DRIVEN BY MOTION

ACTIVE POWER®

2015 **Annual Report**

To Our Shareholders

We believe a few specific trends we saw in 2015 have the potential to positively affect Active Power's future. These trends include an increasingly cost conscious environment, growing acceptance of shorter uninterruptible power supply (UPS) runtime specifications, and wider adoption of modular design build solutions. We believe we will benefit from these trends in 2016 as we emphasize our value proposition which we recently refined based on feedback from some of the largest purchasers of electrical infrastructure equipment for mission critical environments.

Our value proposition is aimed at demonstrating to customers how we can reduce total cost of ownership (TCO) by up to 40 percent and improve reliability with products that are 12 times less likely to fail compared to competitive offerings. Most important, we offer customers a sustainable solution as our flywheel technology burns nine times less fossil fuels than any competitive offering over its useful life.

Our story is far larger than incremental feature benefits over conventional products. We design and manufacture mission critical solutions for customers building for the next century. We believe our flywheel technology plays an important role in a world moving away from fossil fuel dependency to a more sustainable and cleaner future – as well as those looking for an improved return on invested capital.

2015 Review

We focused on priorities we laid out in early 2015 aimed at increasing bookings and backlog, improving operational efficiencies, and controlling costs. These efforts yielded steady progress as we achieved double digit growth in UPS and modular infrastructure solutions (MIS) in 2015 over 2014, while reducing expenses and improving gross margin.

A number of factors drove these results, including a renewed focus on pursuing non-data center applications where our products have a clear performance and economic advantage over conventional offerings, increased adoption of our CleanSource® HD UPS product, and close engagement with our OEM partner Caterpillar. Our backlog improved 15 percent to $30.8 million at December 31, 2015, from $26.7 million at December 31, 2014.

We increased productivity and strengthened our operating platform resulting in a net inventory reduction of 6 percent during 2015 compared to 2014. We have also consistently reduced operating expenses, with a 7 percent decrease in 2015 compared to 2014, which builds upon our 9 percent reduction from 2013.

We spent considerable time in 2015 organizing for opportunity. We expanded our sales distribution network worldwide through the signing of a number of distribution agreements, specifically with electrical firms that have extensive experience in industrial and healthcare applications. We also introduced an innovative cost reduced modular product design which resulted in a large multimillion dollar order from Hewlett Packard Enterprise in early 2015. We believe this new product will increase our success selling containerized data center and power products to our customers and all of our strategic IT partners.

2015 was also a year where a global economic slowdown dominated the headlines which affected the UPS sector and the markets we serve. We began seeing this impact towards the back half of 2015 with a lengthening of sales cycles. This longer sales cycle coupled with soft market conditions resulted in lower bookings in the fourth quarter of 2015. We have seen delays for orders being awarded and schedule changes to defer delivery. We remain vigilant in our expense management initiatives in light of these market conditions.

2016 Outlook

Our priorities for 2016 remain unchanged as we stand committed to delivering increased shareholder value through a continued focus on increasing bookings and backlog, improving operational efficiencies, and controlling costs. We started 2016 with a higher backlog, a lower cost base, and an opportunities pipeline bolstered by a higher number of large project opportunities as compared to the past three years.

We are excited about the company's future as we stand to benefit with more projects to bid on. We are also encouraged by an expanding pipeline, trends we believe are guiding the industry in our favor, and a compelling TCO story, making the timing right for the refinements we have made to our value proposition. Near term challenges notwithstanding, we look forward to 2016 being another year of improved performance.

I want to thank our shareholders for their continued support and recognize our employees as I am proud of their passion for Active Power. I'd also like to express my appreciation for our customers who have embraced our products and solutions to enhance their business operations.

Sincerely,

Mark A. Ascolese

Mark A. Ascolese
President and CEO

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

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2015

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

Title of Class	Name of Exchange on Which Registered
Common Stock, $0.001 per share	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:
(Title of Class)

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. 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 aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based upon the closing sale price of its common stock on the last day of registrant's most recently completed second fiscal quarter, June 30, 2015, as reported on The Nasdaq Stock Market, was approximately $38.9 million (affiliates being, for these purposes only, directors and executive officers and holders of 10% or more of the registrant's outstanding shares).

As of February 16, 2016, the registrant had 23,109,207 shares of common stock outstanding.

Documents Incorporated by Reference

Certain information required by Part III of Form 10-K is incorporated by reference to the registrant's proxy statement for its 2016 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after the close of the registrant's fiscal year ended December 31, 2015.

Active Power, Inc.

Unless otherwise indicated, “we,” “us,” “our,” and “Active Power” mean Active Power, Inc., including our predecessor Texas corporation and our subsidiary companies. References in this report to “$” or “dollars” are to United States of America currency.

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Special Note Regarding Forward-Looking Statements

This report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements other than statements about historical or current facts, including, without limitation, statements about our business strategy, plans, and objectives of management and our future prospects, are forward-looking statements. These include, among other things, statements regarding:

- our expectations that we can increase bookings and backlog;
- our belief that we can improve operational efficiencies;
- our ability to control our future expenses;
- our ability to expand our sales distribution network;
- our ability to diversify our revenue stream through sales to healthcare and industrial applications;
- our future anticipated working capital needs;
- our ability to raise additional cash if needed to fund our operations;
- anticipated levels of bookings and revenue;
- our ability to improve inventory turns and factory utilization;
- expected fluctuations in currency exchange rates; and
- our expectation that seasonal trends will continue in fiscal 2016.

You can identify forward-looking statements by words such as “may,” “will,” “expect,” “intend,” “anticipate,” “believe,” “estimate,” “seek,” “continue,” and other similar words. You should read statements that contain these words carefully because they discuss our future expectations, make projections of our future results of operations or financial condition, or state other “forward-looking” information.

We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties and assumptions about our business that could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in “Risk Factors” included in Item 1A of this report and as may be updated in filings we make from time to time with the U.S. Securities and Exchange Commission (the “SEC”), including the Quarterly Reports on Form 10-Q to be filed by us in our fiscal year 2016.

We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or risks, except to the extent required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements. New information, future events or risks could cause the forward-looking events we discuss in this report not to occur. You should not place undue reliance on these forward-looking statements, which reflect our expectations only as of the date of this report.

PART I.

ITEM 1. Business.

Overview

Active Power designs, manufactures, sells, and services flywheel-based uninterruptible power supply ("UPS") products that use kinetic energy to provide short-term power as a cleaner alternative to electro-chemical 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. 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 UPS products and solutions are designed to deliver continuous conditioned power during short-term power disturbances and outages, such as voltage sags and surges, and to provide ride-through power in the event of a utility failure, supporting operations until utility power is restored or a longer term alternative power source, such as a diesel generator, is started. We believe our products offer an advantage over those of our competitors in the areas of total cost of ownership, system reliability, and sustainability.

We have sold our flywheel-based UPS products which we call CleanSource® UPS since 1999. As of December 31, 2015, we have shipped more than 4,500 flywheels in UPS systems, delivering more than 1,000 megawatts of power to customers in more than 50 countries around the world, and providing more than 200 million runtime hours of operation.

In addition to selling stand-alone UPS products, our MIS products integrate critical power components into a pre-packaged, purpose built enclosure that can be deployed by customers indoors or outdoors. These solutions can provide the customer benefits of our UPS systems along with the advantages of lower capital expense, speed to deployment, and system management controls as compared to a conventional brick-and-mortar building. Our MIS products, for example, can include our UPS products with other related equipment including switchboards and automatic transfer switch; monitoring and control systems; fire detection; lighting; security; and air conditioning. Our CleanSource PowerHouse® is a complete stand-alone power solution integrating a diesel generator and our UPS.

We also integrate and build modular IT infrastructure solutions to specification based on customer designs. These solutions are typically enclosures that have a fully built out interior including electrical, cooling, monitoring, and other elements ready for the customer to add its IT racks and servers. These solutions typically do not include our UPS products. These modular IT solutions serve as the physical infrastructure for modular data center products which are self-contained, fully functioning data centers once the customer adds its IT equipment. These products can be deployed rapidly and at a lower cost than traditional brick-and-mortar solutions, and are optimally suited for hyperscale IT and cloud applications.

To date, we have deployed more than 200 infrastructure modules worldwide, which include both CleanSource PowerHouse and our modular IT solutions.

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

We are headquartered in Austin, Texas, with international offices in the United Kingdom, Germany, and China.

In 2015, 72% of our product revenue came from the sale of UPS products and 28% from the sale of MIS products.

Customers and Target Markets

UPS products can be classified into single phase and three phase systems. We compete in the higher power, three phase range. Demand for three phase systems is typically segmented by kVA (kilo-Volt-Amps or power level) and by geography. We focus on customers desiring more than 250 kVA in all parts of the globe.

In 2015, IHS Research, a provider of global market, industry, and technical expertise, estimated this segment to be approximately $1.3 billion globally, and forecasted it to grow to be approximately $1.7 billion in 2019. IHS Research forecasts even more growth in the 500 kVA and higher segment, with a compound annual growth rate projected of approximately 7% from 2015 to 2019.

451 Research, an IT research and advisory company, estimated the market for prefabricated modular data center products in 2015 at approximately $1.2 billion, and forecasted growth to approximately $1.5 billion by 2016. We serve the modular data center market with our CleanSource PowerHouse and modular IT products.

We deliver products and solutions that support and enable mission critical applications that cannot tolerate downtime due to a power disturbance. Although data center deployments represent a large portion of our installed base, we also have had success in selling into non-IT environments. We are focusing on healthcare and industrial/manufacturing applications. Below are examples of the types of mission critical loads we protect with our products and solutions:

- Data Center – IT equipment in extreme/hyperscale, enterprise, and colocation facilities
- Industrial/Manufacturing – precision machining, plastic extrusion equipment, and bottling equipment
- Healthcare – imaging equipment (i.e. CAT, MRI, PET, etc.) and hospital data centers
- Transportation – runway and taxiway lighting at airports
- Broadcast – master control rooms and transmitter sites
- Entertainment facilities - casino gaming machines and data centers as well as sports complex lighting

The following list provides a representative sample of end user customers that use our products and solutions to support and enable their operations. The list includes customers to whom such products and solutions have been sold directly by us or via our Original Equipment Manufacturer (“OEM”) partners, manufacturer’s representatives, distributors, or strategic IT partners:

Representative Customers	**Industry**
Oracle	Data Center
Verizon	Data Center
Heineken	Industrial/Manufacturing
Pemex	Industrial/Manufacturing
Parkland Health and Hospital System	Healthcare
Merck	Healthcare
Cherokee Casinos	Entertainment
Osage Casino	Entertainment
Bangkok International Airport	Transportation
Mexico City International Airport	Transportation
WCBD-TV	Broadcast
WFFF-TV / WVNY-TV	Broadcast

Distribution

We continue to develop client relationships by selling directly and through our network of partners. Specifically, we use the following distribution methods:

- direct sales;
- manufacturer’s representatives;
- distributors;
- OEM partners; and
- strategic IT partners.

Direct Sales. Our direct sales teams are located in The Americas, Europe, and Asia, and are supported by our four regional offices located in the U.S., United Kingdom, Germany, and China. Our direct sales teams are focused on establishing and expanding local presence and brand awareness, winning large customer orders, and developing the foundation for long-term client relationships in their local markets.

Manufacturer’s Representatives. We have relationships with a group of manufacturer’s representatives primarily in North America. Representatives have been granted rights to sell Active Power products in specific geographic territories. This channel remains integral to the distribution of our products in North America and increases our geographic sales coverage without adding fixed costs. Products are marketed and sold under the Active Power brand through this channel.

Distributors. In certain markets outside of the United States, we recruit and retain specific distributors to market our products and services. The distributor buys products from us and resells them to the end user, often with other products or services. Distributors may also perform service and warranty work for end users. This strategy has been successful for us in markets where we choose not to deploy direct sales or service resources.

OEM Partners. OEM partners remain critical to our overall business strategy. Our primary OEM partner and one of our largest customers is Caterpillar, Inc. ("Caterpillar"). Caterpillar markets Active Power's UPS products under the Caterpillar brand name "CAT UPS" and as a complement to its electric power product lines of diesel engines and switchgear. By offering the CAT UPS with a standby generator and switchgear, Caterpillar can transform a standby power system into a continuous power system. We believe this total solution gives Caterpillar and us significant competitive advantages in the power quality market. In 2011, we signed a five-year distribution agreement with Caterpillar, continuing this important relationship that started in 1999. Unless terminated, this contract automatically renews for successive one-year periods. Our sales to Caterpillar represented 25%, 18%, and 14% of our total revenue for the years ended December 31, 2015, 2014, and 2013, respectively.

Strategic IT Partners. We have entered into agreements with leading global organizations in the data center market who have the ability to collaborate with us on new sales opportunities. These relationships help us expand potential opportunities to market our products and services through all of our distribution channels. Our primary IT partner is Hewlett Packard Enterprise Company ("HPE"). HPE accounted for 18%, 1%, and 22% of our total revenue during 2015, 2014, and 2013, respectively.

For risks related to our dependence with Caterpillar and HPE, see Part I - Item 1A. Risk Factors, "We are significantly dependent on our relationships with Caterpillar and Hewlett Packard Enterprise Company. If these relationships are unsuccessful, for whatever reason, our business and financial prospects would likely suffer."

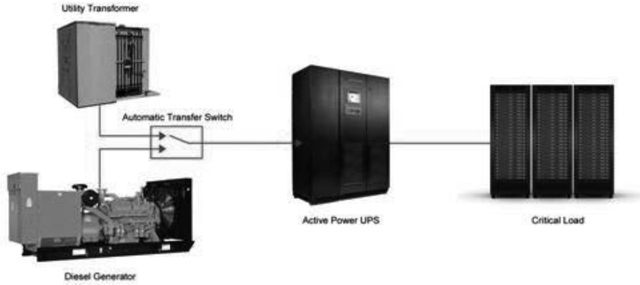
Geography

We focus our marketing and customer identification efforts globally, supported by our four regional offices. Located in Austin, Texas; Osterode, Germany; Evesham, United Kingdom; and Beijing, China, our regional offices provide local sales and service, applications engineering, project management, and system integration for UPS and MIS products. Sales outside of North America accounted for approximately 30%, 42%, and 20% of our total revenues in 2015, 2014, and 2013, respectively. We expect a significant portion of our total revenue will continue to be through international sales. For additional detail on revenue from external customers attributed to foreign operations, see Footnote 9 to the consolidated financial statements in this Form 10-K. For risks related to revenue from external customers attributed to foreign operations, see Part I – Item 1A. Risk Factors, "We derive a substantial portion of our revenues from international markets and plan to continue to expand such efforts, which subjects us to additional business risks including increased logistical and financial complexity, managing internal controls and processes, political instability, and currency fluctuations."

Products: UPS and MIS

UPS

Our UPS products serve two primary functions. First, during normal operations they are continuously conditioning ("cleaning") the incoming power from the utility and delivering "conditioned" power to the client's mission critical load. In this mode, the UPS regulates incoming utility power fluctuations in voltage and frequency. Second, if there is any interruption in the utility source, the UPS will provide temporary, or bridging power, until either the utility power is restored or an alternative generating source, such as a diesel generator, begins to provide power. This role of the UPS in the context of a continuous power application is illustrated below:



CleanSource 300/250 Series UPS

Active Power introduced the world's first integrated flywheel UPS product in 1999, integrating proprietary UPS power electronics with flywheel energy storage technology. The flywheel stores kinetic energy – energy produced by motion – by constantly spinning a compact rotor in a low friction environment. When short-term backup power is required due to utility power fluctuations or losses, the UPS draws upon the stored kinetic energy of the spinning flywheel to generate electricity for the load until utility power returns. The flywheel immediately supports the critical load upon loss of utility power. Combining CleanSource UPS with a generator provides customers with complete short- and long-term protection in the event of a power disturbance. Within seconds of an extended outage occurring, the UPS signals the generator to start via the automatic transfer switch. The generator then carries the load until utility power is restored. The following is an illustration of our typical flywheel-based UPS system:

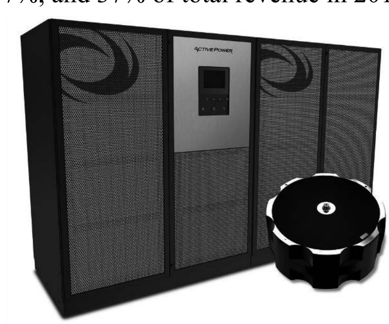
We market our flywheel-based UPS systems under the brand name CleanSource UPS rated at 300 kVA and 250 kVA for 480V and 400V applications, respectively. We currently offer CleanSource UPS products in power configurations ranging up to 1.5 MVA (million volt ampere) with the ability to parallel these products to provide even more protected power.

CleanSource HD UPS Series

In November 2012, we introduced our CleanSource 750/625HD UPS (see illustration below) which is available in standalone modules rated at 750 kVA and 625 kVA for 480V and 400V applications, respectively. This system is scalable and can be paralleled together to provide even more protected power. We believe CleanSource 750/625HD provides the reliability, power density, and total cost of ownership benefits that will make it a favorable complement to our existing products for large data center and other mission critical applications.

We also offer an Extended Runtime option on CleanSource HD UPS that can provide customers up to 30 minutes of additional UPS runtime. A secondary energy storage system, such as batteries or additional flywheel modules, supplements the primary flywheel and is available to those customers that require longer UPS autonomy.

Our UPS products represented 54%, 57%, and 37% of total revenue in 2015, 2014, and 2013, respectively.



<u>Modular Infrastructure Solutions (MIS)</u>

CleanSource PowerHouse

For customers looking for a complete, integrated continuous power system, we can package our CleanSource UPS along with switchboards and automatic transfer switch; monitoring and control systems; fire detection; lighting; security; and air conditioning into a fully integrated system. Due to the space efficiencies of our UPS products, we are able to offer all of these components in a pre-packaged containerized solution that we market under the brand name CleanSource PowerHouse (see illustration below).

CleanSource PowerHouse is packaged in a purpose-built enclosure that can be deployed by customers indoors or outdoors, with size and features customized depending upon the customer's power load requirements and local and national regulatory requirements. These systems are specifically designed to handle the demands of data centers and other mission critical applications, providing lower acquisition cost, faster time to deployment, and improved management and control versus a conventional data center electrical room. Our systems are offered in ten standard modular power configurations that enable sizing for power (and cooling) infrastructure. CleanSource PowerHouse delivers significant value to customers as the entire system is integrated and tested prior to delivery for a repeatable and simple solution.

CleanSource PowerHouse is used to support a variety of applications including facility expansion, temporary critical power needs such as event support, disaster recovery, or to support a containerized data center.

Modular IT

We use our expertise in integration, containerization, and power distribution to manufacture containerized infrastructure solutions designed to specification for select business partners on a contract basis. Modular IT infrastructure solutions refer to the components of a containerized data center. These modular IT products can include an outer shell and outfitting the interior of the enclosure with electrical, cooling, and monitoring components. Our clients then add IT equipment including servers and racks, resulting in a self-contained modular data center that our partners deliver to end users. Modular IT systems may be rapidly deployed with CleanSource PowerHouse as a cost-effective alternative to traditional data center construction for a complete modular solution.

Our MIS products (CleanSource PowerHouse and modular IT) represented 21%, 17%, and 35% of total revenue in 2015, 2014, and 2013, respectively.

Service

We deliver worldwide customer support that offers clients assessment, implementation, and lifecycle support services for all Active Power products. Building a portfolio of services to work with clients through the lifecycle of their power assessment design and implementation process is a key element of our service growth strategy. We offer the following services to our clients:

- *Deployment*. Our experienced group of project managers will work with a client to develop a timely deployment schedule that avoids disrupting day-to-day business activity. We ensure expectations are clearly defined through the deployment phase;
- *Start-Up and Commissioning*. Once the system is deployed, our team takes the system through a rigorous commissioning process to help ensure the system is working to specification. Our engineers work closely with the client's team to make certain they are educated and trained on the successful operation of the system;
- *Service, Support and Monitoring*. Clients can choose from a variety of comprehensive service and support offerings, tiered to match an organization's internal capabilities and requirements. We also offer remote monitoring service through our headquarters in Austin, Texas, locally at the client's facility, or as a combination offering;
- *Infrastructure Needs Assessment*. We work locally through our global network of mission critical infrastructure engineers and project managers to assess the power and cooling needs of a client's facility;
- *Vetting and Validation*. Our teams of experienced application engineers use comprehensive assessments to vet and validate the optimal solution that complements a client's business continuity plan;
- *Alignment with Business Objectives*. Through continuous communication, our teams help ensure the solution accurately aligns with the original needs assessment and a client's short-term and projected future business objectives; and
- *System Design*. We design client solutions to ensure all components are optimized with a particular focus on reliability, efficiency, and cost effectiveness in determining the correct match and interoperability between components.

Service revenues represented 25%, 26%, and 28% of our total revenue in 2015, 2014, and 2013, respectively.

UPS and MIS Market Drivers

We believe there are several market dynamics fueling the growth of the UPS and MIS markets and the need for reliable and sustainable low cost backup power. These include:

Increase in data usage and storage and in data center density:

- Growth of enterprise data, social networking sites, web-based applications, cloud computing, and other similar technologies requires data centers to invest in more IT and physical infrastructure equipment to support growth in use and storage requirements;
- Additional IT and infrastructure requires more floor space; and
- Enterprises' need for more power density to accommodate IT equipment more efficiently within a given space.

More awareness of energy efficiency from both a corporate social responsibility and financial perspective:

- More investment in highly efficient, sustainable technologies to keep electricity costs down and to stay competitive in the marketplace;
- Customer preferences for clean, green technologies that do not contain toxic, harmful chemicals and avoid disposal costs associated with electro-chemical battery-based energy storage;
- Government legislation and other cap and trade programs are becoming more prominent to help control carbon emissions;
- Electricity costs are the single highest operating costs for many organizations due to the substantial amount of power needed to support data center facilities; and
- Additional privacy legislation in Europe that resulted in data center operators maintaining data centers in multiple countries in Europe.

Modular data centers are becoming more commonplace, not only for specific niche applications like military and high density computing environments:

- Colocation sites that house modular data centers are becoming more prevalent due to performance and tangible economic benefits;
- Short lead times and rapid deployment capability are expected to increase demand for modular data center products, particularly for those organizations that do not have capital readily available to commit to building a brick and mortar facility; and
- A modular design-build approach is a more capital efficient model that enables organizations to deploy IT and infrastructure as business and IT needs evolve, reducing underutilization.

Customers focused on convenience and improving margins:

- Operators continue to focus on minimizing cost, cooling, and maintenance which in turn is driving down UPS runtime specifications;
- More mission critical organizations are moving towards innovatively designed, turnkey data center and infrastructure solutions that involve less risk, cost, and complexity and more automation; and
- Organizations want the ability to rapidly deploy IT and associated power and cooling infrastructure.

Increase in global energy consumption:

- Rapid industrialization of highly populated world regions is increasing global energy demand and placing a premium on reliability of energy supply and sensitivity to loss of power; and
- There is an increasing cost to produce and consume electricity due to depletion of finite fossil fuel sources, instability in oil-producing regions, and a preference for green energy sources.

