforcement action had been recommended against the Company.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with, and is qualified in its entirety by reference to, the financial statements and notes thereto included in Item 1 of this Form 10-Q and the financial statements and notes thereto and our Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2015, included in our 2015 Annual Report on Form 10-K. This report contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, that involve risks and uncertainties. Our expectations with respect to future results of operations that may be embodied in oral and written forward-looking statements, including any forward-looking statements that may be included in this report, are subject to risks and uncertainties that must be considered when evaluating the likelihood of our realization of such expectations. Our actual results could differ materially. The words "believe," "expect," "intend," "plan," "project," "will," and similar phrases as they relate to us are intended to identify such forward-looking statements. For further discussion regarding forward-looking statements, please see "Special Note Regarding Forward-Looking Statements" in our 2015 Annual Report on Form 10-K. In addition, please see the "Risk Factors" in Part I, Item 1A, of our 2015 Annual Report on Form 10-K and in Part II, Item 1A, of this Form 10-Q for a discussion of items that may affect our future results.

Overview

Active Power designs, manufactures, sells, and services flywheel-based UPS products that use kinetic energy to provide short-term power as a cleaner alternative to conventional electro-chemical battery-based energy storage. Our UPS products are based on our patented flywheel and power electronics technology, and are designed to ensure continuity for data centers and other mission critical operations in the event of power disturbances. We also design, manufacture, sell, and service MIS that integrate critical power components into a pre-packaged, purpose-built enclosure that may include our UPS products as a component. In the first quarter of 2016, 94% of our product revenue came from the sale of UPS systems and 6% from the sale of MIS products.

Our products and solutions are designed to deliver continuous conditioned power during power disturbances such as voltage sags and surges, and to provide ride-through power in the event of a brief utility failure, supporting operations until utility power is restored or a longer term alternative power source, such as a diesel generator, is started. We sell our products globally through our direct sales force, manufacturer's representatives, distributors, OEMs, and IT channel partners in the Americas, in EMEA, and in APAC.

We also offer services, including hardware and software maintenance, on all Active Power products, and other professional services such as assessment and implementation, for our customers' infrastructure projects.

We were founded as a Texas corporation in 1992 and reincorporated in Delaware in 2000. Our headquarters are in Austin, Texas with international offices in the U.K., Germany and China.

In the three-month period ended March 31, 2016, we continued to focus on increasing bookings and backlog, improving operational efficiencies, and controlling costs. However, our results of operations during the period were adversely impacted both by customers deferring delivery of previously placed orders and by customers delaying the placement of new orders. We believe that customers may be delaying capital investment spending during this period of economic uncertainty and slow global growth. While we are unable to predict the timing of future orders, we plan to emphasize the attractive total cost of ownership of our products and solutions. In addition, we expect our products and solutions to become more desirable as cost conscious customers reduce the length of their UPS runtime specifications, come to understand and accept the cost and other benefits of our modular approach, and especially seek to reduce the CO2 emissions and toxic materials being unnecessarily released into our global environment.

Results of Operations

Below are our revenues and costs and expenses for the three-month periods ended March 31, 2016 and 2015. This information should be read in conjunction with our Consolidated Financial Statements and notes thereto contained in Item 1 of this Form 10-Q.

(\$ in thousands)	Three Months Ended March 31,			
	2016	2015	\$ change	% change
Product revenue	\$ 2,840	\$ 9,548	\$ (6,708)	(70)%
Service and other revenue	2,825	3,581	(756)	(21)%
Total revenue	5,665	13,129	(7,464)	(57)%
Cost of product revenue	3,141	6,971	(3,830)	(55)%
Cost of service and other revenue	1,706	1,851	(145)	(8)%
Total cost of goods sold	4,847	8,822	(3,975)	(45)%
Gross profit	818	4,307	(3,489)	(81)%
Operating expenses:				
Research and development	1,196	1,516	(320)	(21)%
Selling and marketing	2,173	2,706	(533)	(20)%
General and administrative	1,362	1,558	(196)	(13)%
Total operating expenses	4,731	5,780	(1,049)	(18)%
Loss from Operations	(3,913)	(1,473)	(2,440)	(166)%
Interest expense, net	(85)	(79)	(6)	(8)%
Other income (expense), net	(57)	(7)	(50)	(714)%
Net loss	<u>\$ (4,055)</u>	<u>\$ (1,559)</u>	<u>\$ (2,496)</u>	<u>(160)%</u>

Product revenue. Our product revenue was derived from the following sources:

(\$ in thousands)	Three Months Ended March 31,		Variance	
	2016	2015	\$ change	% change
Product revenue:				
UPS product revenue	\$ 2,682	\$ 7,177	\$ (4,495)	(63)%
Modular Infrastructure Solutions	158	2,371	(2,213)	(93)%
Total product revenue	\$ 2,840	\$ 9,548	\$ (6,708)	(70)%

Total product revenue for the three-month period ended March 31, 2016 decreased by \$6.7 million, or 70%, to \$2.8 million compared to \$9.5 million in the same period in 2015. The decrease was driven primarily by a decrease in UPS sales of \$4.5 million and a decrease in MIS sales of \$2.2 million. The decrease is due to lower bookings in the previous quarter. Inherent variability in demand for our products contributes to quarterly fluctuations in mix as orders can range from multi-million dollar MIS or UPS shipments to a single module UPS shipment for less than \$100,000. One large MIS order in a quarter, for example, can have a significant impact on the business in any particular period.

Product revenue from our OEM channel for the three-month period ended March 31, 2016 was \$1.0 million, a decrease of approximately \$3.0 million, compared to revenue of \$4.0 million for the first quarter of 2015. The size and volume of orders from our OEM channel can fluctuate significantly on a quarterly basis. The first quarter of 2015 period contained some large project orders which were not repeated in the current period. Total sales inclusive of service and spare parts to Caterpillar, our primary OEM channel, represented 23% of our total revenue for the three-month period ended March 31, 2016, compared to 35% of our total revenue, in the comparable period of 2015.

Product revenue from our IT channel for the first quarter of 2016 was \$0, compared to \$0.9 million for the first quarter of 2015. This decrease was driven primarily by no orders this quarter compared to two small orders in the first quarter of 2015.

