

## **ACTIVE POWER, INC.**

### **AUDIT COMMITTEE CHARTER**

(as revised and adopted by the Board of Directors on October 23, 2014)

#### **PURPOSE**

The primary purpose of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities for (1) the integrity of the Company's financial statements, (2) the Company's compliance with applicable legal and regulatory requirements for financial reporting, audit functions and audit committee operations (3) the independent auditor's qualifications and independence, and (4) the performance of the Company's internal audit function and independent auditors.

The Audit Committee's function is one of oversight only. The Company's management is responsible for preparing the Company's financial statements. The Company's independent auditors are responsible for auditing the financial statements. The activities of the Audit Committee are in no way designed to supersede or alter those traditional responsibilities.

#### **AUTHORITY**

The Audit Committee has authority to conduct or authorize investigations into any matters within its scope of responsibilities. It is also empowered to:

- Appoint, compensate, and oversee the work of the public accounting firm employed by the Company to conduct the annual audit. This firm will report directly to the Audit Committee.
- Resolve any disagreements between management and the auditor regarding financial reporting.
- Pre-approve all auditing and permitted non-audit services performed by the Company's independent auditors.
- Retain outside counsel, experts, and other advisors as it determines appropriate to assist it in the conduct of any investigation.
- Seek any information it requires from employees (all of whom are directed to cooperate with the Audit Committee's requests) or external parties.
- Meet with the Company's officers, employees, independent auditors or outside counsel, as necessary.
- Delegate authority to subcommittees or individual members of the committee, including its authority to pre-approve all auditing and permitted non-audit services, providing that such decisions are presented to the full committee no later than its next scheduled meeting.

## **COMPOSITION**

The Audit Committee shall be comprised of three or more independent directors elected by the Board of Directors for a one-year term, all of whom (except as otherwise permitted) shall meet the requirements of Section 10A(m) of the Securities Exchange Act of 1934, as amended (the "1934 Act"), and applicable rules of the Securities and Exchange Commission (the "SEC"). Each member of the Audit Committee shall meet the additional independence, financial literacy and related audit committee membership requirements set forth in the Nasdaq National Market listing standards in effect from time to time (the "Nasdaq Standards"). The Chairman, if any, of the Audit Committee shall be appointed by the Board of Directors.

In addition to the other requirements of the 1934 Act and Nasdaq Standards, all members of the Audit Committee shall be financially literate as determined by the Board of Directors in its business judgment pursuant to the Nasdaq Standards. At least one member of the Audit Committee shall be a "financial expert" as defined in applicable SEC rules.

## **MEETINGS**

The Audit Committee shall meet at least four times a year, with the authority to convene additional meetings as circumstances require. All Audit Committee members are expected to attend each meeting, in person or via teleconference or videoconference. The Audit Committee will invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary. It will meet separately with management, with internal auditors and with external auditors. It will also meet periodically in executive session. Meeting agendas will be prepared and provided in advance to Audit Committee members, along with appropriate briefing materials. A majority of the members of the Audit Committee will constitute a quorum for the conduct of business. Minutes will be kept of each meeting of the Audit Committee and will be provided to each member of the Board of Directors.

## **RESPONSIBILITIES**

The Audit Committee shall fulfill the following responsibilities:

### **Financial Statements**

- Review significant accounting and reporting issues and understand their impact on the financial statements. These issues include:
  - Complex or unusual transactions and highly judgmental areas;
  - Major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles; and
  - The effect of regulatory and accounting initiatives, as well as off-balance

sheet structures, on the financial statements of the Company.

- Review analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements.
- Review with management and the external auditors the results of the audit, including any difficulties encountered. This review will include any restrictions on the scope of the independent auditor's activities or on access to requested information, and any significant disagreements with management.
- Discuss the annual audited financial statements and quarterly financial statements with management and the external auditors.
- Review all financially related SEC filings prior to filing.
- Review disclosures made by CEO and CFO during the Forms 10-K and 10-Q certification process about significant deficiencies in the design or operation of internal controls or any fraud that involves management or other employees who have a significant role in the Company's internal controls.
- Discuss earnings press releases (particularly use of "pro forma," or "adjusted" non- GAAP, information), as well as financial information and earnings guidance provided to analysts and rating agencies. This review may be general (i.e., the types of information to be disclosed and the type of presentations to be made).

### **Internal Control**

- Annually review with management the Company's Internal Control Assessment Planning Memorandum that provides the basis for the Annual Assessment of Internal Controls, in accordance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. Consider the effectiveness of the Company's internal control system, including information technology security and control.
- Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.

### **Internal Audit**

- Subject to the determination by the Company's Board of Directors and the recommendation of the Audit Committee to formally establish an Internal Audit structure within the Company, then: Review with management and the chief audit executive the charter plans, activities, staffing, and organizational structure of the internal audit function. Prior to the formal establishment of an

Internal Audit structure, the Company shall engage a chief audit manager directed by management but reporting to the Committee.

- Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the chief audit manager.
- Review the effectiveness of the internal audit function (if and when deemed necessary), including compliance with The Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*.
- Meet separately with the chief audit manager to discuss any matters that the committee or internal audit believes should be discussed privately.

## **External Audit**

- Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
- Review the performance of the external auditors, and exercise final approval on the appointment or discharge of the auditors. In performing this review, the committee will:
  - At least annually, obtain and review a report by the independent auditor describing: the firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (to assess the auditor's independence) all relationships between the independent auditor and the Company;
  - Take into account the opinions of management and internal audit;
  - Review and evaluate the lead partner of the independent auditor; and
  - Present its conclusions with respect to the external auditor to the Board.
- Ensure the rotation of the lead audit partner every five years and other audit partners every seven years, and consider whether there should be regular rotations of the audit firm itself.
- Present its conclusions with respect to the independent auditor to the full board.
- Set clear hiring policies for employees or former employees of the independent auditors.

- ☐ On a regular basis, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.

## **Compliance**

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
- Establish procedures for: (i) The receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or audit matters; and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
- Review the findings of any examinations by regulatory agencies, and any auditor observations.
- Review the process for communicating The Code of Business Conduct and Ethics to company personnel, and for monitoring compliance therewith.

Obtain regular updates from management and company legal counsel regarding any compliance matters (including the status of pending litigation) that may have a material impact on the Company's financial statements, and any material reports or inquiries from regulatory or governmental agencies.

## **Reporting Responsibilities**

- Regularly report to the board of directors about committee activities and issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements (including the status of pending litigation) that may have a material impact on the Company's financial statements, and any material reports or inquiries from regulatory or governmental agencies, the performance and independence of the Company's independent auditors, and the performance of the internal audit function.
- Provide an open avenue of communication between internal audit, if any, the external auditors, and the board of directors.
- Report annually to the shareholders, describing the committee's composition, responsibilities and how they were discharged, and any other information required by rule, including approval of non-audit services.
- Review any other reports the Company issues related to committee responsibilities.

## **Other Responsibilities**

- Review, consider and be vested with the authority to approve any related party transactions involving the Company, its officers and/or directors, including with respect to commercial or charitable transactions.
- Discuss with management the Company's major policies with respect to financial risk assessment and risk management, including the Company's business continuity plans.
- Perform other activities related to this charter as requested by the board of directors  
Oversee and monitor other matters, from time to time, that the Company's board of directors determines.
- Institute and oversee special investigations as needed.
- Review and assess the adequacy of the committee charter annually, requesting board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
- Confirm annually that all responsibilities outlined in this charter have been carried out.
- Evaluate the committee's performance at least annually.
- Oversee and monitor specific financial measurements as deemed timely and appropriate by the Company's Board of Directors.