Increasing economic impact of a power interruption to users:

- The financial cost of a power interruption through loss of products, manufacturing down time, and computer processing interruptions;
- Manufacturing and industrial environments are becoming more automated and digitized, particularly in the areas of process and machine control and material flow, making these applications prone to power quality issues and at risk for downtime;

- Power quality is becoming more important to healthcare organizations with the increasing use of diagnostic imaging equipment and electronic medical records where a disturbance can lead to negative consequences including comprised patient safety and lost revenue; and
- Reputational cost of a power interruption to businesses.

Value Proposition

We believe our offerings deliver an unmatched combination of low total cost of ownership, reliability, and sustainability. The core differentiators for our products and solutions are the following:

Total Cost of Ownership
- Lower operating expenses through superior energy efficiency, reduced cooling needs, lower maintenance costs, and no required battery changes
- Delivers up to 40% in total cost of ownership savings over 15 years

Reliability
- Proven 12 times less likely to fail versus legacy UPS
- Unique patented design delivers predictable, consistent, and continuous operation

Sustainability
- Superior energy efficiency and power density to reduce fossil fuel generation
- Permanent energy storage to minimize waste and emissions

Competition

We compete with two primary products: UPS products and MIS products.

UPS Products. Our CleanSource UPS products compete primarily against conventional battery-based UPS systems from vendors such as Emerson/Liebert, Eaton/Powerware, and APC/MGE. We also compete against rotary (battery-free) UPS systems from vendors such as Piller, Eurodiesel, and Hitec. For applications requiring less than one megawatt of critical load, we largely compete against battery-based competitors and for applications greater than one megawatt we tend to compete against rotary systems vendors. We believe there is greater market acceptance of battery-free solutions (such as flywheel and rotary) compared to battery-based solutions in the one-megawatt and higher power range, making this an attractive market for our CleanSource 750/625HD UPS. Several of the leading conventional UPS battery vendors offer flywheel-based energy storage in place of batteries. Vycon is the principal manufacturer of these flywheel systems.

Our primary basis of competition as compared to battery-based UPS systems is our advantages in total cost of ownership, reliability, and sustainability. Our points of differentiation as compared to rotary UPS products are in space efficiencies (footprint) and total cost of ownership.

Modular Infrastructure Solutions. We provide competitive offerings in both the modular power and modular IT infrastructure segments. There are a variety of competitors with similar capabilities including systems integrators and value added service providers who may procure system components and assemble custom solutions. We believe that we are one of only a few manufacturers in the world offering pre-packaged standard modular power and IT solutions for quick delivery globally. Because of the significant up-front investment required, and the longer period between order and delivery relative to our UPS products, a significant increase in sales of our MIS products may materially increase the amount of working capital required to fund our operations.

The power density advantages we enjoy with our UPS products allow us to offer higher continuous power levels within the physical constraints of the containerized space compared to our battery-based competitors, which we believe is a barrier to entry for them. Our UPS products' ability to operate in temperatures of up to 40 degrees Celsius in non-air -conditioned environments (such as a shell building or open-air facility) also acts as a competitive advantage for us compared to battery-based UPS systems which require sufficient air conditioning to operate.

We believe our experience with the power and cooling requirements of the infrastructure provides us with a competitive advantage in the design and manufacturing of these products compared to less experienced manufacturers. Further, the joint offering of our CleanSource PowerHouse with our modular IT solutions provides efficiencies, scale, and advantages in sales, marketing, and engineering we expect customers to find increasingly compelling.

Intellectual Property and Assets

We use proprietary manufacturing methods and techniques, as well as proprietary control algorithms for our products. We rely upon a combination of patents, trademarks, confidentiality agreements, and other contractual restrictions with employees and third parties to establish and protect these proprietary rights. We seek patent protection for inventions incorporated into our products where we believe obtaining such proprietary rights will improve our competitive position. While proprietary intellectual property is important to the Company, management believes the loss or expiration of any intellectual property right would not materially impact the Company.

We own the registered trademarks ACTIVE POWER, CLEANSOURCE, POWERHOUSE, and DRIVEN BY MOTION in the United States and abroad. The Active Power logo is a trademark of Active Power, Inc. All other trademarks, service marks, or trade names referred to in this report are the property of their respective owners.

Research and Development

We believe research and development efforts are essential to successfully delivering innovative products that address the current and emerging customer needs, particularly as power management/infrastructure needs evolve. Our research and development team works closely with our marketing and sales teams, IT channel partners, and OEMs to define product requirements that address specific customer needs. Our research and development expenses were $5.7 million, $6.7 million, and $7.4 million in 2015, 2014, and 2013, respectively. As of December 31, 2015, our research and development and engineering teams consisted of 29 engineers and technicians.

Manufacturing

We manufacture all of our UPS products for customers at our headquarters in Austin, Texas. MIS products for our customers in the Americas are manufactured at our facility in Austin. We are an ISO 9001:2008 quality certified operation. We source the majority of our components from contract manufacturers to enhance our ability to scale operations and minimize costs. This approach allows us to respond quickly to customer orders while maintaining high quality standards and optimizing inventory levels.

We strive to continually improve inventory turns through effective supply chain processes (e.g., supply base design, Kanban and vendor managed inventory) and supplier relationship management programs. We also have Lean programs in place to help us identify and eliminate waste and drive efficiencies throughout the company.

Our internal manufacturing process consists of the fabrication of certain critical components within the flywheel energy storage system and the assembly, functional testing, and quality control of our finished products. Our functional testing is system level testing that exercises the parts and subassemblies obtained from contract manufacturers for quality control purposes.

We have entered into long-term agreements with some of our key suppliers, but we currently purchase most of our components on a purchase order basis. We are working to renew or establish more long-term agreements with our sole suppliers and other key vendors. We utilize a rolling sales volume forecast to provide visibility to our supply base, which assists in ensuring component availability. We use standard parts and components for our products where possible, and have developed multiple sources for some of our most critical components including the flywheel rotors, cast housings, inductors and bearings. Lead times for ordering materials and components vary significantly and depend on factors such as material lead-time plus manufacturing cycle-time (driven by manufacturing complexity) and current market demand for such components or commodities.

We believe our current workforce, facilities, and inventory levels will be sufficient to handle our near-term projected sales demand. However, over time, we may need to hire additional manufacturing personnel with minimal equipment upgrades to address sales volume increases.

Local Assembly

For our MIS customers in Europe, we do much of the assembly, integration, and test work at our Evesham, UK facility. In Asia, this work is usually outsourced to local integration partners. A key component of our strategy is to maintain a flexible operating model that allows us to perform local integration, assembly, and testing of certain MIS products. We perform this work either at company managed facilities or with local integration partners that have assembly, integration, and test resources. We also have a full complement of integration, assembly, and test capabilities at our Austin, Texas facility.

Environmental Regulation

We must comply with many different federal, state, local, and foreign governmental regulations related to the use, storage, discharge, and disposal of certain chemicals and gases used in our manufacturing processes. Our facilities have been designed to comply with these regulations and we believe our activities are conducted in material compliance with such regulations. Any changes in such regulations or in their enforcement could require us to acquire costly equipment or to incur other significant expenses to comply with environmental regulations. Any failure by us to adequately control the storage, use, discharge, and disposal of regulated substances could result in significant future liabilities. Increasing public attention has been focused on the environmental impact of manufacturing operations. While we have not experienced any material adverse effects on our operations from recently adopted environmental regulations, our business and results of operations could suffer if for any reason we fail to control the storage or use of, or to adequately restrict the discharge or disposal of, hazardous substances under present or future environmental regulations.

Backlog

Normally, our products are shipped and revenue is recognized within three to six months from the date of the order. At times products are scheduled to ship in periods greater than this when the customer is constructing or expanding a new facility. Product revenue in any quarter is often dependent on orders booked and shipped throughout that quarter as historically our backlog has only provided a portion of the next quarter's revenue. Service contracts, however, may extend for one or more years. We are attempting to increase the size of our backlog to promote greater efficiency in production, to facilitate business planning, and to improve revenue visibility. To support these efforts, we are working to drive consistent sales performance through targeted investing in and allocation of resources to our sales organization and distribution channels to build our backlog.

The dollar amount of backlog believed to be firm was approximately $30.8 million and $26.7 million at December 31, 2015 and 2014, respectively. This increase in backlog is primarily due to the restructuring of our sales organization, a shift in our market approach, and reengagement with our OEM partner Caterpillar. Of the total backlog, approximately $9.4 million and $5.4 million at December 31, 2015 and 2014, respectively, was not expected to be filled in the following year. These amounts include both long-term service contracts and product orders.
Backlog represents:

- anticipated revenue from unfulfilled product orders believed to be firm; and
- service work not yet performed under signed contracts.

Due to possible changes in product delivery schedules and the potential cancellation of unfulfilled product orders and service contracts, our backlog at any particular date should not be relied upon as being indicative of revenue for any succeeding period.

Employees

As of December 31, 2015, we had 219 total employees.

Seasonality

Our business has experienced seasonal customer buying patterns for a number of years. In recent years, both UPS and MIS sales were weaker in the first calendar quarter of the year. We believe this pattern, which we attribute to annual capital budgeting procedures, will continue. We also have historically seen a decline in demand for our products in Europe in the summer months compared to other regions because of reduced corporate buying patterns during the vacation season.

Where You Can Find Other Information

Active Power is a Delaware corporation originally founded in 1992 as a Texas corporation. We file annual, quarterly, current, and other reports, proxy statements, and other information with the SEC pursuant to the Exchange Act. You may read and copy any materials the company files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy, and other information statements, and other information regarding issuers, including Active Power, that file electronically with the SEC. The address of that site is www.sec.gov.

We maintain a website at www.activepower.com. We make available free of charge through this site our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practical after we electronically file such material with, or furnish it to, the SEC. This information can be found in the Investor Relations section of our website. The website and the information contained therein or connected thereto are not intended to be incorporated in this Annual Report on Form 10-K.

Executive Officers of the Company

The following table sets forth certain biographical information concerning our executive officers:

Name	Age	Position(s)
Mark A. Ascolese	65	President and Chief Executive Officer
James A. Powers	54	Chief Financial Officer and Vice President Finance
Randall J. Adleman	58	Vice President of Global Sales and Marketing

Mark A. Ascolese became President and Chief Executive Officer of Active Power on October 14, 2013. Mr. Ascolese has more than 40 years of experience serving a variety of mission critical and energy markets, including data centers. Prior to joining Active Power, Mr. Ascolese first served as CEO and then as Executive Board Chairman of Power Analytics Corporation (now part of Causam Energy, Inc.), an electrical infrastructure enterprise software firm focused on the mission critical and smart grid markets. Mr. Ascolese was appointed CEO of Power Analytics in March 2008 where he recruited the organization's management team and created and implemented a successful strategic plan, transitioning the firm from a family owned company to a professionally managed business. In August 2012, Mr. Ascolese was appointed Executive Board Chairman at Power Analytics and served in this role prior to joining Active Power in October 2013. Previously, he served as President at Powerware Corporation (now part of Eaton Corporation) and in senior management positions at General Electric Company. From 2000 through 2002, Mr. Ascolese served as Senior Vice President of Business Development at Active Power during the company's initial public offering. Mr. Ascolese earned a bachelor's of Science in Commerce from the University of Louisville.

James A. Powers has served as Chief Financial Officer and Vice President of Active Power since December 4, 2013. As Chief Financial Officer and Vice President of Finance, he oversees all accounting, finance, treasury, and investor relations activities, as well as the company's IT organization. From May 2013 until he joined Active Power, he served as Senior Vice President of Finance of the U.S. Windows and Doors division of Ply Gem Industries, Inc., a North American manufacturer of exterior building products. In this role, he managed the finance and IT organizations, leading all accounting, forecasting, budgeting, reporting, business analysis, internal controls, and working capital management activities. From May 2006 through May 2013, Mr. Powers served in various executive finance positions at Xerium Technologies Inc., a global manufacturer and supplier of consumable products and services used in various industries. From January 2011 through May 2013, he served as Vice President and Global Controller where he managed all corporate controllership functions, including SEC reporting and board financial reporting and analysis. From June 2008 through December 2010, Mr. Powers was Vice President of Finance, North America, at Xerium where he directed a broad range of financial functions. Prior to 2006, Mr. Powers served in various executive finance positions for international electrical equipment manufacturing businesses within Invensys Group PLC and ABB Ltd. Mr. Powers received a bachelor's of Science in Accounting from the State of University of New York at Albany.

Randall J. Adleman served as Vice President of Global Sales and Marketing of Active Power from November 18, 2013, through February 2, 2016. In this role, he had overall responsibility for the company's global sales and marketing organizations. From March 2010 until he joined Active Power, Mr. Adleman served as Vice President of Sales and Marketing for Valence Technology, Inc., a global manufacturer of lithium-ion energy storage solutions. There, he directed all worldwide sales and marketing efforts for the company's motive, backup, industrial, and marine segments. Valence Technology filed a voluntary petition for chapter 11 business reorganization in the U.S. Bankruptcy Court for the Western District of Texas on July 12, 2012, during Mr. Adleman's tenure as an executive officer. The U.S. Bankruptcy Court for the Western District of Texas approved the company's exit from chapter 11 on November 13, 2013. Prior to that position, Mr. Adleman founded and served as Principal at Fords Barron Advisership, a corporate consultancy focused on sales force effectiveness. He has also held executive level sales positions at Misys Healthcare LLC, now part of Allscripts Healthcare Solutions, Inc.; Ingersoll-Rand plc; and Invensys Ltd. Powerware division, now part of Eaton Corporation plc. Mr. Adleman holds an undergraduate degree from Colgate University and a master's in Business Administration with a concentration in Marketing from Fairleigh Dickinson University.

ITEM 1A. Risk Factors

You should carefully consider the risks described below before making a decision to invest in our common stock or in evaluating Active Power and our business. The risks and uncertainties described below 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.

This Form 10-K contains forward-looking statements that involve risks and uncertainties. Our results could materially differ from those anticipated in these forward-looking statements as a result of certain factors, including the risks described below and elsewhere. See "Special Note Regarding Forward-Looking Statements."

Risks Related to our Business

We have a history of significant operating losses.

We have incurred annual operating losses each year since our inception in 1992. Although we achieved operating profitability on a quarterly basis in the second quarter of 2012, we have not been able to sustain this and achieve quarterly or annual operating profitability since then. As of December 31, 2015, we had an accumulated deficit of $290.5 million. To date, we have funded our operations principally through the public and private sales of our stock, from borrowings under our credit facilities, from product and service revenue, and from development funding. We will need to generate significant additional revenue while maintaining our current margins to achieve annual profitability, and we cannot assure you that we will ever realize such revenue levels or achieve profitability on a consistent basis.

If our revenues do not meet our expectations, our costs exceed our estimates, or our working capital needs are greater than anticipated, we may not have adequate liquidity to continue operating our business. Our cash requirements will depend on many factors, including:

- future sales growth;
- the demand for our products;
- the gross profit we are able to generate from our sales;
- the timing, level, and extent of our research and development funding;
- the rate of expansion of our sales and marketing activities;
- the rate of expansion of our manufacturing processes;
- our overall level of operating expenses;
- the payment terms we negotiate with our suppliers; and
- our default rates on receivables.

A substantial increase in sales of our MIS solutions or a substantial increase in UPS sales may materially impact the amount of working capital required to fund our operations. In order to increase our MIS sales, we may be required to make larger investments in inventory and to increase the amount of our outstanding receivables. These larger investments may require us to obtain additional sources of working capital, debt, or equity financing in order to fund our business. Even 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.

We may need additional capital in the future, and it may not be available to us on favorable terms, or at all.

We have historically relied on outside financing and cash flow from operations to fund our operating losses, operations, capital expenditures, and expansion. We may require additional capital from equity or debt financing in the future to fund our operations or respond to competitive pressures or strategic opportunities. We may not be able to secure timely additional financing on favorable terms, or at all. The terms of any additional financing may place limits on our financial and operating flexibility. If we are unable to obtain adequate financing or financing on terms satisfactory to us, if and when we require it, our ability to grow or support our business and to respond to business challenges could be significantly limited. 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.

Our business may be affected by general economic conditions and uncertainty that may cause customers to defer or cancel sales commitments previously made to us.

Any future economic uncertainty in the United States or certain international markets may lead to an economic recession or lower capital spending and credit availability in some or all of the markets in which we operate. A recession or even the risk of a potential recession or uneven economic growth conditions may be sufficient reason for customers to delay, defer, or cancel purchase decisions, including decisions previously made. This risk is magnified for capital goods purchases such as UPS and MIS products that we supply. Although we believe that our competitive advantage and our efforts to broaden the number of different markets in which we sell may help mitigate the economic risk associated with any one country or market vertical, any customer delays or cancellation in sales orders could materially adversely affect our level of revenues and operating results.

Our backlog may not result in revenue.

Our backlog is not necessarily a meaningful predictor of future results. Backlog represents anticipated revenue from unfulfilled product orders and from service work not yet performed under signed contracts. Due to possible changes in product delivery schedules and the potential for cancellation of unfulfilled product orders and service contracts by our customers, our backlog at any particular date should not be relied upon as being indicative of revenue for any succeeding period. Time periods from receipt of an order to shipment date and installation vary widely, and may be determined by a number of factors, including the terms of the customer contract and the customer's deployment plan. The value of service contracts included in backlog could cover services extending one or more years into the future. The size of an order or the scope of a service contract can be reduced significantly during the course of a project. If the scope of an order or contract is revised or an order or contract is canceled, we adjust backlog accordingly. Also, some of the orders we accept from customers require certain conditions or contingencies to be satisfied prior to shipment or prior to commissioning or installation, some of which are outside of our control and some of which may not be satisfied. For these and other reasons, we may not fully realize our backlog as revenue.

Our reliance on large and complex system solutions and customer concentration may adversely affect our ability to accurately predict the timing of revenues and to meet short-term expectations of operating results.

Our reliance on large and complex system solutions means that we must devote substantial effort and time to complete sales to customers. Further, a large portion of our quarterly revenue is derived from relatively few large transactions with relatively few customers. For example, in 2015 and 2014, our three largest customers contributed 48% and 30% of our revenue, respectively. Any delay in completing these large sales transactions or any reduction in the number of customers or large transactions, may result in significant adverse fluctuations in our quarterly revenue. Further, we use anticipated revenues to establish our operating budgets and a large portion of our expenses, particularly rent and salaries are fixed in the short term. As a result, any shortfall or delay in revenue could result in increased losses and would likely cause our operating results to be below public expectations. The occurrence of any of these events would likely materially adversely affect our results of operations.

Our financial results may vary significantly from quarter to quarter.

Our product revenue, operating expenses, and quarterly operating results have varied in the past and may fluctuate significantly from quarter to quarter in the future due to a variety of factors, many of which are outside of our control. As a result, you should not rely on our operating results during any particular quarter as an indication of our future performance in any quarterly period or fiscal year. The factors which may affect our business include, among others:

- timing of orders from our customers and the possibility that customers may change their order requirements with little or no notice to us;
- demand for of our flywheel-based energy storage system as an alternative to lead-acid batteries and our continuous power and infrastructure solutions;
- ongoing need for short-term power outage protection in traditional UPS systems;
- deferral of customer orders in anticipation of new products from us or other providers of power quality systems;
- our order backlog may not increase and does not always result in revenue;
- limited visibility into customer spending plans;
- timing of deferred revenue components associated with large orders;
- ability to manage capital requirements associated with large orders;
- timing and execution of our new product introductions;
- new product releases, licensing, or pricing decisions by our competitors;
- commodity and raw material component prices;
- ability to adjust our cost structure in response to reductions in income;
- loss of a significant customer or distributor;

- impact of changes to our product distribution strategy and pricing policies;
- failure to achieve our anticipated revenue growth rate;
- impact of changes to our product distribution strategy and pricing policies of our distributors;
- changes in product mix;
- fluctuations in currency exchange rates;
- changes in the mix of domestic and international sales;
- rate of market growth for our products; and
- acceptance of our latest generation UPS product in the marketplace.

The market for power quality products is evolving and it is difficult to predict its potential size or future growth rate. Most of the organizations that may purchase our products have invested substantial resources in their existing power systems and, as a result, have been reluctant or slow to adopt a new technology, particularly during a period of reduced capital expenditures. Moreover, our current products are alternatives to traditional battery-based UPS systems and may never be accepted by our customers or may be made obsolete by other advances in power quality technologies.

Significant portions of our expenses are not variable in the short term and cannot be quickly reduced to respond to decreases in revenue. Therefore, if our revenue is below our expectations, our operating results are likely to be adversely and disproportionately affected. In addition, we may change our prices; modify our distribution strategy and policies; accelerate our investment in research and development; or shift our sales and marketing efforts in response to competitive pressures or to pursue new market opportunities. Any one of these activities may further limit our ability to adjust spending in response to revenue fluctuations. We use forecasted revenue to establish our expense budget. Because most of our expenses are fixed in the short term or incurred in advance of anticipated revenue, any shortfall in revenue may result in significant losses.

A significant increase in sales of our MIS products may materially increase the amount of working capital required to fund our operations.

Because of the significant up-front investment required, and the longer period between order and delivery relative to our UPS products, a significant increase in sales of our MIS products may materially increase the amount of working capital required to fund our operations. The amount of time between the receipt of payment from our customers and our expenditures for raw materials, manufacturing, and shipment of products (the cash cycle) for MIS sales can be as much as 210 days, depending on customer payment terms. If we experience a substantial increase in the size or number of MIS orders, we may need to obtain additional sources of working capital, debt, or equity financing to fund the business. If we are unsuccessful at obtaining additional sources of working capital, we may be required to curtail our level of MIS sales or we may lose potential customers, either of which may adversely impact our results of operations.

Our credit facility includes certain covenants and other events of default. Should we not comply with these covenants or incur an event of default, we may be required to repay our obligation in cash, which could have an adverse effect on our 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") includes certain financial and administrative covenants, including a requirement to maintain a liquidity ratio equal to or greater than 1.25:1.00. The liquidity ratio is defined as unrestricted cash, cash equivalents and marketable securities on which bank has a perfected security interest, plus the aggregate amount of eligible accounts receivable accounts divided by all obligations we owe to SVB. If we fail to stay in compliance with our covenants or suffer some other event of default under the Loan Agreement, we may be required to repay the outstanding borrowings. Should this occur, our liquidity would be adversely impacted. For additional information related to the Loan Agreement, please refer to Footnote 4, "Revolving Credit Facility," of the consolidated financial statements on pages 56 to 57 of this Form 10-K.

Our liquidity could be impacted by customer credit risk on receivables.

Most of our sales are on an open credit basis. Our failure to collect receivables from any of our customers in a timely manner could have a significant adverse effect on our liquidity. The collection risk may potentially increase if we sell a higher proportion of MIS, such as our CleanSource PowerHouse products, due to their higher average selling price. If future actual default rates on receivables differ from those currently anticipated, our working capital could decrease and we may not have adequate liquidity to continue operating our business.

We derive a substantial portion of our revenues from international markets and plan to continue to expand such efforts, which subjects us to additional business risks including increased logistical and financial complexity, managing internal controls and processes, political instability, and currency fluctuations.

The percentage of our total revenue derived from customers located outside of North America was 30%, 42%, and 20% in 2015, 2014, and 2013, respectively. Our international operations are subject to a number of risks, including:

- foreign laws and business practices that favor local competition;
- dependence on local channel partners;
- compliance with multiple, conflicting, and changing government laws and regulations;
- longer cash cycles;
- difficulties in managing and staffing foreign operations;
- foreign currency exchange rate fluctuations and the associated effects on product demand and timing of payment;
- political and economic stability, particularly in the Middle East and Africa;
- greater difficulty in the contracting and shipping process and in accounts receivable collection including longer collection periods;
- ability to fund working capital requirements;
- greater difficulty in hiring qualified technical sales and application engineers; and
- difficulties with financial reporting in foreign countries.