Product revenue in the Americas was \$1.6 million, or 55% of our product revenue, for the three-month period ended March 31, 2016, compared to \$7.3 million, or 76% of our product revenue, for the same period in 2015. The decrease reflects lower UPS sales of \$3.4 million and lower MIS revenues of \$2.4 million for the three-month period ended March 31, 2016 due to large orders that were completed during the first quarter of 2015.

Product revenue to customers in APAC were \$0.9 million, or 32% of our total product revenue, in the three-month period ended March 31, 2016, compared to \$0.1 million, or 1% for the same period in 2015. The increase was driven by higher UPS sales compared to the same period of 2015.

Product revenue in EMEA was \$0.3 million, or 13% of product revenue, in the three-month period ended March 31, 2016, compared to \$2.1 million, or 22%, for the same period of 2015. The decrease in product revenue in EMEA for the three-month period ended March 31, 2016 was primarily attributable to lower OEM channel partner sales during the quarter.

Service and other revenue. Service and other revenue decreased by approximately \$0.8 million, or 21%, to \$2.8 million for the three-month period ended March 31, 2016, compared to \$3.6 million in the same period of 2015. The decrease primarily reflects lower sales of spare parts and professional services in the first quarter of 2016 compared to 2015.

Cost of product revenue. Cost of product revenue as a percentage of total product revenue was 111% for the three-month period ended March 31, 2016, compared to 73% for the same period in 2015. The increase in costs as a percentage of revenue for the three-month period ended March 31, 2016 is related to lower manufacturing absorption associated with the decreased production in the first quarter of 2016.

Cost of service and other revenue. Cost of service and other revenue as a percentage of total service and other revenue was 60% for the three-month period ended March 31, 2016, compared to 52% for the same period of 2015. The increase in cost as a percentage of service revenue reflects higher unabsorbed costs due to lower revenue.

Gross profit. For the three-month periods ended March 31, 2016 and 2015, our gross profit was 14% and 33% of revenue, respectively. The margin decrease for the three-month period ended March 31, 2016 was related to lower absorbed costs during the three-month period ended March 31, 2016 associated with lower revenue.

Research and development. Research and development expenses were \$1.2 million, or 21%, lower in the first quarter of 2016 compared to \$1.5 million in the first quarter of 2015. The decrease was primarily due to lower payroll expense and employee benefits of \$0.2 million and reduced fees from external parties of \$0.1 million related to prototype and testing expenses which were incurred in fiscal 2015.

Selling and marketing. Selling and marketing costs were approximately \$2.2 million in the first quarter of 2016, compared to \$2.7 million for the same period of 2015. The decrease was primarily due to lower payroll expense and sales commissions of \$0.4 million and travel expense of \$0.1 million offset by an increase in severance of \$0.2 million in 2016 compared to 2015.

General and administrative. General and administrative expenses were approximately \$1.4 million for the three-month period ended March 31, 2016, compared to \$1.6 million for the same period of 2015. The decrease was primarily due to lower payroll and bonus expense of \$0.2 million and lower legal expense of \$0.1 million in 2016 compared to 2015.

Interest expense, net. Net interest expense for the three months ended March 31, 2016 remained flat at \$0.1 million compared to the same period in 2015. The interest expense incurred during 2016 and 2015 was in connection with the outstanding balance on our revolving credit facility.

Other income (expense), net. Other expense, net for the three months ended March 31, 2016 increased approximately \$50,000 compared to the same period of 2015. The increase relates to the disposal of fixed assets along with foreign exchange losses or gains on settlement of intercompany balances and sales contracts held in foreign currencies.

Liquidity and Capital Resources

Our primary sources of liquidity at March 31, 2016 are our cash and cash equivalents, our bank credit facilities and projected cash flows from operating activities. If we meet our cash flow projections, we expect that we will have adequate capital resources to continue operating our business for at least the next twelve months. Our projections and our assumptions regarding the adequacy of our liquidity are based on estimates regarding expected revenues and future costs. However, there are scenarios in which our revenues may not meet our projections, our costs may exceed our estimates or our working capital or capital expenditure needs may be greater than anticipated. Further, our estimates may change and future events or developments may also affect our estimates. Any of these factors may change our expectation of cash usage in the remainder of 2016 and beyond or significantly affect our level of liquidity.

Our Second Amended and Restated Loan and Security Agreement dated August 5, 2010 (as amended on March 5, 2012, August 15, 2012 and July 28, 2014, the "Loan Agreement") with Silicon Valley Bank ("SVB") gives us flexibility to help fund our business operations and manage our working capital requirements. For additional information related to the Loan Agreement, please refer to note 6, "Revolving Line of Credit," of the consolidated financial statements on page 12 of this Form 10-Q.

Should additional funding be required or desirable, we would expect to raise the required funds through borrowings or public or private sales of debt or equity securities. If we raise additional funds through the issuance of convertible debt or equity securities, the ownership of our existing stockholders could be significantly diluted. If we obtain additional debt financing, a substantial portion of our operating cash flow may be dedicated to the payment of principal and interest on such indebtedness, and the terms of the debt securities issued could impose significant restrictions on our operations. We do not know whether we will be able to secure additional funding, or funding on terms acceptable to us, to continue our operations as planned. If financing is not available, we may be required to reduce, delay or eliminate certain activities or to license or sell to others some of our proprietary technology.

Operating Activities

The following table summarizes the changes in cash used in operating activities (in thousands):

(\$ in thousands)	Three Months Ended March 31,		Variance	
	2016	2015	\$	%
Cash used in operating activities	\$ (952)	\$ (2,826)	\$ 1,874	66%

Cash used in operating activities was \$1.0 million in the three-month period ended March 31, 2016 compared to \$2.8 million for the same period of 2015. Cash used in operating activities in 2016 was primarily derived from our net loss of \$4.1 million along with our \$1.8 million increase in inventory and a \$1.3 million decrease in accounts payable and accrued expenses offset by a \$3.8 million decrease in accounts receivable and a \$1.8 million increase in deferred revenue. These changes reflect the frequent changes in our working capital, which can be impacted by the timing of product orders and shipments and can result in very large fluctuations in inventory, payables and receivables based on the large size of some of our orders.