To date, the majority of our sales to international customers and purchases of components from international suppliers have been denominated in U.S. dollars, Euros, and British Pounds. All of our UPS products are manufactured in the U.S. and then sold to our foreign subsidiaries and customers, normally in U.S. dollars. An increase in the value of the U.S. dollar relative to foreign currencies could make our products more expensive for our international customers to purchase, thus rendering our products less competitive. We also source the non-UPS components for our modular power infrastructure products locally where possible and pay for these components in local currencies as a way to mitigate the impact of fluctuations in foreign currencies and lessen the impact of any unfavorable fluctuations with the U.S. dollar. We and many of our subsidiaries sell products outside of the country of incorporation, and often in foreign currencies. To the extent we record sales in other than our local currency; this can result in translation gains and losses. Currently, we do not engage in hedging activities for our international operations to offset this currency risk. However, we may engage in hedging activities in the future.

We are subject to risks relating to product concentration and lack of revenue diversification.

We derive a substantial portion of our revenue from a limited number of products, particularly from our CleanSource 300/250 Series UPS product family. These UPS products are also an integral component of our CleanSource PowerHouse products. We expect these products to continue to account for a large percentage of our revenues in the near term. Continued market acceptance of these products is therefore critical to our future success.

Our future success will also depend on our ability to reduce our dependence on these few products by developing and introducing new products and product or feature enhancements in a timely manner. Specifically, our ability to capture significant market share depends on our ability to develop and market extensions to our existing product lines at higher and lower power range offerings and as containerized solutions. We are currently investing significant amounts in our UPS and MIS products to broaden our product portfolio. Even if we are able to develop and commercially introduce new products and enhancements, they may not achieve market acceptance and the revenue generated from these new products and enhancements may not offset the costs, which would substantially impair our revenue, profitability, and overall financial prospects. Successful product development and market acceptance of our existing and future products depend on a number of factors, including:

- changing requirements of customers;
- accurate prediction of market and technical requirements;
- timely completion and introduction of new designs;
- quality, price, and performance of our products;
- availability, quality, price, and performance of competing products and technologies;
- our customer service and support capabilities and responsiveness;
- successful development of our relationships with existing and potential customers; and
- changes in technology, industry standards, or end-user preferences.

We must expand our distribution channels and manage our existing and new product distribution relationships to grow our business.

The future growth of our business will depend on our ability to expand our existing relationships with distributors; to identify and develop additional channels for the distribution and sale of our products; and to manage these relationships. As part of our growth strategy, we may expand our relationships with distributors and develop relationships with new distributors. We will also look to identify and develop new relationships with additional third parties that could serve as outlets for our products, or provide additional opportunities for our existing sales channels, such as the relationships we have developed with IT hardware manufacturers such as HPE. Our inability to execute this strategy successfully and to integrate and manage our existing OEM channel partners and our new distributors and manufacturer's representatives would likely impede our future growth.

We must continue to hire and retain skilled personnel.

We believe our future success will depend upon our ability to attract, motivate, and retain highly skilled managerial, engineering, sales, and product marketing personnel. There is a limited supply of skilled employees in the power quality marketplace. Our small size relative to our competitors, our history of significant operating losses and our lack of brand equity, particularly in foreign markets, makes it very difficult for us to attract new personnel. If we are unable to attract the new personnel we desire, retain personnel we currently employ, or if we are unable to replace departing employees quickly, our operations and new product development may suffer.

We are significantly dependent on our relationships with Caterpillar and Hewlett Packard Enterprise Company. If these relationships are unsuccessful, for whatever reason, our business and financial prospects would likely suffer.

Caterpillar, together with its dealer network, is our primary OEM customer and the single largest customer for our flywheel-based UPS products. Caterpillar accounted for 25%, 18%, and 14% of our revenue in 2015, 2014, and 2013, respectively. HPE is our largest IT channel partner and accounted for 18%, 1%, and 22% of our revenue in 2015, 2014, and 2013, respectively. A number of factors could cause these customers to cancel or defer orders, including interruptions to their operations due to a downturn in their industries; delays or changes in their product offerings; securing other sources for the products we manufacture; or developing such products internally. If our relationships with Caterpillar or HPE are not successful or suffer a material adverse change, such as a material reduction in the level of orders due to an inability to win customer projects or other factors outside of our control; or their failure to pay us on a timely basis, our business and operating results would suffer unless we are able to replace these revenues from another source or sources in a timely manner.

We face significant competition from other companies.

The markets for power quality and power reliability systems are intensely competitive. There are many companies engaged in all areas of traditional and alternative UPS and backup power systems in the U.S. and abroad, including, among others, major electric and specialized electronics firms, as well as universities, research institutions, and foreign government-sponsored companies. There are many companies that are developing flywheel-based energy storage systems and flywheel-based power quality systems. We may face future competition from companies that are developing other types of emerging power technologies, such as advanced new battery chemistries, high-speed composite flywheels, ultra-capacitors, and superconducting magnetic energy storage.

Many of our current and potential competitors have longer operating histories, significantly greater financial, technical, service, marketing, and other resources, broader name and brand recognition, and a larger installed base of customers. As a result, these competitors may have greater credibility with our existing and potential customers and greater service infrastructure than we do. Given our current production volumes and lack of strategic supplier management programs, we may receive less favorable pricing from our suppliers than some of our larger competitors. Our competitors may be able to adopt more aggressive pricing policies and devote greater resources to the development, promotion, and sale of their products than we can, which would allow them to respond more quickly than us to new or emerging technologies or changes in customer requirements.

In addition, some of our current and potential competitors have established supplier or joint development relationships with our current or potential customers. These competitors may be able to use their existing relationships to discourage these customers from purchasing products from us or to persuade them to replace our products with their products. Increased competition could decrease our prices, reduce our sales, lower our margins, or decrease our market share. These and other competitive pressures could prevent us from competing successfully against current or future competitors and could materially harm our business.

We have underutilized manufacturing capacity and have no experience manufacturing our products in large quantities.

In 2001, we leased and equipped a 127,000 square foot facility used for manufacturing and testing of our three-phase product line, including our UPS and energy storage products. To be financially successful and to fully utilize the capacity of our facility and allocate its associated overhead, we must achieve significantly higher sales volumes. We must accomplish this while also preserving the quality levels we achieved when manufacturing these products in more limited quantities. To date, we have not been successful at increasing our sales volume to a level that fully utilizes the capacity of the facility and we may never increase our sales volume to necessary levels. If we do not reach these necessary sales volume levels, or if we cannot sell our products at our suggested prices, our ability to reach profitability on a quarterly or annual basis would be adversely impacted.

Achieving the necessary production levels to absorb the capacity of our manufacturing facility efficiently presents a number of technological and engineering challenges for us. We have not previously manufactured our products in high volume. We do not know whether or when we will be able to develop efficient, low-cost manufacturing capability and processes that will enable us to meet the quality, price, engineering, design, and product standards or production volumes required to manufacture large quantities of our products successfully. Even if we are successful in developing our manufacturing capability and processes, we do not know whether we will do so in time to meet our product commercialization objectives or to satisfy the requirements of our customers.

We must build quality products to ensure acceptance of our products.

The market perception of our products and related acceptance of such products is highly dependent upon the quality and reliability of the products we build. Any quality problems attributable to our UPS or MIS product lines may substantially impair our revenue and operating results. Moreover, quality problems for our product lines could cause us to delay or cease shipments of products or have to recall or field upgrade products, thus adversely affecting our ability to meet revenue or cost targets. In addition, while we seek to limit our liability as a result of product failure or defects through warranty and other limitations, if one of our products fails, a customer could suffer a significant loss and seek to hold us responsible for that loss and our reputation with other current or potential customers would likely suffer.

We depend on sole and limited source suppliers and outsource selected component manufacturing.

We purchase some of our critical component parts from sole source and limited source suppliers. If our suppliers receive excess demand for their products, we may receive a low priority for order fulfillment as large volume customers may receive priority that may result in delays in our acquiring components. A delay in acquiring components for our products may delay the manufacture and shipment of our products. Some of these delays may be substantial. As a result, we may purchase critical long-lead time or single-sourced components in large quantities to help protect our ability to deliver finished products on time. If we overestimate our component requirements, we may have excess inventory, which will increase our costs. If we underestimate our component requirements, we will have inadequate inventory, which will delay our manufacturing and render us unable to deliver products to customers on scheduled delivery dates. If we are unable to obtain a component from a supplier or if the price of a component has increased substantially, we may be required to manufacture the component internally, which will also result in delays or we may be required to absorb price increases. Manufacturing delays could negatively impact our ability to sell our products and could damage our customer relationships.

To assure the availability of our products to our customers, we outsource the manufacturing of selected components prior to the receipt of purchase orders from customers based on their forecasts of their product needs and internal product sales revenue forecasts. However, these forecasts do not represent binding purchase commitments from our customers. We do not recognize revenue for such products until we receive an order from the customer and the product is shipped to the customer. As a result, we incur inventory and manufacturing costs in advance of anticipated revenue. As demand for our products may not materialize, this product delivery method subjects us to increased risks of high inventory carrying costs, obsolescence and excess, and may increase our operating costs. In addition, we may from time to time make design changes to our products, which could lead to obsolescence of inventory.

Our manufacturing operations are concentrated in a small number of nearby facilities.

All of our UPS systems and our MIS products for customers in the Americas are manufactured in our Austin, Texas facility. Our manufacturing, research and development, and administrative activities are concentrated in two nearby facilities. If, for any reason, including as a result of a natural disaster, act of terrorism, or other similar event, either of these facilities should be damaged or destroyed or become inoperable or inaccessible, our ability to conduct our business could be adversely affected or interrupted entirely.

We may be unable to protect our intellectual property and proprietary rights.

We expect future technological advancements made by us will be critical to achieving and sustaining market acceptance of our products. We rely on a combination of patent, copyright, trademark, and trade secret laws and restrictions on disclosure to protect our intellectual property rights. We also enter into confidentiality or license agreements with our employees, consultants, and business partners and control access to and distribution of our software, documentation, and other proprietary information.

Despite these efforts, unauthorized parties may attempt to copy or otherwise obtain and use our products or technology. Monitoring unauthorized use of our products is difficult, and we cannot be certain the steps we have taken will prevent unauthorized use of our technology, particularly in foreign countries where applicable laws may not protect our proprietary rights as fully as in the U.S. In addition, the measures we undertake may not be sufficient to protect our proprietary technology adequately and may not preclude competitors from independently developing products with functionality or features similar to those of our products. We believe that our success depends more on the knowledge, passion, experience and technological expertise of our employees than on the legal protection that our patents and other proprietary rights might afford.

We may be subject to claims by others that we infringe on their proprietary technology.

In recent years, there has been significant litigation in the U.S. involving patents, trademarks, and other intellectual property rights. We may become involved in litigation in the future to protect our intellectual property or defend allegations of infringement asserted by others. Legal proceedings could subject us to significant liability for damages or invalidate our intellectual property rights. Any litigation, regardless of its merits or its outcome, would likely be time consuming and expensive to resolve and would divert management's time and attention. Any potential intellectual property litigation also could force us to take specific actions, including:

- cease selling our products that use the challenged intellectual property;
- obtain from the owner of the infringed intellectual property right a license to sell or use the relevant technology or trademark, which license may not be available on reasonable terms, or at all;
- redesign those products that use infringing intellectual property; or
- cease to use an infringing trademark.

Our involvement in any such litigation may cause us to incur unexpected litigation costs, require modifications to or limit our ability to sell our products, and adversely impact our business and reputation.

Our internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations.

Pursuant to the Sarbanes-Oxley Act of 2002, we are required to provide a report by management on our internal control over financial reporting, including management's assessment of the effectiveness of such control. Internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. In addition, projections of any evaluation of effectiveness of our internal control over financial reporting to future periods are subject to the risk that the control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business and operating results could be harmed and we could fail to meet our reporting obligations.

A material weakness or other control deficiency could result in errors in our reported results and could have a material adverse effect on our operations.

A material weakness is a control deficiency or combination of control deficiencies, such that there is a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected. In 2013, our management identified a material weakness resulting from control deficiencies related to our credit approval process whereby we did not confirm information from an employee of ours in China regarding the facts surrounding Qiyuan, a distributor with which we entered into a distribution agreement.

In response to such material weakness, management implemented additional credit approval process procedures including actions to further verify the financial condition and ownership structure of all new customers. The material weakness was remediated as of December 31, 2013. Any further material weakness or unsuccessful remediation could adversely impact investor confidence in the accuracy and completeness of our financial statements. As a result, our ability to obtain any additional financing could be materially and adversely affected, which in turn could materially and adversely affect our business and our financial condition. In addition, perceptions of us among customers, lenders, investors, securities analysts, and others could also be adversely affected. We can give no assurances the measures we have taken to date, or any future measures we may take, will prevent or remediate any additional material weaknesses in the future.

Our pending legal matters have increased our costs and could result in fines and penalties.

We are involved in legal matters from time to time. These matters may harm our business and liquidity in the future. We have incurred and may continue to incur substantial expenses for legal and accounting services related to such matters. These matters have also required significant time and attention from our management. At this point, we remain unable to predict the duration, scope, or results of the pending SEC investigation described in Footnote 7, "Contingencies," of the consolidated financial statements on page 60 of this Form 10-K. We may incur defense costs that may exceed our insurance coverage. We may also incur costs if the insurers of our directors and officers and our liability insurers deny coverage for the costs and expenses related to any litigation. Adverse outcomes or other developments during the course of such matters may harm our business, financial condition, results of operations, or liquidity.

Cybersecurity incidents could disrupt business operations, result in loss of critical and confidential information, and adversely impact our reputation and results of operation.

Global cybersecurity threats can range from uncoordinated individual attempts to gain unauthorized access to our information technology (IT) systems to sophisticated and targeted measures known as advanced persistent threats. While we employ comprehensive measures to prevent, detect, address, and mitigate these threats (including access controls, data encryption, vulnerability assessments, continuous monitoring of our IT networks, and systems and maintenance of backup and protective systems), cybersecurity incidents, depending on their nature and scope, could potentially result in the misappropriation, destruction, corruption, or unavailability of critical data and confidential or proprietary information (our own or that of third parties) and the disruption of business operations. The potential consequences of a material cybersecurity incident include reputational damage; litigation with third parties; diminution in the value of our investment in research; development and engineering; and increased cybersecurity protection and remediation costs; which in turn could adversely affect our competitiveness and results of operations.

Tax matters could adversely impact our results of operations and financial condition.

We are subject to potential income tax and other taxes in the United States and in foreign jurisdictions. Our tax liabilities are affected by the amount of income we have in various jurisdictions and the amounts we charge in intercompany transactions for products, services, funding, and other items. We are subject to periodic tax audits in the United States and in other various jurisdictions. Tax authorities may disagree with our intercompany charges, cross-jurisdictional transfer pricing, or other matters and assess additional taxes. We assess the likelihood of adverse outcomes resulting from these examinations to determine the need for and adequacy of a provision for income taxes. However, the outcomes from these examinations could have an adverse effect on our provision for income taxes and cash tax liability. In addition, our income taxes and other tax liability in the future could be adversely affected by numerous factors including changes in tax laws, regulations, accounting principles, or interpretations thereof, which could adversely impact our results of operations and financial condition.

Seasonality may contribute to fluctuations in our quarterly operating results.

Historically, our business has experienced seasonal customer buying patterns. In recent years, our business has generally experienced relatively weaker demand in the first calendar quarter of the year. We believe this pattern, which we attribute to annual capital budgeting procedures, may possibly continue. In addition, we anticipate demand for our products in Europe may decline in the summer months, compared to other regions, because of reduced corporate buying patterns during the vacation season.

Risks Related to our Common Stock

We have anti-takeover provisions that could discourage, delay or prevent our acquisition.

Provisions of our certificate of incorporation and bylaws could have the effect of discouraging, delaying, or preventing a merger or acquisition that a stockholder may consider favorable. We also are subject to the anti-takeover laws of the State of Delaware, which may further discourage, delay, or prevent someone from acquiring or merging with us. In addition, our agreement with Caterpillar for the distribution of UPS products provides that Caterpillar may terminate the agreement in the event we are acquired or undergo a change in control. The possible loss of a significant customer could be a significant deterrent to possible acquirers and may substantially limit the number of possible acquirers. All of these factors may decrease the likelihood we would be acquired, which may depress the market price of our common stock.

The trading price of our common stock has been volatile and is likely to be volatile in the future.

Historically, the market price of our common stock has fluctuated significantly. In 2015, the sales price of our common stock ranged from $1.16 to $2.60 per share. In addition to the other risks described in the "Risk Factors" section of this Form 10-K, the market price of our common stock can be expected to fluctuate significantly in response to numerous other factors, many of which are beyond our control, including the following:

- actual or anticipated fluctuations in our operating results;
- changes in financial estimates by securities analysts, any financial guidance we may provide, or our failure to perform in line with such estimates or guidance;
- changes in market valuations of other technology companies, particularly those that sell products used in power quality systems;
- announcements by us or our competitors of significant sales, technical innovations, acquisitions, strategic partnerships, joint ventures or capital commitments;
- introduction of technologies or product enhancements that reduce the need for flywheel energy storage or modular infrastructure products;
- our loss of one or more key OEM customers or channel partners;
- an inability to expand our distribution channels successfully;
- departures of key personnel;
- our ability to obtain additional equity capital or borrowings under our credit agreement;
- the outcome of our pending SEC investigation; and
- changing external capital market conditions.

If the market for technology stocks or the stock market in general experiences loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, operating results, or financial condition. The trading price of our common stock might also decline in reaction to events that affect other companies in our industry or the stock market generally even if these events do not directly affect us. Each of these factors, among others, could cause our stock price to decline.

We have not in the past and do not currently intend to pay cash dividends on our common stock.

We have never declared or paid any cash dividends on our common stock, and we do not expect to declare or pay any cash dividends on our common stock in the foreseeable future. Future cash dividends, if any, will be determined by our Board of Directors, in its discretion, based upon our earnings, financial condition, cash flow, capital resources, capital requirements, charter restrictions, contractual restrictions including those under our bank credit facility, and such other factors as our Board of Directors deems relevant.

ITEM 1B. Unresolved Staff Comments.

None.

ITEM 2. Properties.

Our corporate headquarters facility is a 127,000 square foot building we lease in Austin, Texas. We lease this building pursuant to a lease agreement that expires in December 2021. Our manufacturing, administrative, information systems, sales and service groups currently utilize this facility.

Our engineering facility of approximately 12,150 square feet is also located in Austin, Texas and is leased pursuant to a lease agreement that expires in December 2021.

In addition to these properties, we lease facilities totaling 12,979 square feet in the United Kingdom, Germany and China for sales and service activities.

Our current manufacturing and test facilities located at our corporate headquarters can support a business volume significantly in excess of our current revenues primarily with the addition of direct labor only and no need for additional significant capital investment. We believe our existing facilities are adequate to meet our current needs and plans.

ITEM 3. Legal Proceedings.

Refer to Footnote 7, “Contingencies,” of the consolidated financial statements on page 60 of this Form 10-K.

ITEM 4. Mine Safety Disclosures.

Not applicable.

PART II.

ITEM 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is traded on The NASDAQ Stock Market LLC under the symbol “ACPW.” The following table lists the high and low per share sales prices for our common stock as reported by The NASDAQ Stock Market LLC for the periods indicated:

	High	Low
2015		
Fourth Quarter	$ 1.74	$ 1.16
Third Quarter	$ 2.12	$ 1.59
Second Quarter	$ 2.48	$ 1.94
First Quarter	$ 2.60	$ 1.72
2014		
Fourth Quarter	$ 2.00	$ 1.63
Third Quarter	$ 2.79	$ 1.88
Second Quarter	$ 3.40	$ 2.63
First Quarter	$ 3.67	$ 3.15

As of February 16, 2016, there were 23,109,207 shares of our common stock outstanding held by 120 stockholders of record.

We have never declared or paid cash dividends on our capital stock. We currently intend to retain any earnings for use in our business and do not anticipate paying any cash dividends in the foreseeable future. Future dividends, if any, will be determined by our board of directors.

We did not repurchase any of our securities during 2015.

Please refer to "Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" in this Form 10-K for the information required by Item 201(d) of Regulation S-K with respect to securities authorized for issuance under our equity compensation plans at December 31, 2015.

Sale of Unregistered Securities

None.

ITEM 6. Selected Financial Data.

The following tables include selected consolidated financial data for each of our last five fiscal years. The consolidated statement of operations data for the years ended December 31, 2015, 2014, and 2013 and consolidated balance sheet data at December 31, 2015 and 2014 have been derived from the audited consolidated financial statements appearing elsewhere in this Form 10-K. The consolidated statement of operations data for the years ended December 31, 2012 and 2011 and the consolidated balance sheet data at December 31, 2013, 2012 and 2011, have been derived from audited consolidated financial statements not appearing in this document. This data should be read in conjunction with the consolidated financial statements and notes thereto, with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 and with the other financial data set forth elsewhere in this Form 10-K. Our historical results of operations are not necessarily indicative of results of operations to be expected for future periods.

Consolidated Statement of Operations Data
In thousands except per share data

	Year Ended December 31,				
	2015	**2014**	**2013**	**2012**	**2011**
Total revenue	$ 57,421	$ 49,136	$ 61,699	$ 76,315	$ 75,482
Total cost of goods sold	$ 40,604	$ 36,484	$ 42,303	$ 51,601	$ 57,581
Gross profit	$ 16,817	$ 12,652	$ 19,396	$ 24,714	$ 17,901
Total operating expenses	$ 22,877	$ 24,672	$ 27,013	$ 26,440	$ 24,781
Operating loss	$ (6,060)	$ (12,020)	$ (7,617)	$ (1,726)	$ (6,880)
Net loss	$ (6,459)	$ (12,827)	$ (8,351)	$ (1,922)	$ (7,094)
Basic and diluted net loss per share	$ (0.28)	$ (0.57)	$ (0.43)	$ (0.10)	$ (0.11)

Consolidated Balance Sheet Data
In thousands

	Year Ended December 31,				
	2015	**2014**	**2013**	**2012**	**2011**
Cash and investments	$ 12,260	$ 14,824	$ 12,261	$ 13,524	$ 10,746
Working capital	$ 11,946	$ 17,247	$ 17,696	$ 23,945	$ 13,753
Total assets	$ 30,595	$ 36,098	$ 37,907	$ 45,799	$ 35,027
Long-term obligations	$ 583	$ 821	$ 741	$ 713	$ 726
Total stockholders' equity	$ 13,555	$ 18,793	$ 20,306	$ 25,999	$ 16,292

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the financial statements and related notes appearing elsewhere in this Form 10-K. This report contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act, 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 forward-looking statements. For further discussion regarding forward-looking statements, please see "Special Note Regarding Forward-Looking Statements." In addition, please see the risk factors section above for a discussion of items that may affect our future results.

Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations is designed to provide readers with narrative from the perspective of our management on our financial condition, results of operations, liquidity, and certain other factors that may impact our future results. Our MD&A is presented in the following sections:

- 2015 Highlights
- 2016 Plan
- Results of Operations
- Critical Accounting Policies and Estimates
- Liquidity and Capital Resources
- Off-Balance Sheet Arrangements
- New Accounting Pronouncements

2015 Highlights

Our total revenue in 2015 was $57.4 million, an increase of $8.3 million or 17% from 2014. Product revenue in 2015 was $43.2 million, an increase of $7.0 million or 19% from 2014. Service revenue in 2015 was $14.2 million, an increase of $1.2 million or 10% from 2014.

The change we made to the business in early 2014 primarily to our sales organization and go-to market approach coupled with a continued focus on increasing bookings and backlog, improving operational efficiencies, and controlling costs yielded steady progress in 2015. A number of achievements from 2015 are highlighted below.

- Increased backlog by 15% or $4.1 million to $30.8 million at December 2015, compared to $26.7 million at December 31, 2014

- Reduced net inventory by 6% or $0.4 million since December 2014, through December 31, 2015 and improved inventory turns to 6.1 in 2015 versus 3.9 in 2014

- Lowered operating expenses by 7% or $1.8 million in 2015 versus 2014 with expenses down seven of last nine quarters. Excluding the management incentive plan our operating expenses would have been lowered by $3.0 million or 12% versus 2014

- Won a large, multimillion dollar deal from one of our strategic IT partners for our new modular product, a cost reduced alternative to enable us and our IT partners in selling modular data center and infrastructure enclosures

- Introduced Extended Runtime option on CleanSource HD UPS that can provide customers up to 30 minutes of additional UPS runtime. A secondary energy storage system, such as batteries or additional flywheel modules, supplements the primary flywheel and is available to those customers that require longer UPS autonomy

- Increased number of non-data center projects entering our opportunities pipeline as a result of renewed focus on non-IT applications including healthcare and industrial to diversify revenue stream

- Settled stockholder class action complaint and derivative actions in May 2015 with total settlement amounts and related expenses paid from insurance proceeds

UPS sales increased $3.0 million or 11% compared to 2014, making up 72% of total product revenue versus 78% in 2014. MIS sales increased $4.1 million or 50% compared to 2014, making up 28% of total product revenue.

Service sales increased $1.2 million or 10% in 2015 compared to 2014. This increase is primarily attributable to higher sales of spare parts compared to 2014.

Our gross profit was 29% of revenue for fiscal 2015 compared to 26% in fiscal 2014. This margin increase is related to improvements in manufacturing absorption on increased revenue and production in 2015.

Net loss was $6.5 million in 2015 compared to $12.8 million in 2014. The decrease in net loss from 2014 to 2015 was due to an increase in revenue and gross margin and lower operating expenses.

Cash and cash equivalents totaled $12.3 million at December 31, 2015, compared to $14.8 million at December 31, 2014. Management believes this available cash balance, combined with cash we anticipate to generate from operations and the credit facility we have in place, will be sufficient to fund our operations as we work to increase sales volume and scale the business. In March 2014, we raised additional funds through a public offering to provide additional funds for our future anticipated working capital needs. See Note 3 to the consolidated financial statements of this Form 10-K for more information.

2016 Plan

Our priorities remain unchanged in 2016 as we continue to focus on increasing bookings and backlog, improving operational efficiencies, and controlling costs. Our efforts to grow the business will be supported through continued expansion of our sales distribution network worldwide; diversifying our revenue stream through pursuing health care and industrial applications where our UPS and MIS products are uniquely suited; and reinforcing our value proposition with customers. We will also look for ways to strengthen our operating base and lower our overall cost structure.

Our sales cycles have been extending which we believe is a function of a number of variables including delays in customers' deployment schedules related to persistent sluggishness in the economy. We have seen delays in orders being awarded and schedule changes to defer deliveries. We remain vigilant in our expense management initiatives in light of these market conditions.

A number of risks and challenges face our business going forward.

- We have a history of operating losses and have not yet reached operating profitability on an annual basis. We believe the success of our UPS and MIS products and our service offerings combined with our focus on direct sales to customers and a lower overall operating cost base, will help us to further increase our revenues and reduce our level of operating losses. Consequently, we willcontinue to focus on our operating costs and cash and working capital management in 2016 to maintain sufficient funds for our operating activities.

- The higher sales price of our CleanSource PowerHouse and modular IT infrastructure orders can cause large quarterly fluctuations in our inventory, receivables and payables balances, depending on the number of such orders in progress at any point in time. This can cause material fluctuations in the level of working capital we require. If the number of such orders increases rapidly or any of these orders have payment terms that are less favorable, we will need access to more working capital to fund the growth of our business and to fulfill these orders. We extended our bank credit facility in 2014 to help fund our growth and manage our working capital requirements.

- Our sales cycle is such that we generally have some visibility in advance for future orders. However, a sudden change in business volume or product mix, positive or negative, from any of our business or channel partners or in our direct business can significantly impact our expected revenues and impact our ability to quickly respond to opportunities. The continued slow global economic growth has reduced our confidence in the ability to predict future revenues, and even with improving economic conditions, there is still uncertainty and risk in our forecasting. Our limited window of sales visibility does provide us with some opportunity to adjust expenditures or take other measures to reduce our cash consumption if we can see and anticipate a shortfall in revenue. This window may also give us time to 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.

- Foreign currency volatility could make it more challenging for us to sell outside of the US. As foreign currencies strengthen against the dollar, our pricing may not be as competitive in certain geographies.

Results of Operations

Below are our revenues and costs and expenses for fiscal 2015, 2014, and 2013. This information should be read in conjunction with our Consolidated Financial Statements and notes thereto.

	Year Ended December 31,				Year Ended December 31,			
($ in thousands)	**2015**	**2014**	**$ change**	**% change**	**2014**	**2013**	**$ change**	**% change**
Product revenue	$ 43,247	$ 36,211	$ 7,036	19 %	$ 36,211	$ 44,158	$ (7,947)	(18)%
Service and other revenue	14,174	12,925	1,249	10 %	12,925	17,541	(4,616)	(26)%
Total revenue	57,421	49,136	8,285	17 %	49,136	61,699	(12,563)	(20)%
Cost of product revenue	32,017	29,182	2,835	10 %	29,182	32,825	(3,643)	(11)%
Cost of service and other revenue	8,587	7,302	1,285	18 %	7,302	9,478	(2,176)	(23)%
Total cost of goods sold	40,604	36,484	4,120	11 %	36,484	42,303	(5,819)	(14)%
Gross profit	16,817	12,652	4,165	33 %	12,652	19,396	(6,744)	(35)%
Operating expenses:								
Research and development	5,723	6,689	(966)	(14)%	6,689	7,430	(741)	(10)%
Selling and marketing	10,589	11,940	(1,351)	(11)%	11,940	12,032	(92)	(1)%
General and administrative	6,565	6,043	522	9 %	6,043	7,551	(1,508)	(20)%
Total operating expenses	22,877	24,672	(1,795)	(7)%	24,672	27,013	(2,341)	(9)%
Loss from Operations	(6,060)	(12,020)	5,960	50 %	(12,020)	(7,617)	(4,403)	(58)%
Interest expense, net	(375)	(395)	20	5 %	(395)	(370)	(25)	(7)%
Other income (expense), net	(24)	(160)	136	85 %	(160)	(364)	204	56 %
Loss before income taxes	(6,459)	(12,575)	6,116	49 %	(12,575)	(8,351)	(4,224)	(51)%
Income tax expense	—	(252)	252	100 %	(252)	—	(252)	100 %
Net Loss	$ (6,459)	$ (12,827)	$ 6,368	50 %	$ (12,827)	$ (8,351)	$ (4,476)	(54)%

Fiscal 2015 Compared to Fiscal 2014

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

	Year Ended December 31,				Year Ended December 31,			
($ in thousands)	**2015**	**2014**	**$ change**	**% change**	**2014**	**2013**	**$ change**	**% change**
Product revenue:								
UPS product revenue	$ 31,046	$ 28,064	$ 2,982	11%	$ 28,064	$ 22,620	$ 5,444	24 %
Modular Infrastructure Solutions	12,201	8,147	4,054	50%	8,147	21,538	(13,391)	(62)%
Total product revenue	$ 43,247	$ 36,211	$ 7,036	19%	$ 36,211	$ 44,158	$ (7,947)	(18)%

Total product revenue for fiscal 2015 was $43.2 million, compared to $36.2 million in fiscal 2014, a $7.0 million increase. The increase in our product revenue in 2015 compared to 2014 came from higher sales primarily by the increase in MIS business that was driven by a large order from our IT channel partner, which fluctuates depending on their success and needs for modular infrastructure solutions. In 2015, 72% of our product revenue came from the sale of UPS systems and 28% from the sale of MIS products. Sales of our UPS products increased by approximately $3.0 million, or 11%, compared to 2014 as we saw an increase in our OEM channel sales.

Product revenue from our OEM channel for fiscal 2015 was $11.2 million, compared to $7.8 million in 2014, a $3.5 million increase or 45%. The size and volume of orders from our OEM channel can fluctuate significantly on a quarterly basis, and we continue to see a small number of large transactions from our OEM channel. Sales to Caterpillar, our primary OEM customer, represented 25% of our total revenue for fiscal 2015 compared to 18% in fiscal 2014. We have supported our OEM partners' efforts to sell total solutions to their customers that include generators and switchgear that they manufacture along with our UPS products as a total solution.

Product revenue from our IT channel partner for fiscal 2015 were $10.2 million, compared to $2.1 million in 2014, an increase of $8.1 million or 386%. This increase reflects larger orders of our MIS products during 2015 from our IT channel partner Hewlett Packard Enterprise ("HPE"). The level of orders may continue to fluctuate depending on our partner's success and need for modular infrastructure solutions. Total sales to HPE represented 18% and 1% of our total revenue for fiscal 2015 and fiscal 2014.

Product revenue in North and South America ("Americas") was $32.1 million, an increase of $10.7 million or 50%, compared to $21.3 million for 2014. Our revenue in the Americas increased in 2015 compared to 2014, primarily as a result of higher MIS revenues and the increase in sales from our OEM channels, which historically have largely originated in the North American market.

Product revenue in Europe, the Middle East, and Africa ("EMEA") decreased by approximately $2.2 million, or 19% to $9.5 million in fiscal 2015 compared to $11.7 million in fiscal 2014. This decrease is due to lower direct UPS sales.

Our product revenue in the Asia Pacific region ("APAC") decreased by 48%, or $1.5 million in 2015 to $1.6 million compared to $3.1 million in 2014. This decrease is primarily due to lower UPS sales in the region.

We did not have any revenues greater than 10% concentrated in a single country outside of the United States in 2015 or 2014.

Service and other revenue. Service and other revenue increased by approximately $1.2 million, or 10%, to $14.2 million in fiscal 2015, compared to $12.9 million in fiscal 2014. These increases primarily reflect higher sales of spare parts.

Cost of product revenue. The cost of product revenue as a percentage of total product revenue was 74% and 81% in 2015 and 2014, respectively The decrease in costs as a percentage of revenue reflects higher MIS sales with better margin along with continued improvements in manufacturing absorption associated with increased production from the prior year, offset by lower margin UPS sales related to supply chain commitments we made more than two years ago to support our CleanSource HD UPS products at prices higher than we expect in the future. We expect to fully absorb these costs in the first half of fiscal 2016 resulting in improved margins. During 2015 and 2014, we operated a manufacturing facility that has a manufacturing and testing capacity significantly greater than required by our current product revenue levels. Our manufacturing operational costs include a large portion of fixed costs relative to our operational needs. We incurred approximately $5.9 million and $5.8 million, in 2015 and 2014, respectively, in fixed costs related to our manufacturing facility. We expense the excess costs of the underutilization of this facility as part of our cost of product revenues.

Cost of service and other revenue. The cost of service and other revenue as a percentage of total service and other revenue increased by 5%, to 61% in 2015 compared to 56% in 2014. The increase in costs as a percentage of revenue reflects higher unabsorbed costs and training costs for new employees during fiscal 2015. A large portion of the costs involved in operating our service organization are fixed in nature and we incurred approximately $3.2 million and $2.3 million in unabsorbed overhead costs in fiscal 2015 and 2014, respectively. The utilization of our service personnel will be affected by the number of products implemented in a particular period. When we have a lower number of installation projects we would expect our costs as a percentage of revenue to increase due to lower employee utilization.

Gross profit. Our gross profit was 29% of revenue for fiscal 2015 compared to 26% in fiscal 2014. This margin increase was related to higher MIS margins as we continue to improve manufacturing absorption from fiscal 2014. Our gross margins fluctuate on a quarterly basis depending on changes in the product and geographic mix of our revenues and were as high as 33% during the first quarter of 2015 and as low as 25% in the fourth quarter of 2015.

Research and development. Research and development expenses were approximately $5.7 million, $1.0 million or 14%, lower in fiscal 2015 compared to $6.7 million in fiscal 2014. The decrease was primarily due to lower payroll expense and employee benefits of $0.6 million and reduced fees from external parties of $0.4 million related to prototype and testing expenses which were incurred in fiscal 2014.

Selling and marketing. Selling and marketing costs were approximately $10.6 million, $1.4 million or 11% lower in fiscal 2015, compared to $11.9 million for the same period of 2014. The decrease was primarily due to lower payroll expense including sales commissions of $1.3 million in 2015 compared to 2014.

General and administrative. General and administrative expenses were approximately $6.6 million, $0.5 million or 9%, higher in fiscal 2015 compared to $6.0 million in 2014. The increases were primarily due to increases in bonus expense of $0.7 million and an increase is stock compensation expense of $0.4 million offset by a decrease of $0.4 million of legal fees.

Interest expense, net. Net interest expense remained flat at $0.4 million in fiscal 2015 compared to $0.4 million in 2014. The interest expense incurred during 2015 and 2014 was in connection with the outstanding balance on our revolving credit facility.

Other income (expense), net. Other income (expense), net was $24,000 in fiscal 2015 and $0.2 million in fiscal 2014, a $0.1 million decrease or 85%. This decrease primarily reflects foreign exchange losses or gains on settlement of intercompany balances and sales contracts held in foreign currencies.

Income tax expense. Our income tax expense for 2015 was $0 with an effective tax rate of 0%, compared to approximately $0.3 million with an effective tax rate of 2% for 2014. The decrease in the effective tax rate for fiscal 2015 was primarily due to settlement under tax examination by the German tax authorities from fiscal 2014. In September 2014, we settled a tax examination of our German subsidiary for years 2007 through 2011. In the settlement, we agreed to transfer pricing adjustments for the period under examination resulting in a reduction of loss carryovers and a deemed distribution subject to withholding taxes under German law. We recorded a provision for income taxes of $0.3 million in the quarter ended September 30, 2014 related to settlement of the German tax examination.

As a result of the examination, the Company also adjusted net operating losses in jurisdictions impacted by the transfer pricing adjustments to account for appropriate intercompany pricing for years prior to 2014. There was no overall tax impact as the net operating loss deferred tax assets are fully offset by a valuation allowance. Both the settlement and the adjustments to the net operating losses are reflected in the Company's rate reconciliation of the income tax footnote.

Fiscal 2014 Compared to Fiscal 2013

Total revenues in fiscal 2014 were $49.1 million, compared to $61.7 million in fiscal 2013, a $12.6 million, or 20% decrease. The decrease in revenue was primarily attributed to our MIS products.

Total product revenue for fiscal 2014 was $36.2 million, compared to $44.2 million in fiscal 2013, a $8.0 million decrease. The decrease in our product revenue in 2014 compared to 2013 came from lower sales from our MIS products primarily related to HPE, which fluctuates depending on their success and needs for modular infrastructure solutions, partially offset by an increase in our UPS sales. In 2014, 78% of our product revenue came from the sale of UPS systems and 22% from the sale of MIS products. Sales of our UPS products increased by approximately $5.4 million, or 24%, compared to 2013 as we saw an increase in our direct sales to our customers.

Product revenue from our OEM channel for fiscal 2014 was $7.8 million, compared to $7.2 million in 2013, a $0.6 million increase or 7%. This reflects increased performance from our OEM partners, primarily in the U.S. market. Sales to Caterpillar, our primary OEM customer, represented 18% of our total revenue for fiscal 2014 compared to 14% in fiscal 2013.

Product revenue from our IT channel partners for fiscal 2014 was $2.1 million, compared to $11.1 million in 2013, a decrease of $9.0 million or 81%. This reduction reflects decreased demand for our MIS products during 2014 from our IT channel partner, HPE. The level of orders may continue to fluctuate depending on our partner's success and need for infrastructure solutions.

Product revenue in the Americas was $21.3 million, or 59% of our total product revenue for 2014, a decrease of $15.1 million or 41%, compared to $36.4, or 82%, for 2013. Our revenue in the Americas decreased in 2014 compared to 2013, primarily as a result of lower MIS revenue associated with large projects in 2013 which were not repeated.

Product sales to customers in EMEA increased by approximately $7.7 million, or 195%, to $11.7 million in fiscal 2014 compared to $4.0 million in fiscal 2013. This increase relates primarily to two large UPS orders, one approximately $3.3 million and another approximately $1.2 million which were recognized in fiscal 2013.

Our product sales in APAC decreased by 18%, or $0.7 million, in 2014 to $3.1 million compared to $3.8 million in 2013. This decrease is primarily due to reduced UPS sales in China.

We did not have any revenues greater than 10% concentrated in a single country outside of the United States in 2014 or 2013.

Service and other revenue. Service and other revenue decreased by approximately $4.5 million, or 26%, to $13.0 million in fiscal 2014, compared to $17.5 million in fiscal 2013. The decrease primarily reflects reduced service revenue and professional fees stemming from lower MIS product demand in 2014.

Cost of product revenue. The cost of product revenue as a percentage of total product revenue was 81% and 74% in 2014 and 2013, respectively. During 2014 and 2013, we operated a manufacturing facility that has a manufacturing and testing capacity significantly greater than required by our current product revenue levels. Our manufacturing facility is comprised of a large portion of our fixed costs. We incurred approximately $5.8 million and $6.9 million, in 2014 and 2013, respectively, in fixed costs for our manufacturing facility. Our manufacturing capacity is in excess of our current business requirements. We expense the excess costs of the underutilization of this facility as part of our cost of product revenues.

Cost of service and other revenue. The cost of service and other revenue as a percentage of total service and other revenue increased by 2%, to 56% in 2014 compared to 54% in 2013. A large portion of the costs involved in operating our service organization are fixed in nature and we incurred approximately $2.3 million and $3.0 million in unabsorbed overhead costs in fiscal 2014 and 2013, respectively. The utilization of our service personnel will be affected by the number of MIS products implemented in a particular period. When we have a lower number of installation projects we would expect our costs as a percentage of revenue to increase due to lower employee utilization

Gross profit. Our gross profit was 26% of revenue for fiscal 2014 compared to 31% in fiscal 2013. The decrease in gross profit margin in 2014 compared to 2013 is related to under absorption of fixed overhead costs in manufacturing and service due to the lower revenue and manufacturing production in 2014. Our gross margins fluctuate on a quarterly basis depending on changes in the product and geographic mix of our revenues and were as high as 30% during the third quarter of 2014 and as low as 19% in the second quarter of 2014.

Research and development. Research and development expenses were approximately $6.7 million, $0.7 million or 10%, lower in fiscal 2014 compared to $7.4 million in fiscal 2013. The decrease was primarily due to reduced costs for development activities on our next generation of UPS products.

Selling and marketing. Selling and marketing costs were approximately $11.9 million in fiscal 2014, compared to $12.0 million for the same period in 2013. The decrease was primarily due to severance expense to former executives in 2013 offset by payroll expense increase in 2014.

General and administrative. General and administrative expenses were approximately $6.0 million, $1.5 million or 20%, lower in fiscal 2014 compared to $7.6 million in 2013. This decrease was primarily due to reductions in (i) relocation and temporary living costs for executives of $0.4 million; (ii) severance payments to former executives of $0.3 million, and (iii) legal fees of $0.3 million from 2013.

Interest expense, net. Net interest expense was relatively flat in fiscal 2014 compared to 2013. The interest expense incurred during 2014 and 2013 was in connection with the outstanding balance on our revolving credit facility.

Other income (expense), net. Other income (expense), net was $0.2 million in fiscal 2014 compared to income of $0.4 million in 2013, a $0.2 million decrease or 56%. This decrease primarily reflects foreign exchange losses or gains on settlement of intercompany balances and sales contracts held in foreign currencies.

Income tax expense. Our income tax expense for 2014 was approximately $0.3 million with an effective tax rate of 2%, compared to $0 for 2013. The increase in the effective tax rate for fiscal 2014 was primarily due to settlement under tax examination by the German tax authorities. In September 2014, we settled a tax examination of our German subsidiary for years 2007 through 2011. In the settlement, we agreed to transfer pricing adjustments for the period under examination resulting in a reduction of loss carryovers and a deemed distribution subject to withholding taxes under German law. We recorded a provision for income taxes of $0.3 million in the quarter ended September 30, 2014 related to settlement of the German tax examination.

As a result of the examination, the Company also adjusted net operating losses in jurisdictions impacted by the transfer pricing adjustments to account for appropriate intercompany pricing for years prior to 2014. There was no overall tax impact as the net operating loss deferred tax assets are fully offset by a valuation allowance. Both the settlement and the adjustments to the net operating losses are reflected in the Company's rate reconciliation of the income tax footnote.

Critical Accounting Policies and Estimates

We consider an accounting policy to be critical if:

- the accounting estimate requires us to make assumptions about matters that are highly uncertain or require the use of judgment at the time we make that estimate; and
- changes in the estimate that are reasonably likely to occur from period to period, or use of different estimates that we could have reasonably used instead in the current period, would have a material impact on our financial condition or results of operations.

Management has reviewed the development and selection of these critical accounting estimates with the Audit Committee of our Board of Directors. In addition, there are other items within our financial statements that require estimation, but are not deemed critical as defined above. Changes in these and other items could still have a material impact upon our financial statements.

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 typically 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 agreement, 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 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.
- Shipping costs reimbursed by the customer are included in revenue.

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 generally are 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 (“BESP”) 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 statement of operations on a net-basis; that is, excluded from our reported revenues.

Inventories

Inventories are priced at the lower of cost (using the first-in, first-out method) or market. We estimate inventory reserves on a quarterly basis and record reserves for obsolescence or slow-moving inventory based on assumptions about future demand and marketability of products, the impact of new product introductions, inventory turns and specific identification of items, such as product discontinuance, damaged goods or engineering/material changes.

Warranty liability

Estimated warranty liability costs are accrued for each of our products at the time of sale. Our estimates are principally based on assumptions regarding the lifetime warranty costs of each product, including where little or no claims experience may exist. Due to the uncertainty and potential volatility of these estimates, changes in our assumptions could have a material effect on our reported operating results. Our estimate of warranty liability is reevaluated on a quarterly basis. Experience has shown that initial data for a new product can be very volatile due to factors such as product and component failure rates, material usage and service delivery costs in correcting product failures; therefore our process relies upon long-term historical averages until actual data is available. As actual experience becomes available, it is used to modify the historical averages to ensure that the forecast is within the range of likely outcomes. The resulting balances are then compared to current spending rates to help ensure that the accruals are adequate to meet expected future obligations.

Stock-based compensation

Stock-based compensation cost is estimated at the grant date based on the fair value of the award and is recognized as an expense ratably over the requisite service period of the award. Determining the appropriate fair-value model and calculating the fair value of stock-based awards at the grant date requires considerable judgment, including estimating stock price volatility, expected option life and forfeiture rates. We develop our estimates based on historical data and market information that can change significantly over time. A small change in estimates used can have a relatively large impact on the estimated valuation.