Cash used in operating activities in 2015 was primarily due to higher net losses of \$1.6 million combined with an increase in receivables of \$0.6 million and inventory of \$0.6 million.

Investing Activities

The following table summarizes the changes in cash used in investing activities:

(\$ in thousands)	Three Months Ended March 31,		Variance	
	2016	2015	\$	%
Cash used in investing activities	\$ (28)	\$ (140)	\$ 112	80%

Investing activities consist of purchases of property and equipment. Capital expenditures were \$0.1 million lower in the three-month period ending March 31, 2016, compared to the same period of 2015, as we invested less in capital improvements during 2016.

Financing Activities

The following table summarizes the changes in cash provided by financing activities:

(\$ in thousands)	Three Months Ended March 31,		Variance	
	2016	2015	\$	%
Cash used in financing activities	\$ (1)	\$ (3)	\$ 2	(67)%

Funds used in financing activities in the three-month periods ended March 31, 2016 and 2015 primarily include net share settlement of equity awards.

We believe that our cash and cash equivalents, projected cash flows from operations and sources of available liquidity will be sufficient to fund our operations for the next 12 months. However, there are scenarios in which our revenues may not meet our projections, our costs may exceed our estimates or our working capital or capital expenditure needs may be greater than anticipated. The sudden change in business volume, positive or negative, from any of our business or channel partners, or in our direct business, or any customer-driven events such as order or delivery deferral, could significantly impact our revenues and cash needs. The continuing global economic instability and currency fluctuation have increased the already present challenge of predicting future revenues. We do have some opportunity to adjust expenditures or take other measures to reduce our cash consumption if we see and anticipate a shortfall in revenue. We can also identify additional sources of funding if we anticipate an increase in our working capital requirements due to increased revenues or changes in our revenue mix. A significant increase in sales, especially in our MIS business, would likely increase our working capital requirements, due to the longer production time and cash cycle of sales of these products.

Off-Balance Sheet Arrangements, Guarantees and Other Contingent Obligations

There have been no significant changes to our off-balance sheet arrangements or contractual commitments from those disclosed in our 2015 Annual Report on Form 10-K.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

For a description of our market risks, see Part I, Item 7A in our 2015 Annual Report on Form 10-K. There have been no material changes in our exposures to market risk since December 31, 2015.

Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures.

Our Chief Executive Officer and our Chief Financial Officer, based on the evaluation of our disclosure controls and procedures (as defined in Rule 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), required by paragraph (b) of Rule 13a-15 or Rule 15d-15, have concluded that, as of March 31, 2016, our disclosure controls and procedures were effective at a reasonable assurance level to ensure that the information we are required to disclose in reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting.

During the three months ended March 31, 2016, there were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and Rule 15d-15(d) under the Exchange Act that have materially affected, or that we believe are reasonably likely to materially affect, our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

Refer to note 7, “Commitments and Contingencies,” on page 13 of this Form 10-Q.

Item 1A. Risk Factors.

There have been no material changes from the risk factors described in our 2015 Annual Report on Form 10-K. You should carefully consider the risks described in Item 1A of our 2015 Annual Report on Form 10-K before making a decision to invest in our common stock or evaluating Active Power and our business. The risks and uncertainties described in our 2015 Annual Report on Form 10-K are not the only ones we face. Additional risks and uncertainties that we do not presently know, or that we currently view as immaterial, may also impair our business operations.

Item 6. Exhibits.

See the Exhibit Index beginning on page 21 of this Form 10-Q.

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INDEX TO EXHIBITS

Exhibit No.	Description of Exhibit
3.1*	Restated Certificate of Incorporation of Active Power, Inc., as amended (filed as Exhibit 3.1 to Active Power's Quarterly Report on Form 10-Q filed on August 1, 2014)
3.2*	Active Power, Inc. Second Amended and Restated Bylaws (filed as Exhibit 3.2 to Active Power's Current Report on Form 8-K filed on April 26, 2016)
4.1*	Specimen certificate for shares of Common Stock (filed as Exhibit 4.1 to Active Power's IPO Registration Statement on Form S-1 (SEC File No. 333-36946))
4.2*	See Exhibits 3.1 and 3.2 for provisions of the Certificate of Incorporation and Bylaws of the registrant defining the rights of holders of common stock
10.1†	Separation Agreement and Release of Claims, dated February 29, 2016, between Active Power, Inc. and Randall Adleman
10.2*	Cash Incentive Plan (filed as Exhibit 10.1 to Active Power's Current Report on Form 8-K filed on February 16, 2016)
10.3*	Amendment 2, dated April 1, 2015, to Hardware Product Purchase Agreement between Active Power, Inc. and Hewlett-Packard Company (filed as Exhibit 10.49 to Active Power's Annual Report on Form 10-K filed on February 23, 2016)
31.1†	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2†	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1††	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2††	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101†	The following financial statements from the Active Power's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, formatted in XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations and Comprehensive Loss, (iii) Condensed Consolidated Statements of Cash Flows, and (iv) Notes to Condensed Consolidated Financial Statements.

* Incorporated by reference to the indicated filing.

† Filed with this report.

†† Furnished with this report.

**SEPARATION AGREEMENT AND
RELEASE OF CLAIMS**

This Separation Agreement and Release of Claims is entered into between Active Power, Inc. (together with any affiliated companies collectively, "Company") and **Randall Adleman** ("Employee"). In consideration of the mutual promises set forth below and as set forth in the separate Severance Benefits Agreement dated October 22, 2013 ("Severance Agreement"), Company and Employee agree as follows:

1. TERMINATION. Employee's employment relationship with Company was terminated effective **February 2, 2016**.
 2. SEVERANCE. Subject to the conditions precedent in Section 5 of the Severance Agreement, Company will:
 - a. Pay Employee's base salary for six months following February 2, 2016, as specified under Section 2(a) of the Severance Agreement (less applicable withholding taxes); and
 - b. Vest Employee's stock options as specified under Section 2(b) of the Severance Agreement. All such vested stock options and corresponding strike prices are reflected on Exhibit A attached; and
 - c. Reimburse Employee for COBRA premiums as specified under Section 2(c) of the Severance Agreement; and
 - d. Pay Employee (i) the remaining \$18,152.00 (subject to adjustment per the next sentence) unpaid amount under his 2015 management incentive plan at the time his final severance payment required under Section 2(a) is made, and (ii) no management incentive payment for 2016, such payments and amounts having been approved by the Compensation Committee of the Board of Directors of the Company as contemplated by Section 2(d) of the Severance Agreement. Notwithstanding the immediately preceding sentence, to the extent any 2015 order is de-booked by the Company because the order is cancelled or reduced in size by the customer prior to July 25, 2016, the Company will reduce the size of the final payout under Employee's 2015 management incentive plan accordingly. Any debooking will be consistent with the Company's accounting and reporting practices.
 3. BENEFITS AND EQUITY GRANTS. Employee's eligibility for Company-sponsored health, dental and vision insurance, and other benefits will terminate on February 29, 2016, and otherwise be controlled by the terms of the plans governing those benefits. Employee agrees Company provided Employee with information regarding Employee's right to elect COBRA. Any stock option, restricted stock units, or other equity grant to Employee will be controlled by the agreement accompanying the grant and the plan governing the grant.
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4. **COMPLETE RELEASE.** Employee hereby releases Company and any affiliated companies, along with the employees, partners, agents, directors, officers, contractors, and attorneys of any of them (the "Releasees"), from any and all claims or demands, whether known or unknown, and whether asserted on an individual or class basis, which Employee may have or claim to have against any of them. This complete release of all claims includes but is not limited to a complete release of any claims (including claims for attorneys' fees) Employee may have or claim to have based on Employee's employment with Company or the termination of that employment, as well as any claims arising out of any contract, express or implied, any covenant of good faith and fair dealing, express or implied, any tort (including negligence by Company or anyone else), and any federal, state or other governmental statute, regulation or ordinance relating to employment, employment discrimination, or the payment of wages or benefits including, without limitation, those relating to qui tam, employment discrimination, termination of employment, payment of wages or provision of benefits, Title VII of the Civil Rights Act of 1964 as amended, the Civil Rights Act of 1991, the Americans with Disabilities Act as amended, the Employee Retirement Income Security Act, the Family and Medical Leave Act, the Fair Labor Standards Act, the Age Discrimination in Employment Act, the Older Workers Benefit Protection Act ("OWBPA"), the Worker Adjustment and Retraining Notification ("WARN") Act, the Consolidated Omnibus Budget Reconciliation Act ("COBRA"), and the Occupational Safety and Health Act. Employee represents that Employee has not assigned to any other person any of such claims and that Employee has the full right to grant this release. Notwithstanding any other provision herein, Employee is not waiving any claims that may arise under the Age Discrimination in Employment Act after this Agreement is executed, any future claims based on Company's obligations and agreements set forth in this Agreement, and vested rights in any stock or benefit plan. Further, Employee does not release his right to be defended and indemnified, to the extent required by the Indemnity Agreement dated June 12, 2014 and attached as Exhibit B. Further, nothing in this agreement restricts Employee's right to assert a claim for a defense, reimbursement, or indemnity under any policies of Directors and Officers Liability Insurance maintained by the Company.

5. **WARRANTIES/SECTION 16 REPRESENTATION.** Apart from payments due hereunder, Employee warrants and agrees that Company has paid Employee all wages, forms of compensation, and other monies due to Employee as of the date of Employee's execution of this Agreement. Employee further warrants and agrees that Employee properly reported all time worked and that all forms of compensation, wages, and other monies paid to Employee by Company through the date of Employee's execution of this Agreement have been accurately calculated, have represented the proper amounts due to Employee, and have been based on Company's merit-based compensation system. If Employee or someone on Employee's behalf claims any entitlement to further compensation from Company, Employee agrees that Company is entitled to full offset of the amounts paid to Employee under this Agreement. Employee further represents that he has reported to the Company all reportable pre-termination transactions in the Company's securities.

6. **THIRD PARTY ASSISTANCE AND NON-DISPARAGEMENT.** Employee agrees Employee will not counsel, assist, participate in, or encourage any persons in the presentation or prosecution of any disputes, differences, grievances, claims, charges, or complaints by any third party against Company or any other Releasee. Employee further agrees Employee will not, directly or indirectly, in any individual or representative capacity, make any statement, oral or written, which

could reasonably be expected to be harmful in any material respect to the reputation or goodwill of Company or any other Releasee. Employee and Company agree that Employee's compliance with a subpoena or other legally compulsive process shall not violate the terms of this paragraph. Likewise, nothing in this Agreement shall interfere with Employee's right to file a charge with a governmental agency or to cooperate with a governmental investigation, although Employee will not be able to recover monetary damages in any suit brought by a governmental agency or otherwise, unless the waiver contained in this Agreement is held to be unenforceable and even then only to the extent it is held to be unenforceable.

7. COOPERATION. Employee will be reasonably available to Company and provide Company information in connection with any claim, lawsuit, or proceeding that relates in any manner to Employee's conduct or duties at Company or that are based in any way on facts about which Employee obtained personal knowledge while employed at Company. In return, Company agrees to reimburse Employee for direct and reasonable out of pocket expenses (excluding any attorney's fees) incurred by Employee at Company's request.

8. RETURN OF PROPERTY AND INFORMATION. Employee agrees that Employee has returned to Company any and all documents and information relating to Company, its customers, or any other aspect of its business (and any and all copies and derivations thereof), whether stored in paper or electronic form, as well as all computer equipment, badges, credit cards, and any other Company property in Employee's possession or control. Employee further agrees Employee will review all electronic storage devices and media, including computers, USB storage devices, external and internal hard drives, tablets, and phones, in Employee's possession and immediately return and not retain any information (or derivation thereof) regarding Company, its customers, or any aspect of Company's business. Employee represents and agrees that Employee will not take any such documents or property from the control or premises of Company. If Employee should come into possession of any such information or property at any time in the future, Employee agrees to return such information or property to the Company immediately.