We use the Black-Scholes option valuation model to value employee stock awards. We estimate stock price volatility based upon our historical volatility. Estimated option life and forfeiture rate assumptions are derived from historical data.

Liquidity and Capital Resources

Our primary sources of liquidity at December 31, 2015 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 around 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 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 Footnote 4, “Revolving Credit Facility,” of the consolidated financial statements on pages 56 to 57 of this Form 10-K.

In March 2014, we sold approximately 3.7 million shares of common stock at a purchase price of $3.15 per share, for proceeds, net of fees and expenses, of approximately $10.4 million, in a public underwritten offering made under a shelf registration statement that we had filed with the SEC and that had been declared effective in June 2013. The proceeds from this offering were used by us to help fund our working capital requirements and for general corporate purposes.

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.

Significant uses of cash

Operating Activities

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

Year	Annual Amount	Change from Prior Year	Percent Change
2015	$ (1,611)	$ 5,617	78 %
2014	$ (7,228)	$ (5,921)	(453)%
2013	$ (1,307)	$ 4,683	78 %

Cash used in operating activities was $1.6 million in 2015 compared to $7.2 million in 2014. Cash used in operating activities was primarily related to our net loss of $6.5 million partially offset by the reduction in our accounts receivable of $2.5 million and non cash stock based compensation of $1.4 million. Changes in our net working capital resulted in cash provided of $2.6 million in 2015, compared to $3.1 million in 2014. The frequent changes in our working capital can result in very large fluctuation in inventory, payables and receivables, even weekly, based on the large size of some of our orders. Our $0.3 million change in inventory also includes a non-cash charge of $0.1 million in 2015 related to items purchased as inventory but later capitalized to property and equipment as test units.

Our top five customers represented 56% of our 2015 total revenue and 63% of our total receivables at December 31, 2015. As a result of this customer concentration, our failure to collect receivables from any of these customers in a timely manner could have a significant adverse effect on our liquidity. This risk may potentially increase as we sell more modular infrastructure solutions due to their higher average selling price. We do continue to request deposits and periodic payments from large customers where commercially possible, particularly for projects with multiple deliverables. However, the amount of such advance payments can fluctuate significantly on a quarterly basis, depending on the size and scope of customer orders at any point in time. As a result, we will need to continue to focus on management of cash and working capital in 2016 to manage the level of funds we use in our operating activities.

Cash used in operating activities was $7.2 million in 2014 compared to $1.3 million in 2013. Cash used in operating activities was primarily related to our net loss of $12.8 million partially offset by the change in our inventory of $5.3 million initiated by our current management team to bring inventory levels down. Changes in our net working capital resulted in cash provided of $3.1 million in 2014, compared to cash used of $4.3 million in 2013. Our change in inventory includes a non-cash charge of $44,000 in 2014 related to items purchased as inventory for our latest generation UPS product, but later capitalized to property and equipment as test units.

Investing Activities

Investing activities primarily consist of purchases of property and equipment. The cash used in investing activities increased to $0.8 million in 2015 from $0.3 million in 2014 as we invested more in capital improvements in 2015. Capital expenditures increased in 2015 from 2014 by approximately $0.5 million. Our capital expenditures in 2015 primarily included investments in equipment to support our demonstration units, manufacturing facility, computers and software.

The cash used in investing activities decreased to $0.3 million in 2014 from $0.9 million in 2013 as we invested less in capital improvements in 2014. Capital expenditures decreased in 2014 from 2013 by approximately $0.7 million. Our capital expenditures in 2014 primarily included investments in equipment to support our manufacturing facility, computers, software, and test units of our latest generation UPS product.

Financing Activities

Funds used in financing activities during 2015 was $9,000 compared to funds provided by financing activities of $10.6 million in 2014, a $10.6 million decrease. This decrease is primarily due to the 2014 sale of approximately 3.7 million shares of our common stock at a purchase price of $3.15 per share, for proceeds, net of fees and expenses, of approximately $10.4 million, in a public underwritten offering.

Funds provided by financing activities during 2014 was $10.6 million compared to $0.6 million in 2013, a $10.0 million increase. This increase primarily includes the sale of approximately 3.7 million shares of our common stock at a purchase price of $3.15 per share, for proceeds, net of fees and expenses, of approximately $10.4 million, in a public underwritten offering. Proceeds from the exercise of employee stock options were approximately $0.1 million during 2014.

Future uses of cash

We believe that our cash and investments, projected cash flows from operations and sources of available liquidity will be sufficient to fund our operations for the next twelve months. However, a 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 expected revenues and cash needs. The continuing global economic instability and currency fluctuation has 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.

Other factors that may affect liquidity

Our cash requirements will depend on many factors, including any sales growth, the market acceptance of our products, the gross profit we are able to generate with our sales, the timing and level of development funding, the rate of expansion of our sales and marketing activities, the rate of expansion of our manufacturing processes, and the timing and extent of research and development projects. Although we are not a party to any agreement or letter of intent with respect to a potential acquisition or merger, we may enter into acquisitions or strategic arrangements in the future to help support our growth, which could also require us to seek additional equity or debt financing. Should additional funding be required or desirable, we may need 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 percentage 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.

In March 2014, we sold approximately 3.7 million shares of common stock at a purchase price of $3.15 per share, for proceeds, net of fees and expenses, of approximately $10.4 million, in a public underwritten offering made under a shelf registration statement that we had filed with the SEC and that had been declared effective in June 2013. The proceeds from this offering were used by us to help fund our working capital requirements and for general corporate purposes.

Off-Balance Sheet Arrangements

During the years ended December 31, 2015, 2014, and 2013, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

New Accounting Pronouncements

Refer to Footnote 1, “Summary of Significant Accounting Policies,” of the consolidated financial statements on pages 53 to 54 of this Form 10-K.

ITEM 8. Financial Statements and Supplementary Data.

The Financial Statements and Selected Quarterly Financial Data required by this item are included in Part IV, Item 15(a)(1) and are presented beginning on Page 43.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

ITEM 9A. Controls and Procedures.

Effectiveness 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(e) or 15d-15(e) under the Exchange Act required by paragraph (b) of Rule 13a-15 or Rule 15d-15, have concluded that, as of December 31, 2015, our disclosure controls and procedures were effective 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 SEC 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.

Management's Report on Internal Control over Financial Reporting.

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Internal control over financial reporting is a process, designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our Board, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting, and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with the authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2015. In making this assessment, management used the criteria set forth in Internal Control – Integrated Framework issued by COSO (2013 framework). A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Based on our assessment, management concluded that, as of December 31, 2015, our internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

This Annual Report on Form 10-K does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the SEC that permit us to provide only management's report in this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting.

There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2015 that have materially affected, or are reasonably likely to affect materially, our internal control over financial reporting.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Forward looking statements regarding the effectiveness of internal controls during future periods are subject to the risk that controls may become inadequate because of change in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

ITEM 9B. Other Information.

None.

PART III.

ITEM 10. Directors, Executive Officers and Corporate Governance.

Pursuant to General Instruction G(3) of Form 10-K, the information required by this item relating to our executive officers is included under the caption "Executive Officers of the Company" in Part I of this Form 10-K.

The other information required under Item 10 will be included in our Proxy Statement for the 2016 Annual Meeting of Stockholders, which information is incorporated into this Annual Report by reference.

ITEM 11. Executive Compensation.

The information required by this Item will be included in our definitive Proxy Statement for the 2016 Annual Meeting of Stockholders, which information is incorporated into this Annual Report by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this Item will be included under the sections captioned "Ownership of Securities," "Equity Compensation Plan Information" and "Potential Payments upon Termination or Change of Control" in our definitive Proxy Statement for the 2016 Annual Meeting of Stockholders, which information is incorporated into this Annual Report by reference.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item will be included under the sections captioned "Certain Transactions" and "Director Independence" in our definitive Proxy Statement for the 2016 Annual Meeting of Stockholders, which information is incorporated into this Annual Report by reference.

ITEM 14. Principal Accounting Fees and Services.

The information required by this Item will be included under the section captioned "Proposal Three: Ratification of Appointment of Independent Registered Public Accounting Firm" in our definitive Proxy Statement for the 2016 Annual Meeting of Stockholders, which information is incorporated into this Annual Report by reference.

PART IV.

ITEM 15. Exhibits, Financial Statement Schedules.

(a)

1. *Financial Statements*.

The following financial statements of Active Power, Inc. were filed as a part of the Annual Report on Form 10-K for the fiscal year ending December 31, 2015:

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Reports of Independent Registered Public Accounting Firm	42
Financial Statements:	
Consolidated Balance Sheets	43
Consolidated Statements of Operations and Comprehensive Loss	44
Consolidated Statements of Stockholders' Equity	45
Consolidated Statements of Cash Flows	46
Notes to Financial Statements	47

2. *Schedules*.

All schedules have been omitted since the information required by the schedule is not applicable, or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the Financial Statements and notes thereto.

3. *Exhibits*.

The exhibits listed on the accompanying index to exhibits immediately following the financial statements are filed herewith, or are incorporated by reference as indicated below.

(b) Exhibits

See the Exhibit Index beginning on page 39 of this Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ACTIVE POWER, INC.

Dated: February 23, 2016

By: /s/ MARK A. ASCOLESE

President and Chief Executive Officer

Power of Attorney

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby severally constitutes and appoints, Mark A. Ascolese and James A. Powers, and each or any of them, his true and lawful attorney-in-fact and agent, each with the power of substitution and resubstitution, for him in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

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

Name	Title	Date
/s/ MARK A. ASCOLESE **Mark A. Ascolese**	President and Chief Executive Officer (principal executive officer)	February 23, 2016
/s/ JAMES A. POWERS **James A. Powers**	Vice President—Finance, Chief Financial Officer (principal financial and accounting officer)	February 23, 2016
/s/ AKE ALMGREN **Ake Almgren**	Chairman of the Board, Director	February 23, 2016
/s/ JAMES E. DEVENNY III **James E. deVenny III**	Director	February 23, 2016
/s/ ROBERT S. GREENBERG **Robert S. Greenberg**	Director	February 23, 2016
/s/ STEPHEN J. CLEARMAN **Stephen J. Clearman**	Director	February 23, 2016
/s/ T. PATRICK KELLY **T. Patrick Kelly**	Director	February 23, 2016
/s/ PETER GROSS **Peter Gross**	Director	February 23, 2016

INDEX TO EXHIBITS

Exhibit Number	Description
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*	Second Amended and Restated Bylaws of Active Power, Inc., as amended (filed as Exhibit 3.2 to Active Power’s Quarterly Report on Form 10-Q filed on May 1, 2014)
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) (the “IPO Registration Statement"))
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*	Form of Indemnity Agreement (filed as Exhibit 10.1 to the IPO Registration Statement)
10.2*†	Active Power, Inc. 2000 Stock Incentive Plan (filed as Exhibit 10.2 to the IPO Registration Statement)
10.3*†	Active Power, Inc. 2010 Equity Incentive Plan, as amended (filed as Exhibit 10.1 to Active Power's Quarterly Report on Form 10-Q filed on August 3, 2012)
10.4*†	Form of Standard Stock Option Agreement (filed as Exhibit 10.2 to Active Power's Current Report on Form 8-K filed on May 18, 2010)
10.5*†	Form of Standard Restricted Stock Agreement Stock Agreement (filed as Exhibit 10.3 to Active Power's Current Report on Form 8-K filed on May 18, 2010)
10.6*†	Form of Standard Restricted Stock Unit Agreement (filed as Exhibit 10.4 to Active Power's Current Report on Form 8-K filed on May 18, 2010)
10.7*	Lease Agreement between Active Power, Inc. and Braker Phase III, Ltd. (filed as Exhibit 10.9 to the IPO Registration Statement)
10.8*	First Amendment to Lease Agreement between Active Power, Inc. and Braker Phase III, Ltd. (filed as Exhibit 10.10 to the IPO Registration Statement)
10.9*	Second Amendment to Lease Agreement between Active Power, Inc. and Braker Phase III, Ltd. (filed as Exhibit 10.11 to the IPO Registration Statement)
10.10*	Third Amendment to Lease Agreement between Active Power, Inc. and Braker Phase III, Ltd. (filed as Exhibit 10.12 to the IPO Registration Statement)
10.11*	Fourth Amendment to Lease Agreement between Active Power, Inc. and Metropolitan Life Insurance Company (filed as Exhibit 10.13 to the IPO Registration Statement)
10.12*	Fifth Amendment to Lease Agreement between Active Power, Inc. and Metropolitan Life Insurance Company (filed as Exhibit 10.14 to the IPO Registration Statement)
10.13*	Sixth Amendment to Lease Agreement between Active Power, Inc. and Metropolitan Life Insurance Company (filed as Exhibit 10.18 to Active Power’s Annual Report on Form 10-K filed on March 16, 2001)
10.14*	Seventh Amendment to Lease Agreement between Active Power, Inc. and Metropolitan Life Insurance Company (filed as Exhibit 10.19 to Active Power’s Annual Report on Form 10-K filed on March 16, 2001)
10.15*	Eight Amendment to Lease Agreement between Active Power, Inc. and Metropolitan Life Insurance Company (filed as Exhibit 10.15 to Active Power’s Annual Report on Form 10-K filed on February 27, 2015)
10.16*	Ninth Amendment to Lease Agreement between Active Power, Inc. and Metropolitan Life Insurance Company (filed as Exhibit 10.16 to Active Power’s Annual Report on Form 10-K filed on February 27, 2015)
10.17*	Tenth Amendment to Lease Agreement between Active Power, Inc. and Metropolitan Life Insurance Company (filed as Exhibit 10.17 to Active Power’s Annual Report on Form 10-K filed on February 27, 2015)
10.18*	Eleventh Amendment to Lease Agreement between Active Power, Inc. and Metropolitan Life Insurance Company (filed as Exhibit 10.18 to Active Power’s Annual Report on Form 10-K filed on February 27, 2015)
10.19*	Twelfth Amendment to Lease Agreement between Active Power, Inc. and Metropolitan Life Insurance Company (filed as Exhibit 10.19 to Active Power’s Annual Report on Form 10-K filed on February 27, 2015)
10.20*	Thirteenth Amendment to Lease Agreement between Active Power, Inc. and Braker-Stonehollow, Ltd. (successor to Metropolitan Life Insurance Company) (filed as Exhibit 10.20 to Active Power’s Annual Report on Form 10-K filed on February 27, 2015)
10.21*	Fourteenth Amendment to Lease Agreement between Active Power, Inc. and Windsor at Stonehollow, LP (successor to Braker-Stonehollow, Ltd.) (filed as Exhibit 10.21 to Active Power’s Annual Report on Form 10-K filed on February 27, 2015)
10.22*	Fifteenth Amendment to Lease Agreement between Active Power, Inc. and Windsor at Stonehollow, LP (filed as Exhibit 10.22 to Active Power’s Annual Report on Form 10-K filed on February 27, 2015)

10.23*	Sixteenth Amendment to Lease Agreement between Active Power, Inc. and Stonehollow Industrial Investors, LLC (filed as Exhibit 10.23 to Active Power’s Annual Report on Form 10-K filed on February 27, 2015)
10.24*	Seventeenth Amendment to Lease between TR Stonehollow Corp. (successor-in-interest to Stonehollow Industrial Investors, LLC) and Active Power, Inc. (filed as Exhibit 10.1 to Active Power's Quarterly Report on Form 10-Q filed on October 27, 2015)
10.25*	Lease Agreement between Active Power, Inc. and BC12 99, Ltd. (filed as Exhibit 10.17 to Active Power’s Annual Report on Form 10-K filed on March 16, 2001)
10.26*	First Amendment to Lease Agreement between Active Power, Inc. and BC 12 99, LTD. (filed as Exhibit 10.25 to Active Power’s Annual Report on Form 10-K filed on February 27, 2015)
10.27*	Second Amendment to Lease Agreement between Active Power, Inc. and BC 12 99, LTD. (filed as Exhibit 10.26 to Active Power’s Annual Report on Form 10-K filed on February 27, 2015)
10.28*	Third Amendment to Lease Agreement between Active Power, Inc. and BC 12 99, LTD. (filed as Exhibit 10.27 to Active Power’s Annual Report on Form 10-K filed on February 27, 2015)
10.29*	Fourth Amendment to Lease Agreement between Active Power, Inc. and Levy Braker 12 Associates, LLC (successor in interest to BC 12 99, LTD.) (filed as Exhibit 10.28 to Active Power’s Annual Report on Form 10-K filed on February 27, 2015)
10.30*	Fifth Amendment to Lease Agreement between Levy Braker 12 Associates, LLC and Active Power, Inc. (filed as Exhibit 10.2 to Active Power's Quarterly Report on Form 10-Q filed on October 27, 2015)
10.31*†	2015 Adleman Incentive Plan (filed as Exhibit 10.29 to Active Power’s Annual Report on Form 10-K filed on February 27, 2015)
10.32*†	Form of Severance Benefits Agreement (filed as Exhibit 10.4 to Active Power's Quarterly Report on Form 10-Q filed on April 27, 2010)
10.33*†	Offer Letter, effective September 26, 2013, between Active Power, Inc. and Mark A. Ascolese (filed as Exhibit 10.1 to Active Power’s Quarterly Report on Form 10-Q filed on November 18, 2013)
10.34*†	Severance Benefits Agreement, effective September 26, 2013, between Active Power, Inc. and Mark A. Ascolese (filed as Exhibit 10.2 to Active Power’s Quarterly Report on Form 10-Q filed on November 18, 2013)
10.35*†	Offer Letter, effective November 4, 2013, between Active Power, Inc. and Randall J. Adleman (filed as Exhibit 10.3 to Active Power’s Quarterly Report on Form 10-Q filed on November 18, 2013)
10.36*†	Severance Benefits Agreement, effective November 4, 2013, between Active Power, Inc. and Randall J. Adleman (filed as Exhibit 10.4 to Active Power’s Quarterly Report on Form 10-Q filed on November 18, 2013)
10.37*†	Offer Letter, dated November 14, 2013, between Active Power, Inc. and James A. Powers (filed as Exhibit 10.21 to Active Power’s Annual Report on Form 10-K filed on March 4, 2014)
10.38*†	Severance Benefits Agreement, dated November 14, 2013, between Active Power, Inc. and James A. Powers (filed as Exhibit 10.22 to Active Power’s Annual Report on Form 10-K filed on March 4, 2014)
10.39*	Second Amended and Restated Loan and Security Agreement dated as of August 5, 2010 between Active Power, Inc. and Silicon Valley Bank (filed as Exhibit 10.1 to Active Power's Quarterly Report on Form 10-Q filed on October 27, 2010)
10.40*	First Amendment to Second Amended and Restated Loan and Security Agreement, dated March 5, 2012, between Active Power, Inc. and Silicon Valley Bank (filed as Exhibit 10.3 to Active Power's Quarterly Report on Form 10-Q filed on August 3, 2012)
10.41*	Second Amendment to Second Amended and Restated Loan and Security Agreement dated August 15, 2012 between Active Power, Inc. and Silicon Valley Bank (filed as Exhibit 10.1 to Active Power’s Current Report on Form 8-K filed on August 20, 2012)
10.42*	Third Amendment to Second Amended and Restated Loan and Security Agreement dated July 28, 2014 between Active Power, Inc. and Silicon Valley Bank (filed as Exhibit 10.1 to Active Power’s Current Report on Form 8-K filed on July 29, 2014)
10.43*	Guarantee and Debenture Agreement, dated as of August 5, 2010 between Active Power Solutions Limited and Silicon Valley Bank(filed as Exhibit 10.2 to Active Power's Quarterly Report on Form 10-Q filed on October 27, 2010)
10.44*+	Purchase Agreement effective as of June 1, 2011 between Active Power, Inc. and Caterpillar, Inc. (filed as Exhibit 10.6 to Active Power’s Quarterly Report on Form 10-Q filed on April 30, 2012)

10.45*†	2015 Management Incentive Plan (filed as Exhibit 10.1 to Active Power's Current Report on Form 8-K filed on February 17, 2015)
10.46*†	Cash Incentive Plan (filed as Exhibit 10.1 to Active Power's Current Report on Form 8-K filed on February 16, 2016)
10.47*+	Hardware Product Purchase Agreement, dated April 30, 2010 between Active Power, Inc. and Hewlett-Packard Company (filed as Exhibit 10.25 to Active Power's Annual Report on Form 10-K filed on March 1, 2012)
10.48++	Amendment 1, dated January 1, 2014, to Hardware Product Purchase Agreement between Active Power, Inc. and Hewlett-Packard Company
10.49++	Amendment 2, dated April 1, 2015, to Hardware Product Purchase Agreement between Active Power, Inc. and Hewlett-Packard Company
21.1	Subsidiaries of the Registrant
23.1	Consent of Grant Thornton LLP
24.1	Power of Attorney, pursuant to which amendments to this Form 10-K may be filed, is included on the signature page contained in Part IV of this Form 10-K
31.1	Certification of Principal Executive Officer as required by Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer as required by Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Principal Executive Officer as required by Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Principal Financial Officer as required by Section 906 of the Sarbanes-Oxley Act of 2002
101	The following financial statements from Active Power's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statement of Operations and Comprehensive Loss, (iii) Consolidated Statement of Cash Flows, and (iv) Notes to Consolidated Financial Statements.

* Incorporated by reference to the indicated filing.

\+ Portions of this exhibit have been omitted pursuant to a confidential treatment previously granted.

++ Confidential treatment has been requested with respect to certain portions of this exhibit.

† Management contract or compensatory plan or arrangement.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

Active Power, Inc.

We have audited the accompanying consolidated balance sheets of Active Power, Inc. (a Delaware corporation) and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Active Power, Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP

Dallas, Texas
February 23, 2016

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

	December 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 12,260	$ 14,824
Restricted cash	36	40
Accounts receivable, net of allowance for doubtful accounts of $70 and $212 at December 31, 2015 and December 31, 2014, respectively	8,849	11,222
Inventories, net	6,466	6,845
Prepaid expenses and other	792	800
Total current assets	28,403	33,731
Property and equipment, net	1,914	2,076
Deposits and other	278	291
Total assets	$ 30,595	$ 36,098
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,852	$ 4,044
Accrued expenses	4,494	4,134
Deferred revenue	3,576	2,771
Revolving line of credit	5,535	5,535
Total current liabilities	16,457	16,484
Long-term liabilities	583	821
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; 23,171 and 23,162 issued and 23,109 and 23,094 outstanding at December 31, 2015 and 2014, respectively	23	23
Treasury stock	(240)	(231)
Additional paid-in capital	304,094	302,667
Accumulated deficit	(290,454)	(283,995)
Other accumulated comprehensive income	132	329
Total stockholders' equity	13,555	18,793
Total liabilities and stockholders' equity	$ 30,595	$ 36,098

See accompanying notes.