9. [OMITTED]

10. MODIFICATION OF EMPLOYEE PROPRIETARY INFORMATION AGREEMENT; REAFFIRMATION. Employee acknowledges and agrees Company has provided Employee with valuable confidential information relating to Company's business, technology, plans, customers, potential customers, relationships, and personnel. Company agrees that Employee's obligations under Employee's **EMPLOYEE PROPRIETARY INFORMATION AGREEMENT DATED 12/15/2013** ("Proprietary Information Agreement") Section 7 are modified such that Employee may engage in business related to static/battery-based uninterrupted power supplies in competition with Company's business after 6 months from the Effective Date of this Agreement has passed, and such competition will not be limited by Section 6 of the Proprietary Information Agreement. All other terms of the Proprietary Information Agreement remain the same. Employee hereby reaffirms Employee's obligations under Employee's **PROPRIETARY INFORMATION AGREEMENT**, as modified, and under Employee's Severance Agreement, and further reaffirms Employee's intent to comply with same. Employee agrees nothing in this Agreement impairs

Company's ability to seek and obtain relief for a violation of Employee's Proprietary Information Agreement or for a violation of Employee's Severance Agreement.

11. NO WRONGDOING. By entering into this Agreement, neither party is indicating they have done anything wrong.

12. BINDING AGREEMENT. This Agreement will be binding upon Employee and Company and their respective heirs, administrators, trustees, representatives, executors, successors, and assigns.

13. ENTIRETY, EXECUTION, AND MODIFICATION. This is the entire agreement between the Employee and Company and supersedes all prior agreements and contemporaneous between them, except for the Severance Agreement and Employee's **EMPLOYEE PROPRIETARY INFORMATION AGREEMENT DATED 12/15/2013**, as modified, and the stock agreements and plans applicable to the stock options identified on Exhibit A, each of which shall remain in effect. In executing this Agreement, Employee is not relying on any representations or promises not explicitly contained in this Agreement. This Agreement may be executed in multiple parts. Once executed, this Agreement may not be modified except in a writing signed by Employee and by Company's General Counsel. No one other than Company's General Counsel has the authority to modify this Agreement or enter into a new Agreement regarding the subject matter of this Agreement.

14. CHOICE OF LAW AND VENUE. This Separation Agreement will be construed in accordance with and governed by the laws of the State of Texas. Employee and Company agree that the exclusive venue for resolving any dispute between them shall be the state and federal courts located in Travis County, Texas.

15. SEVERABILITY. If any term or provision of this Agreement is held by a court of competent jurisdiction to be invalid, void, or unenforceable, the offending term or provision shall be reformed so as to make it enforceable. If the offending term or provision cannot be reformed so as to be rendered enforceable, the offending term or provision shall be severed. In any event, all other terms or provisions shall remain valid and enforceable and shall not be adversely affected in any way.

16. JURY WAIVER. COMPANY AND EMPLOYEE WAIVE A TRIAL BY JURY OF ANY OR ALL ISSUES ARISING IN ANY ACTION OR PROCEEDING BETWEEN COMPANY AND EMPLOYEE, INCLUDING ANY ACTION OR PROCEEDING ARISING OUT OF, UNDER, RELATED TO, OR CONNECTED WITH THIS AGREEMENT, ANY OF ITS PROVISIONS, OR ANY OF THE CLAIMS PURPORTED TO BE RELEASED BY THIS AGREEMENT. EMPLOYEE AND COMPANY UNDERSTAND THAT ANY CLAIM BETWEEN THEM WILL BE DECIDED BY A JUDGE RATHER THAN A JURY AS A RESULT OF THIS AGREEMENT.

17. NO FUTURE EMPLOYMENT OR ACCESS. Employee agrees that Employee has no right to demand employment with Company. Should Employee apply for future employment with Company, Employee agrees Company may decide such application in its sole and absolute

discretion and may consider the circumstances surrounding Employee's separation and any other consideration not prohibited by law in making that decision. Similarly, Employee agrees Employee has no right of access to any Company site or personnel, whether as a contractor, assigned worker, partner representative, or in any other capacity. Employee agrees Company may decide any request by or on behalf of Employee for access to any Company site or personnel in its sole and absolute discretion and may consider the circumstances surrounding Employee's separation and any other consideration not prohibited by law in making that decision.

18. TAXATION. The Company is not providing Employee any advice regarding the tax consequences to Employee of this Agreement. As noted above, Company will withhold from the payments to Employee in accordance with Company's obligation to do so. Employee is responsible for determining Employee's reporting and payment obligations, if any, resulting from this Agreement and agrees to indemnify, defend, and hold Company harmless from any claims, demands, penalties, interest, assessments, executions, judgments, or recoveries by any government agency resulting from a failure by Employee to comply with Employee's reporting or payment obligations, if any, resulting from this Agreement.

19. REVIEW. Employee understands that Employee has 21 days from the date this Agreement was first presented to Employee in which to review and consider this Agreement before signing it. Employee also understands that Employee may use as much or as little of this 21-day period as Employee wishes. Employee is encouraged to consult an attorney before signing this Agreement. Employee agrees that any changes Employee and Company agree to make to this Agreement, whether material or not, do not restart or extend this 21-day review period. If Employee does not accept this Agreement within the 21-day period described above, this offer will expire. By executing this Agreement, Employee acknowledges Employee was afforded a period of at least 21 days from the date this Agreement was first presented to Employee in which to review and consider it.

20. REVOCATION. If Employee decides to accept and sign this Separation Agreement, Employee will have 7 days in which to revoke Employee's acceptance. Employee understands any such revocation will not be effective unless Employee delivers a written notice of such revocation to Company, c/o Dawn Chyten, 2128 W Braker Ln BK12, Austin, TX 78758, prior to the expiration of seven days after Employee signs this Agreement. Employee understands this Agreement will not become effective or enforceable until the seven days have elapsed without Employee having revoked Employee's acceptance of this Separation Agreement.

21. **SECTION 409A.** This Agreement (and the payments hereunder) are intended to qualify for the short-term deferral exception to Section 409A described in Treasury Regulation Section 1.409A-1(b)(4) to the maximum extent possible, and to the extent they do not so qualify, they are intended to qualify for the involuntary separation pay plan exception to Section 409A described in Treasury Regulation Section 1.409A-1(b)(9)(iii) to the maximum extent possible. Further, each payment or benefit payable under this Agreement is intended to constitute a separate payment for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations. To the extent Section 409A is applicable to this Agreement, this Agreement is intended to be exempt from, but to the extent necessary, comply with, Section 409A. Notwithstanding any other provision of this Agreement to the contrary, this Agreement shall be interpreted, operated and administered by the Company in a manner consistent with such intentions and to avoid the pre-distribution inclusion in income of amounts deferred under this Agreement and the imposition of any additional tax or interest with respect thereto.

ACCEPTED AND AGREED:

ACTIVE POWER, INC.

/s/ Jay Powers

Name: Jay Powers

Title: CFO

2/29/2016

Date

I ACKNOWLEDGE THAT I HAVE CAREFULLY READ THE FOREGOING AGREEMENT, THAT I UNDERSTAND ALL OF ITS TERMS, THAT I UNDERSTAND THAT IT CONTAINS A COMPLETE RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS, AND THAT I AM ENTERING INTO IT VOLUNTARILY.

/s/ Randall Adleman

Randall Adleman

("Employee")

2/29/2016

Date

Exhibit A

See option summary attached.

ACTIVE POWER

PERSONNEL SUMMARY
AS OF 02/16/2016

Page: 1
File: Persnl
Date: 02/17/2016
Time: 09:29:25AM

Report Type: All
Dividends : Yes
Dividend Details : No

Name	Grant Number	Grant Date	Plan/Type	Shares	Price	Exercised/ Released	Vested	Cancelled	Unvested	Outstanding/ Unreleased	Exercisable/ Releasable
ADLEMAN, RANDALL	0005385	11/21/2013	2010/ISO	137,456.00	\$2.91	0.00	85,910.00	0.00	51,546.00	137,456.00	85,910.00
	0005386	11/21/2013	2010/NQ	62,544.00	\$2.91	0.00	39,090.00	0.00	23,454.00	62,544.00	39,090.00
	0005835	02/26/2015	2010/ISO	15,625.00	\$2.00	0.00	0.00	0.00	15,625.00	15,625.00	0.00
	0005836	02/26/2015	2010/NQ	34,375.00	\$2.00	0.00	15,625.00	0.00	18,750.00	34,375.00	15,625.00
				250,000.00		0.00	140,625.00	0.00	109,375.00	250,000.00	140,625.00

Exhibit B

See Indemnity Agreement attached.

INDEMNITY AGREEMENT

This Indemnity Agreement is made and entered into as of this 12th day of June, 2014, between Active Power, Inc., a Delaware corporation (the "Corporation"), and Randall J. Adleman ("Indemnitee").

INTRODUCTION:

A. Indemnitee is an executive officer, director and/or agent of the Corporation (or a subsidiary of the Corporation), as the case may be from time to time, and performs a valuable service for the Corporation in such capacity (or capacities); and

B. The Certificate of Incorporation (the "Certificate") and the Bylaws (the "Bylaws") of the Corporation contain provisions providing for the indemnification of the officers, directors and agents of the Corporation to the maximum extent authorized by Section 145 of the Delaware General Corporation Law, as amended ("DGCL"); and

C. The Certificate, the Bylaws and the DGCL, by their non-exclusive nature, permit contracts between the Corporation and the members of its Board of Directors and officers with respect to indemnification of such directors and officers; and

D. In accordance with the authorization as provided by the DGCL, the Corporation has purchased and presently maintains a policy or policies of Directors and Officers Liability Insurance ("D & O Insurance"), covering certain liabilities which may be incurred by its directors and officers in the performance of their duties as directors or officers of the Corporation; and

E. As a result of developments affecting the terms, scope and availability of D & O Insurance there exists general uncertainty as to the extent of protection afforded members of the Board of Directors and executive officers of the Corporation by such D & O Insurance and by statutory and bylaw indemnification provisions; and

F. In order to induce Indemnitee to continue to serve as an executive officer, director or agent of the Corporation, the Corporation has determined and agreed to enter into this contract with Indemnitee.

AGREEMENT:

Now, Therefore, in consideration of Indemnitee's continued service as an executive officer and a member of the Board of Directors after the date hereof, the parties hereto agree as follows:

1. **Indemnification of Indemnitee.** The Corporation hereby agrees to hold
-

harmless and indemnify Indemnitee and any partnership, corporation, trust or other entity of which Indemnitee is or was a partner, shareholder, trustee, director, officer, employee or agent (Indemnitee and each such partnership, corporation, trust or other entity being hereinafter referred to collectively as an “Indemnitee”) to the fullest extent authorized or permitted by the provisions of the DGCL, as may be amended from time to time.

2. **Additional Indemnity.** Subject only to the exclusions set forth in Section 3 hereof, the Corporation hereby further agrees to hold harmless and indemnify Indemnitee:

(a) against any and all expenses (including attorney's fees), witness fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by Indemnitee in connection with any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (including an action by or in the right of the Corporation) to which Indemnitee is, was or at any time becomes a party, or is threatened to be made a party, by reason of the fact that Indemnitee is, was or at any time becomes a director, officer, employee or agent of the Corporation or any subsidiary of the Corporation, or is or was serving or at any time serves at the request of the Corporation or any subsidiary of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, if Indemnitee acted in good faith and in a manner Indemnitee 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 Indemnitee's conduct was unlawful; and

(b) otherwise to the fullest extent as may be provided to Indemnitee by the Corporation under the non-exclusivity provisions of Article XI of the Corporation's Bylaws (as the same, including such article, may be amended, modified or restated from time to time) and the DGCL.