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

	Year Ended December 31,		
	2015	**2014**	**2013**
Revenues:			
Product revenue	$ 43,247	$ 36,211	$ 44,158
Service and other revenue	14,174	12,925	17,541
Total revenue	57,421	49,136	61,699
Cost of goods sold:			
Cost of product revenue	32,017	29,182	32,825
Cost of service and other revenue	8,587	7,302	9,478
Total cost of goods sold	40,604	36,484	42,303
Gross profit	16,817	12,652	19,396
Operating expenses:			
Research and development	5,723	6,689	7,430
Selling and marketing	10,589	11,940	12,032
General and administrative	6,565	6,043	7,551
Total operating expenses	22,877	24,672	27,013
Loss from Operations	(6,060)	(12,020)	(7,617)
Interest expense	(375)	(395)	(370)
Other expense, net	(24)	(160)	(364)
Loss before income taxes	(6,459)	(12,575)	(8,351)
Income tax expense	—	(252)	—
Net Loss	$ (6,459)	$ (12,827)	$ (8,351)
Net Loss per share, basic and diluted	$ (0.28)	$ (0.57)	$ (0.43)
Shares used in computing net loss per share, basic and diluted	23,134	22,494	19,329
Comprehensive loss:			
Net loss	$ (6,459)	$ (12,827)	$ (8,351)
Translation gain (loss) on subsidiaries denominated in foreign currencies	(197)	(377)	384
Comprehensive loss	$ (6,656)	$ (13,204)	$ (7,967)

See accompanying notes.

Active Power, Inc.
Consolidated Statement of Stockholders' Equity
(in thousands, except per share amounts)

	Common Stock		Treasury Stock					
	Number of Shares	Par Value	Number of Shares	At Cost	Additional Paid-In Capital	Accumulated Deficit	Other Accumulated Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2012	19,171	$ 19	33	$ (144)	$ 288,619	$ (262,817)	$ 322	$ 25,999
Employee stock option exercises	200	—	—	—	711	—	—	711
Release of Restricted Stock	81	—	—	—	4	—	—	4
Shares held in treasury	—	—	18	(71)	—	—	—	(71)
Net translation gain on foreign subsidiaries	—	—	—	—	—	—	384	384
Stock-based compensation					1,689		—	1,689
Issuance costs, shelf registration	—	—	—	—	(59)	—	—	(59)
Net Loss	—	—	—	—	—	(8,351)	—	(8,351)
Balance at December 31, 2013	19,452	$ 19	51	$ (215)	$ 290,964	$ (271,168)	$ 706	$ 20,306
Employee stock option exercises	43	—	—	—	129	—	—	129
Sale of common stock, less issuance costs	3,651	4			10,434			10,438
Release of Restricted Stock	16	—				—	—	—
Shares held in treasury	—	—	5	(16)	—	—	—	(16)
Net translation loss on foreign subsidiaries	—	—	—	—	—	—	(377)	(377)
Stock-based compensation	—	—	—	—	1,140	—	—	1,140
Net Loss	—	—	—	—	—	(12,827)	—	(12,827)
Balance at December 31, 2014	23,162	$ 23	56	$ (231)	$ 302,667	$ (283,995)	$ 329	$ 18,793
Release of Restricted Stock	9	—				—	—	—
Shares held in treasury	—	—	6	(9)	—	—	—	(9)
Net translation loss on foreign subsidiaries	—	—	—	—	—	—	(197)	(197)
Stock-based compensation	—	—	—	—	1,427	—	—	1,427
Net Loss	—	—	—	—	—	(6,459)	—	(6,459)
Balance at December 31, 2015	23,171	$ 23	62	$ (240)	$ 304,094	$ (290,454)	$ 132	$ 13,555

See accompanying notes.

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

	Year ended December 31,		
	2015	**2014**	**2013**
Operating activities			
Net Loss	$ (6,459)	$ (12,827)	$ (8,351)
Adjustments to reconcile net loss to cash used in operating activities:			
Depreciation expense	997	1,220	1,084
Change to allowance for doubtful accounts	(142)	(101)	(175)
Loss on disposal of fixed assets	7	4	30
Impairment on fixed assets	—	57	69
Stock-based compensation	1,427	1,140	1,700
Changes in operating assets and liabilities:			
Restricted cash	4	480	(520)
Accounts receivable	2,515	(2,046)	8,962
Inventories	283	5,257	(1,796)
Prepaid expenses and other assets	22	(116)	(99)
Accounts payable	(1,192)	1,051	(1,043)
Accrued expenses	360	(1,449)	623
Deferred revenue	805	22	(1,819)
Long term liabilities	(238)	80	28
Net cash used in operating activities	(1,611)	(7,228)	(1,307)
Investing activities			
Purchases of property and equipment	(779)	(343)	(996)
Proceeds from sale of fixed assets	—	19	71
Net cash used in investing activities	(779)	(324)	(925)
Financing activities			
Proceeds from public offering of common stock, net of issuance cost	—	10,438	—
Proceeds from employee stock option exercises	—	129	711
Issuance costs, shelf registration	—	—	(59)
Taxes paid related to the net share settlement of equity awards	(9)	(16)	(67)
Net cash (used in) provided by financing activities	(9)	10,551	585
Effects of exchange rates on cash	(165)	(436)	384
Change in cash and cash equivalents	(2,564)	2,563	(1,263)
Cash and cash equivalents, beginning of period	14,824	12,261	13,524
Cash and cash equivalents, end of period	$ 12,260	$ 14,824	$ 12,261
Supplemental Cash Flow Information:			
Interest Paid	$ 354	$ 401	$ 380
Income Tax Paid	$ —	$ 252	$ —

See accompanying notes.

1. Summary of Significant Accounting Policies

Description of Business

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 electro-chemical 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 2015, 72% of our product revenue came from the sale of UPS systems and 28% 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 channel 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 consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and include the accounts of the Company and its consolidated subsidiaries. All intercompany transactions and balances have been eliminated upon consolidation.

The accompanying consolidated financial statements have also been prepared on the assumption that the Company will continue to operate as a going concern. Accordingly, assets and liabilities are recorded on the basis that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company's history of operating losses and use of cash, in the absence of other factors, may cause uncertainty as to its ability to continue as a going concern. We have reviewed the current and prospective sources of liquidity, significant conditions and events and forecast financial results and concluded that we have adequate resources to continue to operate as a going concern. Our business plan and our assumptions around the adequacy of our liquidity are based on estimates regarding expected revenues and future costs. However, our revenues may not meet our projections or our costs may exceed our estimates. 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 2016 or significantly affect our level of liquidity, which may require us to seek additional financing or take other measures to reduce our operating costs in order to continue operating. These financial statements do not include any adjustments that might result from the Company not being able to continue as a going concern.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Changes in the estimates or assumptions used by management could have a material impact upon reported amounts and our results of operations.

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 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 agreement 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 (“BESP”) 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.

Shipping and Handling Costs

We classify shipping and handling costs related to product sales as cost of revenue, and any payments from customers for shipping and handling are categorized in revenue. We classify shipping and handling costs associated with receiving production inventory as cost of product revenue. Any materials received or shipped which are related to our engineering, sales, marketing and administrative functions are classified as operating expenses.

Cash and Cash Equivalents

Investments with a contractual maturity of three months or less when purchased are classified as cash equivalents.

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 propriety to Level 3 inputs. A financial instruments 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 December 31, 2015 and 2014.

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.

Allowance for Doubtful Accounts

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 (“HPE”). 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 uncollectible 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.

The following table summarizes the annual changes in our allowance for doubtful accounts (in thousands):

Balance at December 31, 2012	$ 488
Change in provision credited to expense, net	(139)
Write-off of uncollectible accounts, net of recoveries	(36)
Balance at December 31, 2013	$ 313
Change in provision credited to expense, net	(67)
Write-off of uncollectible accounts, net of recoveries	(34)
Balance at December 31, 2014	$ 212
Change in provision credited to expense, net	(142)
Write-off of uncollectible accounts	—
Balance at December 31, 2015	$ 70

Inventories, net

Inventories are stated at the lower of cost or market, using the first-in-first-out method, and consist of the following at December 31 (in thousands, net of allowances of $0.8 million in both 2015 and 2014):

	2015	2014
Raw materials	$ 4,748	$ 5,440
Work in progress	1,425	473
Finished goods	293	932
	$ 6,466	$ 6,845

Property and Equipment

Property and equipment is stated at cost and is depreciated using the straight-line method over the estimated useful lives of the assets, as follows (in years):

Equipment	2 - 10
Demonstration units	3 - 5
Computers and purchased software	2 - 3
Furnitures and fixtures	2 - 5

Leasehold improvements are depreciated over the shorter of the life of the improvement or the remainder of the property lease term, including renewal options, generally three to five years. Repairs and maintenance is expensed as incurred.

Long-Lived Assets

Long-lived assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that their net book value may not be recoverable. When such factors and circumstances exist, we compare the projected undiscounted future cash flows associated with the related asset or group of assets over their estimated useful lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets and is recorded in the period in which the determination was made.

Accrued Expenses

Accrued expenses consist of the following at December 31 (in thousands):

	2015	2014
Compensation, severance and benefits	$ 727	$ 1,296
Management incentive bonus	1,282	—
Warranty liability	531	475
Taxes, other than income	518	1,080
Professional fees	441	463
Other	995	820
	$ 4,494	$ 4,134

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, 2012	$	755
Warranty expense		589
Payments		(782)
Balance at December 31, 2013	$	562
Warranty expense		660
Payments		(695)
Balance at December 31, 2014	$	527
Warranty expense		580
Payments		(535)
Balance at December 31, 2015	$	572

	2015		2014	
Warranty liability included in accrued expenses	$	531	$	475
Long term warranty liability		41		52
	$	572	$	527

Long-Term Liabilities

Long-term liabilities consist of the following at December 31 (in thousands):

	2015		2014	
Deferred revenue	$	542	$	751
Warranty liability		41		52
Sublease deposits		—		18
	$	583	$	821

Stock-Based Compensation Expense

We account for our stock-based compensation using the Black Scholes option valuation model. Stock-based compensation cost is estimated at the grant date based on the fair-value of the award and is recognized as expense ratably over the requisite service period of the award, generally four years. We develop our estimates of expected life and forfeitures based on historical data. We estimate stock price volatility based on historical volatilities. The risk-free rates are based on the U.S. Treasury yield in effect at the time of grant. Details of our stock-based compensation include the following (in thousands):

	2015	2014	2013
Stock-based compensation expense by caption:			
Cost of product revenue	$ 111	$ 110	$ 254
Cost of service and other revenue	73	111	116
Research and development	125	207	204
Selling and marketing	402	370	587
General and administrative	716	342	539
	$ 1,427	$ 1,140	$ 1,700
Stock-based compensation expense by type of award:			
Stock options	$ 1,366	$ 1,068	$ 1,488
Restricted stock awards	61	72	212
	$ 1,427	$ 1,140	$ 1,700

Assumptions used in the Black-Scholes model for our stock plans are presented below:

	2015	2014	2013
Weighted average expected life in years	6.25 years	6.27 years	6.35 years
Weighted average expected volatility	65%	75%	76%
Volatility Range	58%-71%	73%-76%	75%-76%
Risk-free interest rate range	1.89%-1.95%	1.96%-2.12%	1.13%-2.38%
Weighted average forfeiture rate	28.5%	29.7%	18.9%

Income Taxes

We account for income taxes using the liability method of accounting for income taxes. Under the liability method, deferred taxes are determined based on the differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets if it is more likely than not such assets will not be realized. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

We recognize the financial statement benefit of a tax position that does not meet the more-likely-than-not threshold only after the statute of limitations expire of the relevant tax authority sustains the Company's position following an audit. For tax positions meeting the more likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon the ultimate settlement with the relevant tax authority. At December 31, 2015 and 2014, the Company had no material unrecognized tax benefits.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2015 and 2014, the Company had no accrued or expensed interest or penalties related to uncertain tax positions.

Segment Reporting

The Company operates as a single operating segment. According to the FASB ASC Topic *Disclosures about Segments of an Enterprise and Related Information* , operating segments are defined as components of an enterprise for which separate financial information is evaluated regularly by the chief operating decision maker ("CODM") in deciding how to allocate resources and in assessing performance. The Company's CODM is the Chief Executive Officer who evaluates the Company's financial information and resources and assesses performance on a consolidated basis.

Concentration of Credit Risk

Financial instruments which potentially subject Active Power to concentrations of credit risk consist of cash and cash equivalents, investments and accounts receivable. Active Power's cash and cash equivalents and investments are placed with high credit quality financial institutions and issuers. From time to time, we may have amounts on deposit with financial institutions that are in excess of the federally insured limit. We have not experienced any losses on deposits of cash and cash equivalents.

Active Power performs credit evaluations of its customers' financial condition prior to entering into commercial transactions. We generally require letters of credit or prepayments from higher-risk customers as deemed necessary to ensure collection. Our allowance for doubtful accounts is estimated based on factors related to the credit risk of each customer. Individual receivables are written off after they have been deemed uncollectible. We also purchase several components from sole source or limited source suppliers.

Economic Dependence

We are significantly dependent on our relationships with HPE and Caterpillar. If these relationships are unsuccessful or discontinue, our business and revenue may suffer. The loss of, or a significant reduction in, orders from HPE or Caterpillar, or the failure to provide adequate service and support to the end-users of our products by HPE or Caterpillar, could significantly reduce our revenue. Our operating results in the foreseeable future will continue to depend on the sales made by a relatively small number of customers, including HPE and Caterpillar.

The following customers accounted for a significant percentage of our total revenue during each of the years ended December 31:

	2015	2014	2013
Caterpillar	25%	18%	14%
HPE	18%	1%	22%

No other customer represented more than 10% of our revenues in any of the years reported. Caterpillar represented 17% and 18% of our outstanding accounts receivable at December 31, 2015 and 2014, respectively. Electronic Keyboards, Inc. and Piet Brouwer Elektrotechniek B.V. represented 24% and 12% of our outstanding receivables at December 31, 2015, respectively.

Advertising Costs

We expense advertising costs as incurred. These expenses were immaterial in 2015, 2014, and 2013, respectively.

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) for the years ended December 31:

	2015	2014	2013
Net loss	$ (6,459)	$ (12,827)	$ (8,351)
Basic and diluted:			
Weighted-average shares of common stock outstanding used in computing basic and diluted net loss per share	23,134	22,494	19,329
Basic and diluted net loss per share	$ (0.28)	$ (0.57)	$ (0.43)

The calculation of diluted net loss per share excludes 3,461,737, 2,399,890, and 2,407,664 shares of common stock issuable upon exercise of employee stock options as of December 31, 2015, 2014, and 2013, respectively, and 7,121, 21,994, and 53,038 non-vested shares of restricted stock units issuable upon vesting as of December 31, 2015, 2014, and 2013, respectively, because their inclusion in the calculation would be anti-dilutive.

Recent Accounting Pronouncements

In November 2015, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("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. The amendments are 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 April 2015, the FASB issued ASU No. 2015-03, (“ASU 2015-03”), “Interest - Imputation of Interest (Subtopic 835-30): *Simplifying the Presentation of Debt Issuance Costs*”. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. For public entities, ASU 2015-03 is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. ASU 2015-03 is to be applied on a retrospective basis and represents a change in accounting principle. 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, (“ASU 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. The Company does not expect that the adoption of this standard will have a material effect on its financial statements.

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. 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.

2. Property and Equipment

Property and equipment consists of the following at December 31 (in thousands):

	2015	2014
Equipment	$ 9,040	$ 9,122
Demonstration units	1,657	1,836
Computers and purchased software	2,582	3,321
Furnitures and fixtures	367	366
Leasehold improvements	7,362	7,225
Construction in progress	192	19
	21,200	21,889
Accumulated depreciation	(19,286)	(19,813)
	$ 1,914	$ 2,076

In 2015, we reclassified $0.1 million of inventory into demonstration units. In 2014, we reclassified $44,000 of inventory into demonstration units.

3. Stockholders' Equity

Common Stock

Common stock reserved for future issuance at December 31, 2015 consisted of 6,333,714 shares of common stock reserved under our 2010 Stock Incentive Plan, of which 3,461,737 shares were subject to outstanding options and restricted shares and 2,871,977 shares were available for future grants of awards.

On May 28, 2014, our stockholders approved an amendment to the Company's Restated Certificate of Incorporation to increase the number of authorized shares of common stock from 30 million shares to 40 million shares.

In March 2014, we sold approximately 3.7 million shares of common stock at a purchase price of $3.15 per share in a public underwritten offering made under a shelf registration statement that we had filed with the SEC and that had been declared effective in June 2013. This offering resulted in proceeds, net of expenses including underwriting discounts, commissions and fees of $0.8 million and professional service expenses of $0.2 million, of approximately $10.4 million. The proceeds from this offering were used by us to help fund our working capital requirements and for general corporate purposes.

In April 2015, our Board of Directors approved the addition of 3.0 million shares of our common stock to be issued in accordance with our 2010 Equity Incentive Plan, and such addition was subsequently approved by our stockholders. Options are subject to terms and conditions as determined by the Compensation Committee of our Board of Directors.

Stock Option Plan

Since its inception, we have authorized 8,682,296 shares of common stock for issuance under our 2000 and 2010 Stock Incentive Plans, however, we are only issuing new shares of common stock under our 2010 Stock Incentive Plan. The 2000 Stock Incentive Plan has no common stock remaining to issue. We grant options under these plans that vest over periods of up to four years. The term of each option is no more than ten years from the date of grant. Our policy is to issue new shares when required to issue shares upon option exercises. The total fair value of options vested in the year was $1.2 million, $1.8 million, and $1.4 million in 2015, 2014, and 2013 respectively.

A summary of common stock option activity is as follows:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Contractual Life (in years)	Aggregate Intrinsic Value (whole dollars)
Outstanding at December 31, 2014	2,399,890	$ 4.30		
Granted	1,294,200	1.99		
Exercised	—	—		
Canceled	(232,353)	5.35		
Outstanding at December 31, 2015	3,461,737	$ 3.36	7.81	$ —
Vested and expected to vest at December 31, 2015	2,857,574	$ 3.59	7.58	$ —
Exercisable at December 31, 2015	1,405,295	$ 4.80	6.33	$ —

The weighted average grant date fair value per share of options granted during 2015, 2014, and 2013 was $1.25, $2.03, and $2.60, respectively. The total intrinsic value of options exercised (which is the amount by which the stock price exceeded the exercise price of the options at the date of exercise) during the years ended December 31, 2014 and 2013 was $14,000 and $0.1 million, respectively. There were no options exercised during the year ended December 31, 2015.

As of December 31, 2015, there was $2.7 million of total unrecognized compensation cost, related to non-vested stock options, that is expected to be recognized over a weighted-average vesting period of 2.5 years.

Restricted (non-vested) Shares

In 2013 and 2012, we issued approximately 6,000 and 248,000 restricted shares, respectively, to directors and employees of the Company. The restrictions lapse as the shares vest in equal quarterly installments over a four year period from the date of issuance. We recorded stock compensation expense related to restricted share units of $0.1 million in 2015. A summary of our restricted, non-vested, shares is as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding at December 31, 2014	21,994	$ 4.00
Granted	—	—
Vested	(13,528)	4.00
Canceled	(1,345)	4.00
Outstanding at December 31, 2015	7,121	$ 4.01

As of December 31, 2015, there was $7,000 of total unrecognized compensation cost related to restricted shares that is expected to be recognized over a weighted-average vesting period of 0.1 years. The total fair value of restricted share units vested in 2015 and 2014 was $0.1 million and $0.1 million, respectively.

4. Revolving Credit Facility

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., 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 borrowing sublimit of $3.0 million and $4.0 million, respectively, and accounts receivable for UK 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 bank 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 Silicon Valley Bank'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 Base 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 this loan facility are secured by a lien on substantially all of our assets, including the assets of Active Power Solutions Limited, our wholly-owned United Kingdom 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 our subsidiary may be required to pay any such amounts under the Guarantee and Debenture. 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 five percentage points (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 one-half percent (0.50%).

We believe we are 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 this credit facility based on our short term liquidity requirements, and have not borrowed any additional amounts after this initial borrowing. As of December 31, 2015, we had outstanding borrowings of $5.5 million under this loan facility. Based on the borrowing base formula subsequent to the amendment, the additional amount available for use at December 31, 2015 was approximately $5.9 million.

5. Income Taxes

The Company's pretax loss for the three years ended December 31, 2015, 2014, and 2013 were allocated between domestic and foreign operations as follows:

	Year Ended December 31,		
	2015	2014	2013
Domestic	$ (5,261)	$ (15,909)	$ (9,105)
Foreign	(1,198)	3,334	754
Total	$ (6,459)	$ (12,575)	$ (8,351)

In September 2014, we settled a tax examination of our German subsidiary for years 2007 through 2011. In the settlement, we agreed to transfer pricing adjustments for the period under examination resulting in a reduction of loss carryovers and a deemed distribution subject to withholding taxes under German law. We recorded a provision for foreign income taxes of $0.3 million in the quarter ended September 30, 2014 related to the settlement of the German tax examination.

As of December 31, 2015, the Company had federal and state net operating loss carry-forwards of approximately $235.5 million and $277.3 million, respectively and research and development credit carry-forwards of approximately $4.1 million. The net operating loss and credit carry-forwards will expire beginning in 2018, if not utilized. Utilization of the federal and state net operating losses and credit carryforwards may be subject to a substantial annual limitation due to the "change of ownership" provisions of the Internal Revenue Code of 1986. The annual limitation may result in the expiration of net operating losses and credit carryforwards before utilization. The Company also has net operating loss carry-forwards related to international operations of approximately $11.7 million.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred taxes as of December 31 are as follows (in thousands):

	2015	2014
Deferred tax assets:		
Current deferred tax assets		
Reserves and allowances	$ 698	$ 751
Deferred Rent	45	45
Deferred revenue	269	255
Valuation allowance for current deferred tax assets	(1,011)	(1,049)
Net current deferred tax assets	$ 1	$ 2
Noncurrent deferred tax assets		
Acquired technology	452	571
Capital expenses	1,688	1,652
Stock compensation	695	594
Net operating loss and tax credit carryforwards	84,436	84,047
Valuation allowance for noncurrent deferred tax assets	(87,108)	(86,687)
Net noncurrent deferred tax assets	$ 163	$ 177
Deferred tax liabilities:		
Current deferred tax liabilities		
Prepaid expenses	(164)	(179)
Total current deferred tax liabilities	$ (164)	$ (179)
Total net deferred taxes	$ —	$ —

The Company has established a valuation allowance equal to the net deferred tax asset due to uncertainties regarding the realization of deferred tax assets based on the Company's lack of earnings history. The valuation allowance increased by approximately $0.4 million during 2015. The Company's deferred tax asset related to NOL carryforwards is net of $2.9 million of unrealized excess tax benefits related to stock based compensation. The impact of the excess tax benefit will be recognized in additional paid-in-capital upon utilization of the Company's NOL and tax credits carryforward.

The Company's provision for income taxes differs from the expected tax expense (benefit) amount computed by applying the statutory federal income tax rate of 34% to income before taxes due to the following:

	Year Ended December 31,		
	2015	2014	2013
Federal statutory rate	(34.0)%	(34.0)%	(34.0)%
State taxes, net of federal benefit	(0.8)	(1.0)	(13.5)
R&D credits	(2.2)	(1.8)	(5.6)
Stock compensation	6.0	3.8	6.2
Effect of current foreign operations	20.5	5.5	(20.5)
Expiration and adjustment of net operating losses	2.4	26.7	—
Foreign tax audit settlement	—	2.0	—
Loss carryforward adjustments due to tax audit methodologies	—	9.1	—
Permanent items and other	2.2	0.3	(1.9)
Change in valuation allowance	5.9	(8.6)	69.3
	— %	2.0 %	— %

The Company recognized no material adjustment in the liability for unrecognized income tax benefits. The reconciliation of the Company's unrecognized tax benefits at the beginning and end of the year is as follows:

Balance at December 31, 2013	$	1,990
Additions based on tax positions related to the current year		257
Additions for tax positions of prior years		24
Balance at December 31, 2014	$	2,271
Additions based on tax positions related to the current year		80
Additions for tax positions of prior years		—
Balance at December 31, 2015	$	2,351

Due to the existence of the valuation allowance, future changes in our unrecognized tax benefits will not materially impact the Company's effective tax rate. The Company's assessment of its unrecognized tax benefits is subject to change as a function of the Company's financial statement audit.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2015, the Company had no accrued interest or penalties related to uncertain tax positions.