3. **Limitations on Additional Indemnity.** No indemnity pursuant to Section 2 hereof shall be paid by the Corporation:

(a) except to the extent the aggregate of losses to be indemnified thereunder exceeds the sum of such losses for which the Indemnitee is indemnified pursuant to Section 1 hereof or pursuant to any D & O Insurance purchased and maintained by the Corporation;

(b) in respect to remuneration paid to Indemnitee if it shall be determined by a final judgment or other final adjudication that such remuneration was in violation of law;

(c) on account of any suit in which judgment is rendered against Indemnitee for an accounting of profits made from the purchase or sale by Indemnitee of securities of the Corporation pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any federal, state or local statutory law;

(d) on account of Indemnitee's conduct which is finally adjudged to have been knowingly fraudulent or deliberately dishonest, or to constitute willful misconduct;

(e) on account of Indemnitee's conduct which is the subject of an action, suit or proceeding described in Section 7(c)(ii) hereof;

(f) on account of any action, claim or proceeding (other than a proceeding referred to in Section 8(b) hereof) initiated by the Indemnitee unless such action, claim or proceeding was authorized in the specific case by action of the Board of Directors; and

(g) if a final decision by a Court having jurisdiction in the matter shall determine that such indemnification is not lawful (and, in this respect, both the Corporation and Indemnitee have been advised that the Securities and Exchange Commission believes that indemnification for liabilities arising under the federal securities laws is against public policy and is, therefore, unenforceable and that claims for indemnification should be submitted to appropriate courts for adjudication).

4. **Contribution.** If the indemnification provided in Sections 1 and 2 hereof is unavailable by reason of a Court decision described in Section 3(g) hereof based on grounds other than any of those set forth in paragraphs (b) through (f) of Section 3 hereof, then in respect of any threatened, pending or completed action, suit or proceeding in which the Corporation is jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), the Corporation shall contribute to the amount of expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred and paid or payable by Indemnitee in such proportion as is appropriate to reflect (a) the relative benefits received by the Corporation on the one hand and Indemnitee on the other hand from the transaction from which such action, suit or proceeding arose, and (b) the relative fault of the Corporation on the one hand and of Indemnitee on the other in connection with the events which resulted in such expenses, judgments, fines or settlement amounts, as well as any other relevant equitable considerations. The relative fault of the Corporation on the one hand and of Indemnitee on the other shall be determined by reference to, among other things, the parties' relative intent, knowledge, access to information and opportunity to correct or prevent the circumstances resulting in such expenses, judgments, fines or settlement amounts. The Corporation agrees that it would not be just and equitable if contribution pursuant to this Section 4 were determined by pro rata allocation or any other method of allocation that does not take account of the foregoing equitable considerations.

5. **Continuation of Obligations.** All agreements and obligations of the Corporation contained herein shall continue during the period Indemnitee is a director, officer or agent of the Corporation or any subsidiary 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, employee benefit plan or other enterprise) if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Corporation, except that no indemnification shall be made in respect of any claim, issue or matter as to which Indemnitee shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery of the State of Delaware 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, Indemnitee is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery of the State of Delaware or such other court shall deem proper and shall continue thereafter so long as Indemnitee shall be subject to any possible claim or threatened, pending or completed action, suit or proceeding, whether civil, criminal or investigative, by reason of the fact that Indemnitee was an officer of the Corporation or serving in any other capacity referred to herein.

6. **Notification and Defense of Claim.** Not later than thirty days after receipt by Indemnitee of notice of the commencement of any action, suit or proceeding, Indemnitee will, if a claim in respect thereof is to be made against the Corporation under this Agreement, notify the Corporation of the commencement thereof; but the omission so to notify the Corporation will not relieve it from any liability which it may have to Indemnitee otherwise than under this Agreement. With respect to any such action, suit or proceeding as to which Indemnitee notifies the Corporation of the commencement thereof:

(a) the Corporation will be entitled to participate therein at its own expense;

(b) except as otherwise provided below, to the extent that it may wish, the Corporation jointly with any other indemnifying party similarly notified will be entitled to assume the defense thereof, with counsel reasonably satisfactory to Indemnitee. After notice from the Corporation to Indemnitee of its election so as to assume the defense thereof, the Corporation will not be liable to Indemnitee under this Agreement for any legal or other expenses subsequently incurred by Indemnitee in connection with the defense thereof other than reasonable costs of investigation or as otherwise provided below. Indemnitee shall have the right to employ its counsel in such action, suit or proceeding but the fees and expenses of such counsel incurred after notice from the Corporation of its assumption of the defense thereof shall be at the expense of Indemnitee unless (i) the employment of counsel by Indemnitee has been authorized by the Corporation, (ii) Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Corporation and Indemnitee in the conduct of the defense of such action or (iii) the Corporation shall not in fact have employed counsel to assume the defense of such action, in each of which cases the fees and expenses of Indemnitee's separate counsel shall be at the expense of the Corporation. The Corporation shall not be entitled to assume the defense of any action, suit or proceeding brought by or on behalf of the Corporation or as to which Indemnitee shall have made the conclusion provided for in (ii) above; and

(c) the Corporation shall not be liable to indemnify Indemnitee under this Agreement for any amounts paid in settlement of any action or claim effected without its written consent. The Corporation shall be permitted to settle any action except that it shall not settle any action or claim in any manner which would impose any penalty or limitation on Indemnitee without Indemnitee's written consent. Neither the Corporation nor Indemnitee will unreasonably withhold its consent to any proposed settlement.

7. **Advancement and Repayment of Expenses.**

(a) In the event that Indemnitee employs his own counsel pursuant to Section 6(b)(i) through (iii) above, the Corporation shall advance to Indemnitee, prior to any final disposition of any threatened or pending action, suit or proceeding, whether civil, criminal, administrative or investigative, any and all reasonable expenses (including legal fees and expenses) incurred in investigating or defending any such action, suit or proceeding within ten days after receiving copies of invoices presented to Indemnitee for such expenses;

(b) Indemnitee agrees that Indemnitee will reimburse the Corporation for all reasonable expenses paid by the Corporation in defending any civil or criminal action, suit or proceeding against Indemnitee in the event and only to the extent it shall be ultimately determined by a final judicial decision (from which there is no right of appeal) that Indemnitee is not entitled, under the provisions of the DGCL, the Certificate, the Bylaws, this Agreement or otherwise, to be indemnified by the Corporation for such expenses; and

(c) Notwithstanding the foregoing, the Corporation shall not be required to advance such expenses to Indemnitee if Indemnitee (i) commences any action, suit or proceeding as a plaintiff unless such advance is specifically approved by a majority of the Board of Directors or (ii) is a party to an action, suit or proceeding brought by the Corporation and approved by a majority of the Board which alleges willful misappropriation of corporate assets by Indemnitee, disclosure of confidential information in violation of Indemnitee's fiduciary or contractual obligations to the Corporation, or any other willful and deliberate breach in bad faith of Indemnitee's duty to the Corporation or its shareholders.

8. **Procedure.** Any indemnification and advances provided for in Section 1 and Section 2 shall be made no later than 45 days after receipt of the written request of Indemnitee. If a claim under this Agreement, under any statute, or under any provision of the Corporation's Certificate of Incorporation or Bylaws providing for indemnification, is not paid in full by the Corporation within 45 days after a written request for payment thereof has first been received by the Corporation, Indemnitee may, but need not, at any time thereafter bring an action against the Corporation to recover the unpaid amount of the claim and, subject to Section 12 of this Agreement, Indemnitee shall also be entitled to be paid for the expenses (including attorneys' fees) of bringing such action. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in connection with any action, suit or proceeding in advance of its final disposition) that Indemnitee has not met the standards of conduct which make it permissible under applicable law for the Corporation to indemnify Indemnitee for the amount claimed, but the burden of proving such defense shall be on the Corporation and Indemnitee shall be entitled to receive interim payments of expenses pursuant to Subsection 2(a) unless and until such defense may be finally adjudicated by court order or judgment from which no further right of appeal exists. It is the parties' intention that if the Corporation contests Indemnitee's right to indemnification, the question of Indemnitee's right to indemnification shall be for the court to decide, and neither the failure of the Corporation (including its Board of Directors, any committee or subgroup of the Board of Directors, independent legal counsel, or its stockholders) to have made a determination that indemnification of Indemnitee is proper in the circumstances because Indemnitee has met the

applicable standard of conduct required by applicable law, nor an actual determination by the Corporation (including its Board of Directors, any committee or subgroup of the Board of Directors, independent legal counsel, or its stockholders) that Indemnitee has not met such applicable standard of conduct, shall create a presumption that Indemnitee has or has not met the applicable standard of conduct.

9. **Enforcement.**

(a) The Corporation expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on the Corporation hereby in order to induce Indemnitee to continue as an executive officer, director or agent of the Corporation, and acknowledges that Indemnitee is relying upon this Agreement in continuing in such capacity; and

(b) In the event Indemnitee is required to bring any action to enforce rights or to collect moneys due under this Agreement and is successful in such action, the Corporation shall reimburse Indemnitee for all Indemnitee's reasonable fees and expenses in bringing and pursuing such action.

10. **Subrogation.** In the event of payment under this agreement, the Corporation shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all documents required and shall do all acts that may be necessary to secure such rights and to enable the Corporation effectively to bring suit to enforce such rights.

11. **Non-Exclusivity of Rights.** The rights conferred on Indemnitee by this Agreement shall not be exclusive of any other right which Indemnitee may have or hereafter acquire under any statute, provisions of the Corporation's Certificate of Incorporation or Bylaws, agreement, vote of stockholders or directors, or otherwise, both as to action in his official capacity and as to action in another capacity while holding office.

12. **Partial Indemnification.** If Indemnitee is entitled under any provision of this Agreement to indemnification by the Corporation for some or a portion of the expenses, judgments, fines or penalties actually or reasonably incurred by Indemnitee in the investigation, defense, appeal or settlement of any civil or criminal action, suit or proceeding, but not, however, for the total amount thereof, the Corporation shall nevertheless indemnify Indemnitee for the portion of such expenses, judgments, fines or penalties to which Indemnitee is entitled.

13. **Survival of Rights.** The rights conferred on Indemnitee by this Agreement shall continue after Indemnitee has ceased to be a director, officer, employee or other agent of the Corporation and shall inure to the benefit of Indemnitee's heirs, executors and administrators.

14. **Separability.** Each of the provisions of this Agreement is a separate and distinct agreement and independent of the others, so that if any or all of the provisions hereof shall be held to be invalid or unenforceable for any reason, such invalidity or unenforceability shall not affect the validity or enforceability of the other provisions hereof or the obligation of the Corporation to indemnify the Indemnitee to the full extent provided by the Certificate, Bylaws

or the DGCL.

15. **Governing Law; Consent to Jurisdiction.** This Agreement shall be interpreted and enforced in accordance with the laws of the State of Delaware. The Corporation and Indemnitee each hereby irrevocably consent to the jurisdiction of the courts of the State of Delaware for all purposes in connection with any action or proceeding which arises out of or relates to this Agreement and agree that any action instituted under this Agreement shall be brought only in the state courts of the State of Delaware.

16. **Binding Effect.** This Agreement shall be binding upon Indemnitee and upon the Corporation, its successors and assigns, and shall inure to the benefit of Indemnitee, his heirs, personal representatives and assigns and to the benefit of the Corporation, its successors and assigns.

17. **Amendment and Termination.** No amendment, modification, termination or cancellation of this Agreement shall be effective unless in writing signed by both parties hereto.

18. **Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall constitute an original.

[Signature Page Follows]

In Witness Whereof, the parties hereto have executed this Indemnity Agreement on and as of the day and year first above written.

Active Power, Inc.

By: /s/ Mark A. Ascolese
Name: Mark. A. Ascolese
Title: President and Chief Executive Officer

Indemnatee

/s/ Randall J. Adleman
Print Name: Randall J. Adleman

[Signature Page to Indemnity Agreement]

CERTIFICATIONS

I, Mark A. Ascolese, certify that:

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

Date: April 26, 2016

/s/ Mark A. Ascolese

Mark A. Ascolese
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATIONS

I, James A. Powers, certify that:

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

Date: April 26, 2016

/s/ James A. Powers

James A. Powers

Chief Financial

Officer and Vice President Finance

(Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Active Power, Inc. (the "Company") for the period ending March 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark A. Ascolese, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Mark A. Ascolese

Mark A. Ascolese

President and Chief Executive Officer

4/26/2016

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Active Power, Inc. (the "Company") for the period ending March 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James A. Powers, Chief Financial Officer and Vice President of Finance of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ James A. Powers

James A. Powers

Chief Financial Officer and Vice President of
Finance

4/26/2016