The tax years 2010 through 2015 remain open to examination by the major taxing jurisdictions to which the Company is subject.

6. Commitments

We lease our office, manufacturing and engineering facilities and our foreign sales offices under operating lease agreements. These facilities' leases are non-cancelable and obligate us to pay taxes and maintenance costs. In addition, we lease certain equipment such as copiers and phone systems under non-cancelable leases. Our leases expire at various dates through 2021. Rent expense for leases with escalating or de-escalating rent payments are recorded on a straight-line basis over the period of the lease. Net deferred rent on the consolidated balance sheet as of December 31, 2015 and 2014 was $0.1 million and $0.1 million, respectively. Rent expense was $1.5 million, $1.5 million, and $1.7 million for the years ended December 31, 2015, 2014, and 2013, respectively.

Future minimum payments under these leases at December 31, 2015 are as follows (in thousands):

	Rental payments
2016	$ 1,243
2017	1,201
2018	1,191
2019	1,174
2020	1,152
Thereafter	1,163
Total future minimum lease payments	$ 7,124

We enter into certain commitments to purchase inventory and other items in the course of normal operations. At December 31, 2015, the total of these commitments was $3.6 million, of which $3.6 million and $12,000 will mature in 2016 and 2017, respectively.

We have entered into Severance Benefits Agreements with our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") and with each of our other executive officers. These agreements generally provide that, if within 12 months following a change in control the executive officer's employment is terminated for reasons other than for cause (as defined in the agreement) or by the executive for good reason, including a significant reduction in the role and/or responsibility of the executive within 12 months of the change in corporate control, then all outstanding stock options or restricted shares held by the executive would vest as of the date of the termination and certain severance payments would be payable. In the case of our CEO and CFO, in the event of termination by the Company for reasons other than for cause or by him for good reason, he would be entitled to a severance payment equal to 12 months of salary and be entitled to receive health benefits for 12 additional months after termination. In the case of our VP of Sales, in the event of a termination by the Company for reasons other than for cause or by the officer for good reason, he would be entitled to a severance payment equivalent to six months of salary and be entitled to receive health benefits for six additional months after termination.

7. Contingencies

The Company 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 its business. The Company evaluated all potentially significant litigation, government investigations, claims or assessments in which the Company is involved and does 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.

The Company records 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 year ended December 31, 2015, were not material to the Consolidated Financial Statements.

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

SEC Inquiry

The Company announced in error in April 2013 that it had entered into a strategic distribution agreement with Digital China Information Service Company ("Digital China"). The actual party to this agreement was Qiyuan Network System Limited ("Qiyuan"). A Company employee in China had misrepresented to management that Qiyuan was a subsidiary of Digital China. Qiyuan had no affiliation with Digital China. By letter dated September 30, 2013, the SEC Division of Enforcement notified us that it is conducting an investigation regarding us, including matters relating to our public statements regarding Digital China and our distribution relationships in China. We have been and intend to continue cooperating fully with the SEC. As of the date of this filing, we believe we have provided all requested material to the SEC.

8. Employee Benefit Plan

We maintain a 401(k) Plan that covers substantially all full-time employees. Company contributions to the plan are determined at the discretion of the Board of Directors. We did not contribute to this plan in 2015, 2014, or 2013.

9. Geographic Information

Revenues for the year ended December 31 were as follows (in thousands):

	2015	2014	2013
Americas	$ 43,068	$ 31,495	$ 50,365
Europe, Middle East and Africa	12,434	13,998	6,941
Asia	1,919	3,643	4,393
Total	$ 57,421	$ 49,136	$ 61,699

Revenues from foreign countries above represented shipments to customers located in 43 countries during 2015. We often ship to areas that are outside of the jurisdiction in which revenue is recognized. Substantially all of our property, plant and equipment are located in the United States. Net assets of operations in foreign countries (excluding intercompany receivables and payables eliminated in consolidation) were $3.6 million at December 31, 2015 and are located in the UK, Germany, and China.

10. 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 December 31, 2015 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 $30,000 performance guarantee to a customer that was secured with a letter of credit, which expires in June 2017. At December 31, 2014, 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 $34,000 performance guarantee to a customer that was secured with a letter of credit, which expires in June 2017. 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.

11. Selected Quarterly Consolidated Financial Data (*unaudited*)

The following tables present selected unaudited consolidated statement of operations information for each of the quarters in the years ended December 31, 2015 and 2014 (in thousands, except per share data):

	For the Quarter Ended			
Year Ended December 31, 2015	**December 31**	**September 30**	**June 30**	**March 31**
Selected consolidated statement of operations information:				
Total revenue	$ 12,525	$ 14,912	$ 16,855	$ 13,129
Total cost of goods sold	$ 9,437	$ 10,988	$ 11,357	$ 8,822
Gross profit	$ 3,088	$ 3,924	$ 5,498	$ 4,307
Operating expenses	$ 5,876	$ 5,552	$ 5,669	$ 5,780
Operating loss	$ (2,788)	$ (1,628)	$ (171)	$ (1,473)
Net loss	$ (2,906)	$ (1,736)	$ (258)	$ (1,559)
Basic and diluted net loss per share	$ (0.13)	$ (0.08)	$ (0.01)	$ (0.07)
Selected consolidated balance sheet information:				
Current assets	$ 28,403	$ 33,091	$ 35,149	$ 32,323
Total assets	$ 30,595	$ 35,435	$ 37,355	$ 34,499
Current liabilities	$ 16,457	$ 18,662	$ 19,104	$ 16,345
Working capital	$ 11,946	$ 14,429	$ 16,045	$ 15,978
Long term obligations	$ 583	$ 630	$ 670	$ 760
Stockholders' equity	$ 13,555	$ 16,143	$ 17,581	$ 17,394

Year Ended December 31, 2014	For the Quarter Ended December 31	September 30	June 30	March 31
Selected consolidated statement of operations information:				
Total revenue	$ 15,352	$ 12,692	$ 10,154	$ 10,938
Total cost of goods sold	$ 11,303	$ 8,932	$ 8,239	$ 8,010
Gross profit	$ 4,049	$ 3,760	$ 1,915	$ 2,928
Operating expenses	$ 6,015	$ 5,862	$ 6,221	$ 6,574
Operating profit (loss)	$ (1,966)	$ (2,102)	$ (4,306)	$ (3,646)
Net income (loss)	$ (2,044)	$ (2,496)	$ (4,413)	$ (3,874)
Basic and diluted new income (loss) per share	$ (0.09)	$ (0.11)	$ (0.19)	$ (0.19)
Selected consolidated balance sheet information:				
Current assets	$ 33,731	$ 34,711	$ 36,427	$ 42,070
Total assets	$ 36,098	$ 37,341	$ 39,350	$ 45,164
Current liabilities	$ 16,484	$ 15,720	$ 15,529	$ 17,069
Working capital	$ 17,247	$ 18,991	$ 20,898	$ 25,001
Long term obligations	$ 821	$ 852	$ 697	$ 746
Stockholders' equity	$ 18,793	$ 20,769	$ 23,124	$ 27,349

ACTIVE POWER, INC.
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON APRIL 22, 2016

TO THE STOCKHOLDERS OF ACTIVE POWER, INC.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders ("Annual Meeting") of Active Power, Inc., a Delaware corporation (the "Company"), will be held on Friday, April 22, 2016, at 8:00 a.m. Central Time, at our principal executive offices, located at 2128 W. Braker Lane, BK 12, Austin, Texas 78758, for the following purposes, as more fully described in the proxy statement accompanying this notice:

1. To elect three Class I Directors to serve until our 2019 Annual Meeting of Stockholders, or until their successors are duly elected and qualified.

2. To hold a non-binding advisory vote to approve our executive compensation.

3. To ratify the appointment of Grant Thornton LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2016.

4. To transact such other business as may properly come before the meeting or any postponements or adjournments thereof.

Only stockholders of record at the close of business on March 2, 2016 are entitled to notice of and to vote at the Annual Meeting. A list of stockholders entitled to vote at the Annual Meeting will be available for inspection at our principal executive offices.

All stockholders are cordially invited to attend the meeting in person. Whether or not you plan to attend, please sign and return the proxy in the envelope enclosed for your convenience, or vote your shares by telephone or by the Internet as promptly as possible. Telephone and Internet voting instructions can be found on the attached proxy. Should you receive more than one proxy because your shares are registered in different names and addresses, each proxy should be signed and returned to assure that all your shares will be voted. You may revoke your proxy at any time prior to the Annual Meeting. If you attend the Annual Meeting and vote, your proxy will be revoked automatically and only your vote at the Annual Meeting will be counted.

Sincerely,

/s/ James A. Powers

James A. Powers
Chief Financial Officer and
Vice President of Finance

Austin, Texas
March 16, 2016

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YOUR VOTE IS VERY IMPORTANT, REGARDLESS OF THE NUMBER OF SHARES YOU OWN. PLEASE READ THE ATTACHED PROXY STATEMENT CAREFULLY, AND VOTE YOUR SHARES BY TELEPHONE, BY THE INTERNET OR BY COMPLETING, SIGNING AND DATING THE ENCLOSED PROXY CARD AS PROMPTLY AS POSSIBLE AND RETURNING IT IN THE ENCLOSED ENVELOPE.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON APRIL 22, 2016.

Our financial and other information is contained in our Annual Report to Stockholders for the fiscal year ended December 31, 2015. Pursuant to rules promulgated by the U.S. Securities and Exchange Commission, we have elected to provide access to our proxy materials both by sending you this full set of proxy materials, including a proxy card, and by notifying you of the availability of our proxy materials on the Internet. This proxy statement and our 2015 Annual Report to Stockholders, including our Form 10-K for the year ended December 31, 2015, are available on our website at www.activepower.com.

ACTIVE POWER, INC.
2128 W. Braker Lane, BK 12
Austin, Texas 78758

PROXY STATEMENT
FOR THE ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON APRIL 22, 2016

General

The enclosed proxy is solicited on behalf of the Board of Directors of Active Power, Inc., a Delaware corporation, for use at the Annual Meeting of Stockholders to be held on April 22, 2016 ("Annual Meeting"). The Annual Meeting will be held at 8:00 a.m. Central Time at our principal executive offices, located at 2128 W. Braker Lane, BK 12 Austin, Texas 78758. These proxy solicitation materials were mailed on or about March 16, 2016, to all stockholders entitled to vote at our Annual Meeting.

Voting

The specific proposals to be considered and acted upon at our Annual Meeting are summarized in the accompanying notice and are described in more detail in this proxy statement. On March 2, 2016, the record date for determination of stockholders entitled to notice of, and to vote at, the Annual Meeting, there were 23,109,207 shares of our common stock outstanding and no shares of our preferred stock were outstanding.

Each stockholder is entitled to one vote for each share of common stock held by such stockholder on March 2, 2016. The presence, in person or by proxy, of the holders of a majority of our shares entitled to vote is necessary to constitute a quorum at this Annual Meeting. Shares that are voted "FOR," "AGAINST," "WITHHELD" or "ABSTAIN" are treated as being present at the meeting for purposes of establishing a quorum. Shares that are voted "FOR," "AGAINST" and "WITHHELD" are also treated as votes cast ("Votes Cast") with respect to a matter. Abstentions generally will not be counted for purposes of determining the number of Votes Cast with respect to a particular proposal. Broker non-votes will be counted for purposes of determining the presence or absence of a quorum for the transaction of business, but such non-votes will not be counted for purposes of determining the number of Votes Cast with respect to the particular proposal on which a broker has expressly not voted. Generally, broker non-votes occur on a matter when a broker is not permitted to vote on that matter without instructions from the beneficial owner and instructions are not given. At this Annual Meeting, brokers will only be permitted to vote on the ratification of the appointment of Grant Thornton LLP without the written instruction of the beneficial owner.

The vote of a plurality of the shares of our common stock present in person or represented by proxy at the Annual Meeting and entitled to vote in the election of directors is necessary for the election of a director. Thus, the nominees receiving the greatest number of votes at the Annual Meeting will be elected to our Board of Directors ("Board"), even if the nominee receives votes from less than a majority of the Votes Cast. Stockholders may not cumulate votes in the election of directors. The proposals regarding the non-binding advisory vote on executive compensation and the ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2016, each require the affirmative vote of a majority of the Votes Cast on the proposal at the Annual Meeting.

All votes will be tabulated by the inspector of election appointed for the Annual Meeting, who will separately tabulate affirmative and negative votes, abstentions and broker non-votes.

Proxies

If the enclosed form of proxy is properly signed and returned or if you properly follow the instructions for telephone or Internet voting, the shares represented thereby will be voted at the Annual Meeting in accordance with the instructions specified thereon. If you sign and return your proxy without specifying how the shares represented thereby are to be voted, the proxy will be voted FOR the election of the directors proposed by our Board, FOR the approval of Proposal Two, and FOR the approval of Proposal Three, each as described in this Notice of Annual Meeting and proxy statement. You may revoke or change your proxy at any time before the Annual Meeting by filing with our Corporate Secretary at our principal executive offices at 2128 W. Braker Lane, Austin, Texas 78758, BK 12, a notice of revocation or another signed proxy with a later date. You may also revoke your proxy by attending the Annual Meeting and voting in person.

Solicitation

We will bear the entire cost of solicitation, including the preparation, assembly, printing and mailing of this proxy statement, the proxy and any additional solicitation materials furnished to our stockholders. Copies of solicitation materials will be furnished to brokerage houses, fiduciaries and custodians holding shares in their names that are beneficially owned by others so that they may forward this solicitation material to such beneficial owners. In addition, we may reimburse such persons for their costs in forwarding the solicitation materials to such beneficial owners. The original solicitation of proxies by mail may be supplemented by a solicitation by telephone, email or other means by our directors, officers or employees. No additional compensation will be paid to these individuals for any such services.

Householding of Annual Meeting Materials

Some brokers and other nominee record holders may be participating in the practice of "householding" proxy statements and annual reports. This means that only one copy of the proxy statement and annual report may have been sent to multiple stockholders in a stockholder's household. We will promptly deliver a separate copy of either document to any stockholder who contacts our investor relations department at (512) 836-6464 or by mail addressed to Investor Relations, c/o Active Power, Inc., 2128 W. Braker Lane, BK 12, Austin, TX 78758, requesting such copies. If a stockholder is receiving multiple copies of the proxy statement and annual report at the stockholder's household and would like to receive a single copy of the proxy statement and annual report for a stockholder's household in the future, stockholders should contact their broker, other nominee record holder, or our investor relations department to request mailing of a single copy of the proxy statement and annual report.

Deadline for Receipt of Stockholder Proposals

Any qualified stockholder proposals (including proposals made pursuant to Rule 14a-8 under the Securities Exchange Act of 1934 ("Exchange Act") and any notice on Schedule 14N) to be presented at our 2017 Annual Meeting of Stockholders and in our proxy statement and form of proxy relating to that meeting must be received by us at our principal executive offices located at 2128 West Braker Lane, BK 12, Austin, TX 78758, addressed to our Corporate Secretary. In accordance with Regulation 14A and our Amended and Restated Bylaws ("Bylaws"), such proposals must be received by the Company not later than November 16, 2016, the date which is 120 days prior to March 16, 2017. With respect to any stockholder proposal not submitted pursuant to Rule 14a-8 and unless notice is received by us in the manner specified in the previous sentence, the proxy holders shall have discretionary authority to vote on any such proposal presented at our 2017 Annual Meeting of Stockholders. All proposals must comply with applicable Delaware law, the rules and regulations promulgated by the Securities and Exchange Commission and the procedures set forth in our Bylaws.

MATTERS TO BE CONSIDERED AT ANNUAL MEETING
PROPOSAL ONE: ELECTION OF DIRECTORS

Composition of the Board

Our Board currently consists of nine directors. The Board, in accordance with our Certificate of Incorporation, is currently divided into three classes, with Class I having three directors, Class II having three directors and Class III having three directors. The terms of each class expire at successive annual meetings so that stockholders elect one class of directors at each annual meeting. The current composition of the Board is:

Class I Directors *(terms expiring at this Annual Meeting)*	Stephen J. Clearman T. Patrick Kelly Steven Sams
Class II Directors *(serving until the 2017 Annual Meeting)*	Mark A. Ascolese Ake Almgren (retiring after this Annual Meeting) Daryl Dulaney
Class III Directors *(serving until the 2018 Annual Meeting)*	James E. J. deVenny III Robert S. Greenberg Peter Gross

The election of three Class I Directors will be considered at the Annual Meeting.

On January 20, 2016, Dr. Almgren, current Class II Director and Chairman of the Board indicated that he had decided to retire and tendered his resignation from the Company's Board to be effective after the date of the Annual Meeting.

If elected at the Annual Meeting, the Class I Director nominees will serve until our 2019 Annual Meeting, or until their successors are duly elected and qualified in accordance with our Bylaws.

If a nominee should become unable to accept election, the persons named on the proxy card as proxies may vote for any other person selected by the Board or the named proxies. Management has no reason to believe that any nominee for election named below will be unable to serve. Unless otherwise instructed, the proxy holders will vote the proxies received by them FOR the nominees named below.

The vote of a plurality of the shares of common stock present in person or represented by proxy at the Annual Meeting and entitled to vote in the election of directors is necessary for the election of a director. The nominees receiving the greatest number of votes will be elected to our Board, even if the nominee receives votes from less than a majority of the Votes Cast. Stockholders may not cumulate votes in the election of directors. Broker non-votes will not be counted and will have no effect.

THE BOARD UNANIMOUSLY RECOMMENDS A VOTE "*FOR*" THE THREE DIRECTOR NOMINEES LISTED BELOW.

Nominees for Election as Class I Directors with Terms Expiring at the 2019 Annual Meeting of Stockholders

Name	Age	Current Position	Proposed Class of Director
Stephen J. Clearman	65	Director	Class I
T. Patrick Kelly	58	Director	Class I
Steven Sams	63	Director	Class I

Stephen J. Clearman, 65, was appointed to our Board of Directors in June 2012. Mr. Clearman currently serves as managing partner and co-founder of Kinderhook Partners, LLC, an investment advisory firm. Prior to co-founding Kinderhook Partners in 2003, Mr. Clearman co-founded Geocapital Partners, a leading venture capital firm that managed more than $500 million in a series of partnerships in North America and Europe. Prior to his work at Geocapital Partners, Mr. Clearman spent four years at Adler and Company which was responsible for the origination and management of numerous venture capital investments. In addition, Mr. Clearman has been a director of a number of public and privately held companies.

In March 2012, Active Power entered into a Securities Purchase Agreement pursuant to which Kinderhook Partners purchased 1,764,705 shares of common stock for an aggregate purchase price of approximately $6.0 million. In connection with such transaction, Active Power entered into a Side Letter Agreement with Kinderhook Partners pursuant to which Mr. Clearman was appointed to the Board of Directors. Active Power is obligated to use its reasonable best efforts to include Mr. Clearman in the proxy statement as a nominee for election to the Board of Directors in any year in which such inclusion is required by Active Power's governing documents or applicable law.

We believe Mr. Clearman's qualifications to serve on our board include previous general and financial management experience with rapidly growing and publicly traded technology companies. We also believe this skill set qualifies him to serve on our Nominating and Corporate Governance Committee and Compensation Committee.

T. Patrick Kelly, 58, was appointed to our Board of Directors in January 2013. He is currently providing interim consulting services through his own consulting firm. Mr. Kelly served as CFO for Vast.com, a venture-backed Internet service company based in Austin, Texas, from July, 2014 to October, 2015. Prior to joining Vast.com, Mr. Kelly was interim CFO for Panera Bread, leading all finance and accounting teams for the bakery-café company, from April 2012 through March 2013. Prior to joining Panera, Mr. Kelly was interim CFO for Hawker Beechcraft Corp., a Wichita, Kansas based aerospace manufacturing company from February through August 2011. From January 2010 through April 2010, Mr. Kelly served as interim CEO at ExpressJet Holdings, Inc., a regional airline in Houston, Texas. He also served on the board of directors at ExpressJet Holdings, Inc. from September 2007 through November 2010. Prior to that Mr. Kelly has also held a number of senior financial positions at Vignette Corp., which was acquired by Open Text Corp.; Dell Inc.; Trilogy Enterprises; Sabre Holdings; and American Airlines.

We believe Mr. Kelly's qualifications to serve on our board include his extensive experience as a finance professional including seven years as a CFO of publicly owned companies and three years as a director of a public company. We believe these qualifications and experience also qualify him to serve on our Audit Committee and Compensation Committee.

Steven Sams, 63, was appointed to the board in February 2016. Mr. Sams currently serves as general manager of Lighthouse Homes of Boca Raton, a private real estate development in Palm Beach County, Florida. Prior to joining Lighthouse Homes in January 2014, Sams was vice president of Global Channels, Alliances and Midmarket Services at IBM Global Technology Services, part of International Business Machines Corporation. He served in this role from July 2012 to January 2014. From July 2006 to June 2012, Sams served as vice president, Global Site and Facilities Services, at IBM Global Technology Services. He spent nearly 34 years at IBM in executive and senior sales and operations roles.

We believe Mr. Sams qualifications to serve on our board include his executive management experience that includes 13 years in multiple executive roles at IBM. His experience in starting and successfully leading Global Site and Facilities Services for IBM should prove beneficial to our board as its relevant for the types of customers we serve. In addition, his significant functional experience in sales and marketing will add to the overall knowledge and effectiveness of the board.

Continuing Class II Directors with Terms Expiring at the 2017 Annual Meeting of Stockholders

Mark A. Ascolese, 65, became President and Chief Executive Officer of Active Power on October 14, 2013. Ascolese has more than 40 years of experience serving a variety of mission critical and energy markets, including data centers. Prior to joining Active Power, Ascolese first served as CEO and then as Executive Board Chairman of Power Analytics Corporation (now part of Causam Energy, Inc.), an electrical infrastructure enterprise software firm focused on the mission critical and smart grid markets. Ascolese was appointed CEO of Power Analytics in March 2008 where he recruited the organization's management team and created and implemented a successful strategic plan, transitioning the firm from a family owned company to a professionally managed business. In August 2012, Ascolese was appointed Executive Board Chairman at Power Analytics and served in this role until joining Active Power in October 2013. Previously, he served as President at Powerware Corporation (now part of Eaton Corporation) and in senior management positions at General Electric Company. From 2000 through 2002, Ascolese served as Senior Vice President of Business Development at Active Power during the company's initial public offering.

As the only management representative to our board, Mr. Ascolese provides an insider's perspective to our board discussions about our business and strategic direction. In addition, he has had extensive senior management and executive experience within the global power supply industry having spent more than 20 years with Powerware Corporation, a global uninterruptible power supply (UPS) manufacturer.

Daryl Dulaney, 62, was appointed to the board in January 2016. Mr. Dulaney is a corporate leader with more than 30 years of experience. Before retiring in October 2014, he served as CEO of Siemens Infrastructure and Cities Sector for North America, a provider of sustainable technologies for metropolitan areas and their infrastructures. During that time, he also served as CEO of Siemens Industry, Inc., a position he had since October 2009. His career at Siemens Industry, Inc., spanned more than 18 years in various executive leadership positions. Prior to his time at Siemens, Dulaney served in various management positions for suppliers of building automation and process control products.

We believe Mr. Dulaney's qualifications to serve on our board include his extensive executive management experience that includes six years as the CEO of a multibillion dollar organization in a relevant industry. His experience in successfully growing small field offices into larger operations, specifically in the building automation and infrastructure industries, should further benefit our board. In addition, his significant functional experience in sales and marketing, human resources, and finance will add to the overall knowledge and effectiveness of the board.

Continuing Class III Directors with a Term Expiring at the 2018 Annual Meeting of Stockholders

James E. J. deVenny III, 68, has served as a board member since March 2008. Mr. deVenny is currently an independent consultant through his business, JD Investments. From 1999 through March 2008, Mr. deVenny served as co-founder, President, and Chief Executive Officer of Dataside, LLC, a Texas-based provider of enterprise data center space and managed network services. Prior to founding Dataside, Mr. deVenny co-founded Computex Support Systems, where he was employed for 15 years and was involved in the design and development of mission critical data centers and telecommunications sites. Prior to this, he spent five years as Vice President of Sales and Marketing for International Power Machines, a manufacturer of UPS systems. Mr. deVenny has served on the board of directors at Lumenate, a private technology consulting services company, since 2003, and at Nimbix, a private high performance computing infrastructure company, since 2013.

We believe Mr. deVenny's qualifications to serve on our board include his extensive experience in the UPS industry, where he held senior sales and marketing positions for a rapidly growing UPS company. He also has relevant industry experience through the founding and operating of hosted data center businesses, which are a primary target market for Active Power. Mr. deVenny's depth of industry knowledge and contacts uniquely positions him to provide valuable insights to our board and management with respect to strategic and operational matters and markets for the company's products. Mr. deVenny also brings general financial and personnel management acumen to the board, which he gained from owning and operating his own businesses. We believe this skill set further qualifies him to serve as a member of our Audit Committee and Nominating and Corporate Governance Committee.

Robert S. Greenberg, 62, has served as a member of our Board of Directors since March 2009. Mr. Greenberg is the principal of RSG Technology Services, LLC, since September 2013. RSG provides IT due diligence, operations improvement, or interim CIO roles on behalf of private equity and venture capital firms. In those capacities, he has rapidly diagnosed and assimilated complex issues and recommended immediate alternatives and risk mitigation strategies. From January 2009 through August 2013, Mr. Greenberg was the Chief Information Officer and Vice President for AGCO Corporation, a global manufacturer and distributor of agricultural equipment. Prior to joining AGCO Corporation, Mr. Greenberg was Vice President and Chief Information Officer for five years with Nissan Americas, the U.S. subsidiary of Nissan Motor Ltd., a global automotive manufacturer. Mr. Greenberg also served in executive and CIO capacities for over 20 years with Avaya, Inc., a global enterprise communications provider; Dell Inc.; and Exxon Mobil, including time spent in Asia Pacific.

We believe Mr. Greenberg's qualifications to serve as a board member include his extensive international and multinational management experience as a Chief Information Officer for a number of global companies. This experience allows him to provide the board with unique insights of the CIO community, a key customer segment for our business and important strategic and operational guidance with respect to information technology matters. As a key executive managing business operations and staffing levels significantly greater than Active Power, Mr. Greenberg is able to provide valuable perspective on human resource related matters, which further qualifies him to serve on our Compensation Committee and our Nominating and Corporate Governance Committee.

Peter Gross, 65, was appointed to our Board of Directors in February, 2015. Mr. Gross has more than 30 years' experience in the engineering and design of power systems for applications in data centers, trading floors, command and control centers, and telecommunication and broadcasting facilities. He has led the Mission Critical Systems group at Bloom Energy Corporation, a leading manufacturer of solid-oxide fuel cells, since March 2012. Prior to joining Bloom Energy, from January 2008 through February 2012, Mr. Gross was the Managing Partner for Hewlett-Packard Company's Carbon, Power and Critical Facilities Services where he was responsible for strategic technology planning and business development. Prior to that, he was the co-founder and CEO of EYP Mission Critical Facilities, Inc., a consulting and engineering firm dedicated to the design and operations of data centers until its acquisition by Hewlett-Packard Company in January 2008. Mr. Gross has served on the board of directors at Asetek A/S, a leading provider of liquid cooling systems for data centers, servers, workstations, gaming, and high performance personal computers that is listed on the Oslo Stock Exchange, since July 2014.

We believe that Mr. Gross's qualifications to serve as a board member include his extensive background in executive management and leadership of companies engaged in the engineering and design of power systems and his extensive contacts throughout the power and mission critical industry. His prior CEO and other leadership experience has qualified him to understand all aspects of managing and building a technology-based business. Mr. Gross also brings general financial and personnel management acumen to the board.

CORPORATE GOVERNANCE

Conflicts of Interest

On an annual basis, each director, director nominee and executive officer is obligated to complete a Directors and Officers Questionnaire which requires disclosure of any transactions with Active Power in which the director or executive officer, or any member of his or her immediate family, has a direct or indirect material interest. Pursuant to the Code of Business Conduct and Ethics, the Board is charged with resolving any conflicts of interest involving the Chief Executive Officer, the Chief Financial Officer or any other executive officer of Active Power.

Director Independence

In accordance with the NASDAQ Marketplace Rules, the Board has determined the independence of each director and nominee for election as director in accordance with the NASDAQ guidelines. Based on those standards, the Board determined that each of Messrs. Almgren, Clearman, deVenny, Dulaney, Greenberg, Gross, Kelly, and Sams, our non-employee directors, is an "independent director" as defined in Rule 5605(a)(2) of the NASDAQ Marketplace Rules, and has no relationship with Active Power except as a director and stockholder, unless otherwise stated under "Certain Transactions" or in the Executive Compensation section of this proxy statement.

Board Leadership Structure and Board's Role in Risk Oversight

We separate the roles of Chief Executive Officer and Chairman of the Board in recognition of the differences between the two roles. The Chief Executive Officer is primarily responsible for developing and executing the strategic plan adopted by the Board, and for our day-to-day leadership and performance, while the Chairman of the Board provides guidance to the Chief Executive Officer and sets the agenda for Board meetings and presides over meetings of the full Board. Our independent directors meet regularly without the presence of management. The independent directors of our Board met four times during 2015. Our Board Chairman leads these meetings. These meetings are held in conjunction with regularly scheduled meetings of our Board. Any of our directors may request a session comprised of only independent directors at any time. We believe that this separation represents the appropriate structure for us at this time because it allows our Chairman of the Board to coordinate general oversight and strategic planning for us while the Chief Executive Officer focuses on managing our business.

Our Board oversees risk management in a number of ways. The Audit Committee oversees the management of financial and accounting related risks as an integral part of its duties. Similarly, the Compensation Committee considers risk management when setting the compensation policies and programs for our executives and other employees. The Board receives reports on various risk-related items at its regular meetings including risks related to our manufacturing and sales operations, products, customer relationships and employees. The Board considers these reports and provides feedback to management regarding our risk exposure, the potential impact on us, and steps being taken to mitigate such risks.

Nominations for Directors

The Nominating and Corporate Governance Committee is responsible for screening potential director candidates and recommending qualified candidates to the Board for nomination. The Nominating and Corporate Governance Committee believes that candidates for director should have certain attributes, including leadership, independence, interpersonal skills, financial acumen, business experience, industry knowledge, integrity, competence and dedication. The Nominating and Corporate Governance Committee also considers issues of diversity, such as diversity of gender, race and national origin, education, professional experience and differences in viewpoints and skills. The Nominating and Corporate Governance Committee does not have a formal policy with respect to diversity; however, the Board and the Nominating and Corporate Governance Committee believe that it is important that the Board represent diverse viewpoints. The Nominating and Corporate Governance Committee considers recommendations of potential candidates from current directors, management and stockholders. Stockholders' nominations for directors must be made in writing and be addressed to the Chairman of the Nominating and Corporate Governance Committee in care of our Corporate Secretary at our headquarters address listed below, and must be received by the Company not later than November 16, 2016, to be considered for inclusion in the proxy statement for the next annual election of directors.

Chairman of the Nominating and Corporate Governance Committee
Active Power, Inc.
c/o Secretary
2128 West Braker Lane, BK 12
Austin, Texas 78758

Any such stockholder nomination notice should clearly indicate that it is a recommendation of a director candidate by a stockholder and must set forth (i) the name, age, business address and residential address of the recommended candidate; (ii) the principal occupation or employment of such recommended candidate; (iii) the class and number of shares of our stock that are beneficially owned by such recommended candidate; (iv) a description of all understandings or arrangements between the stockholder and the recommended candidate and any other person or persons pursuant to which the recommendations are to be made by the stockholder; and (v) any other information relating to such recommended candidate that is required to be disclosed in solicitations of proxies for the election of directors. In addition, such notice must contain (i) a representation that the stockholder is a holder of record of our common stock entitled to vote at such meeting; (ii) the name and address, as they appear on our books, of the stockholder proposing such nomination; (iii) the class and number of shares of our common stock that are beneficially owned by such stockholder; (iv) any material interest of the stockholder in such recommendation; and (v) any other information that is required to be provided by the stockholder pursuant to Regulation 14A under the Exchange Act, as amended, in such stockholder's capacity as proponent of a stockholder proposal. Assuming that a stockholder recommendation contains the information required above, the Nominating and Corporate Governance Committee will evaluate a candidate recommended by a stockholder by following substantially the same process, and applying substantially the same criteria, as for candidates identified through other sources.

Communications with the Board

Stockholders and other interested parties may communicate with one or more members of the Board or the non-management directors as a group in writing by regular mail or via email at the following addresses:

[Board of Directors] or [Name of Individual Director(s)]
Active Power, Inc.
c/o Secretary
2128 West Braker Lane, BK 12
Austin, Texas 78758
Email: ir@activepower.com

You may address your message to any one or a combination of directors. Any stockholder communication must contain (i) a representation that the stockholder is a holder of record of our stock, (ii) the name and address, as they appear on our books, of the stockholder sending such communication, and (iii) the class and number of shares of Active Power that are beneficially owned by such stockholder.

The Board has instructed the Secretary to review all communications so received (via regular or electronic mail), and to exercise his discretion not to forward to the Board correspondence that is inappropriate, such as business solicitations, frivolous communications, advertising and personal grievances. However, any director may at any time request the Secretary to forward any and all communications received by the Secretary and not forwarded to the Board.

Code of Ethics

Our Code of Business Conduct and Ethics, which is our code of ethics applicable to all directors, officers, employees and consultants worldwide, embodies our global principles and practices relating to the ethical conduct of our business and our long-standing commitment to honesty, fair dealing and full compliance with all laws affecting our business. The Code of Business Conduct and Ethics is intended to comply with Item 406 of Regulation S-K of the Exchange Act and the NASDAQ Marketplace Rules. Our Code of Business Conduct and Ethics is posted on our Internet website under the “Corporate Governance” link on our “Investor Relations” page. We intend to disclose future amendments to the provisions of our Code of Business Conduct and Ethics, or waivers of such provisions granted to executive officers, on our website within four business days following the date of such amendment or waiver.

The Board has established a means for employees, customers, suppliers, stockholders and other interested parties to submit confidential and anonymous reports of suspected or actual violations of our Code of Business Conduct and Ethics relating, among other things, to:

- Accounting practices, internal accounting controls or auditing matters and procedures;
- Theft or fraud of any amount;
- Insider trading;
- Performance and execution of contracts;
- Conflicts of interest;
- Violations of securities and antitrust laws; and
- Violations of the Foreign Corrupt Practices Act.

Any stockholder, employee or interested party can call the following toll-free number to submit a report:

1-800-625-1731

The number is operational 24 hours a day, seven days a week.

MEETINGS AND COMMITTEES OF THE BOARD

Each director is expected to devote sufficient time, energy and attention to ensure diligent performance of his or her duties and to attend all Board, committee and stockholders' meetings. In 2015, the Board met eight times. All directors attended at least 75% of the meetings of the Board and committees on which they served during the period in which they served on the Board or such committees during the year ended December 31, 2015.

Committees of the Board

The Board has three standing committees to facilitate and assist the Board in the execution of its responsibilities. The standing committees are the Audit Committee, the Compensation Committee, and the Nominating and Corporate Governance Committee. In accordance with the NASDAQ Marketplace Rules, all of the standing committees are comprised solely of non-employee, independent directors. Charters for each of the standing committees are available on our website at www.activepower.com under the heading of "Investor Relations" and subheading of "Corporate Governance". The charter of each standing committee is also available in print to any stockholder who requests it. The table below shows membership of each of the standing Board committees as of the date of this proxy statement:

Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
T. Patrick Kelly*	Robert S. Greenberg*	Stephen Clearman*
Dr. Ake Almgren†	Stephen Clearman	James E. J. deVenny III
James E. J. deVenny III	Peter Gross	Robert S. Greenberg
Daryl Dulaney	Steven Sams	

* Committee Chairman

† Dr. Almgren is retiring after the date of the annual meeting

Audit Committee

Pursuant to its charter, the Audit Committee is responsible for the selection, retention and oversight of our independent auditors. In addition, the Audit Committee reports to the Board with regard to:

- the scope of our annual audits and fees to be paid to auditors;
- our compliance with legal and regulatory requirements;
- the integrity of our financial statements and the compliance with our accounting and financial policies; and
- management's procedures and policies relative to the adequacy of our internal accounting controls.

The Audit Committee is further responsible for the pre-approval of all audit and non-audit services performed by our independent auditors. The members of the Audit Committee in 2015 were Messrs. Kelly, deVenny and Almgren. Mr. Kelly serves as the Chairman of the Audit Committee. The Audit Committee held five meetings during 2015. The Board has determined that all members of the Audit Committee are "independent" as that term is defined in Rule 5605(a)(2) of the NASDAQ Marketplace Rules and Rule 10A-3(b)(1) under the Securities Exchange Act of 1934. The Board has determined that Mr. Kelly is qualified as an "audit committee financial expert" under Item 407(d)(5) of Regulation S-K.

Compensation Committee

Pursuant to its charter, the Compensation Committee reviews and approves and makes recommendations to the Board regarding our compensation policies and forms of compensation to be provided to our executive officers. The Compensation Committee also approves grants of equity awards to new and existing employees and administers our equity incentive plan. The Compensation Committee reviews and approves bonus arrangements for our executive officers. The Compensation Committee also makes recommendations to the Board regarding the compensation of Board members. The Compensation Committee has the authority to retain independent compensation consultants, legal counsel and other advisers. The Committee may, to the extent permitted under applicable law, the NASDAQ Marketplace Rules, the Securities Exchange Commission and the Internal Revenue Code, and the Company's Certificate of Incorporation and Bylaws, form and delegate authority to subcommittees when appropriate. See "Narrative Disclosure to Summary Compensation Table - 2015" for a description of how the Compensation Committee determines executive officer and director compensation. The members of the Compensation Committee during 2015 were Messrs. Greenberg, Clearman, Gross and Kelly. Mr. Greenberg serves as the Chairman of the Compensation Committee. The Compensation Committee held six meetings during 2015. The Board has determined that all members of the Compensation Committee are "independent" as that term is defined in Rule 5605(a)(2) of the NASDAQ Marketplace Rules.

Nominating and Corporate Governance Committee

Pursuant to its charter, the Nominating and Corporate Governance Committee was established to assist our Board in fulfilling its responsibilities for identifying qualified individuals to become members of the Board; determining the composition of the Board and its committees; monitoring the effectiveness of the Board and facilitating the measurement of the effectiveness of its committees; and developing, monitoring and evaluating sound corporate governance policies and procedures promoting honest and ethical conduct, including policies pertaining to the identification and treatment of conflicts of interest.

The members of the Nominating and Corporate Governance Committee for 2015 were Messrs. Clearman, Greenberg, and deVenny. Mr. Clearman serves as the Chairman of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee held four meetings during 2015. The Board has determined that each member of the Nominating and Corporate Governance Committee is an "independent director" as defined in Rule 5605(a)(2) of the NASDAQ Marketplace Rules.

Attendance at Annual Meetings

We encourage, but do not require, the members of our Board to attend our annual meeting of stockholders. All directors attended our Annual Meeting of Stockholders held on April 24, 2015.

DIRECTOR COMPENSATION - 2015

In 2015, our non-employee directors received the following fees for their service as a director:

Name	Fees earned or paid in cash $	Option awards ($) [2]	Total compensation ($)
Ake Almgren	$ 54,000	$ 44,817	$ 98,817
T. Patrick Kelly	$ 46,000	$ 44,817	$ 90,817
James E. J. deVenny III	$ 36,000	$ 44,817	$ 80,817
Robert S. Greenberg	$ 42,000	$ 44,817	$ 86,817
Stephen J. Clearman [1]	$ —	$ —	$ —
Peter Gross	$ 20,169	$ 54,518	$ 74,687
Total - all directors	$ 198,169	$ 233,786	$ 431,955

[1] Mr. Clearman declined to receive director compensation (cash or equity) in 2015. The value of the relinquished compensation was $37,000 in fees and $44,817 in option awards (calculated as described in note 2 below).

[2] Reflects aggregate grant date fair value of option awards for the fiscal year ended December 31, 2015, calculated in accordance with the FASB ASC 718 (“ASC 718”), excluding the impact of estimated forfeitures related to service-based vesting. Refer to the section titled “Stock-Based Compensation Expense” under Note 1, “Summary of Significant Accounting Policies,” in the Notes to the Consolidated Financial Statements included in the Annual Report, on Form 10-K filed February 23, 2016, for the relevant assumptions used to determine the valuation of our stock option awards.

The following table shows the aggregate number of unexercised option awards (whether or not exercisable) outstanding for each of our directors as of December 31, 2015, as well as the number of shares underlying option awards during 2015 and the grant date fair value of option grants made to directors during 2015:

	Aggregate number of unexercised options outstanding as of December 31, 2015
Ake Almgren	99,000
T. Patrick Kelly	63,000
James E. J. deVenny III	84,000
Robert S. Greenberg	81,000
Stephen J. Clearman [1]	—
Peter Gross	37,500
Total - all directors	364,500

[1] Mr. Clearman declined to receive director compensation (cash or equity) in 2015.

Overview of Director Compensation and Procedures

We use a combination of cash and stock-based incentive compensation to attract and retain qualified candidates to serve on our Board. In setting director compensation, we consider the amount of time that directors expend in fulfilling their duties to us as well as the skill level required to serve as a member of the Board.

Service	Annual Fee ($)	
Director fee	$	30,000
Chairman of the Board fee	$	20,000
Audit Committee participation fee	$	4,000
Audit Committee chairperson (in addition to fee for serving on the Audit Committee)	$	8,000
Compensation Committee participation fee	$	4,000
Compensation Committee chairperson (in addition to fee for serving on the Compensation Committee)	$	6,000
Nominating & Corporate Governance Committee participation fee	$	2,000
Nominating & Corporate Governance Committee chairperson (in addition to fee for serving on the Nominating & Corporate Governance Committee)	$	1,000

All of the above fees are paid to directors on a quarterly basis in arrears. When the Board appoints a special committee, additional compensation may be paid to those directors who serve on the special committees. The Company pays each director's reasonable travel, lodging, meals and other expenses connected with their Board service.

On the date of our 2015 Annual Meeting of Stockholders, each non-employee director who continued to serve as a non-employee director was automatically granted an option to purchase 30,000 shares of common stock. Under this program, on April 30, 2015 (the first day after the Annual Meeting when our stock trading window opened), each of Messrs. Almgren, deVenny, Greenberg, Gross and Kelly received an option to purchase 30,000 shares of common stock with an exercise price of $2.31 per share, the closing sale price of our common stock on The NASDAQ Capital Market on the date of our 2015 Annual Meeting. Mr. Clearman declined to receive director compensation (cash or equity) for 2015. Annual awards fully vest on the day immediately prior to the next annual meeting of stockholders.

New non-employee directors are automatically awarded an option to purchase a pro-rata portion of 30,000 shares under our Amended and Restated 2010 Equity Incentive Plan upon joining the Board. However, because payment of the 2016 director cash fees is being deferred by the Compensation Committee to conserve cash, the Compensation Committee determined to award each of the new directors appointed at the beginning of 2016 15,000 options for their initial grant. On February 25, 2016 (when our stock trading window opened), Mr. Dulaney and Mr. Sams each received an option to purchase 15,000 shares of common stock with an exercise price of $0.99 per share, the closing sale price of our common stock on The NASDAQ Capital Market on February 25, 2016. Options granted to new directors have an exercise price per share equal to the fair market value per share of the underlying shares of common stock at the date of grant and fully vest on the one year anniversary of the date of grant. No changes were made to the amount of cash compensation for the non-employee members of our Board. However, the Compensation Committee determined to defer all cash compensation earned in 2016 until a time to be determined in the Compensation Committee's discretion.

Directors who are also our employees do not receive cash or equity compensation for service on the Board in addition to their compensation payable for their service as our employees.

Stock Ownership Guidelines

We have a stock ownership policy that requires our non-executive directors to obtain a minimum level of stock ownership in Active Power within five years of their appointment to the Board. The stock ownership policy requires the following for our non-executive directors:

- With respect to all individuals who were non-executive directors on February 1, 2007 (the date of the initial adoption of our current equity ownership policy), by February 1, 2012 the directors should own stock with a value equal to three times the annual Board retainer.
- With respect to non-executive directors first appointed or elected to the Board after February 1, 2007, by the fifth-year anniversary of the date of each director's initial appointment or election, the director should own stock with a value equal to three times the annual Board retainer.

- The value of such stock is measured by the higher of the original purchase price or the current fair market value of the shares at the time of evaluation.

All of our non-executive directors were in compliance with this policy as of December 31, 2015. We do not currently have in place stock ownership guidelines for our NEOs.

Indemnification Agreements

Our certificate of incorporation limits the liability of our directors to us and our stockholders for breaches of the directors' fiduciary duties to the fullest extent permitted by Delaware law. In addition, our certificate of incorporation and bylaws provide for mandatory indemnification of our directors and officers to the fullest extent permitted by Delaware law. We also maintain directors' and officers' liability insurance and have entered into indemnification agreements with all of our directors and NEOs.

Certain Relationships

In accordance with our Audit Committee charter, our Audit Committee is responsible for reviewing and approving the terms and conditions of all related party transactions, including all transactions with directors, immediate family members of our directors and executive officers, or any entities with which such persons may have ownership or employment relationships. A report is made annually to our Audit Committee disclosing all related parties that are employed by us and related party transactions or relationships that occurred during the year, if any. There were no reportable related party transactions or relationships during 2015.

PROPOSAL TWO: NON-BINDING ADVISORY VOTE TO APPROVE EXECUTIVE OFFICER COMPENSATION

We are providing our stockholders with the opportunity to cast an advisory vote to approve the compensation of our named executive officers ("NEOs") as disclosed in the Summary Compensation Table and accompanying tables in this Proxy Statement. We believe that it is appropriate to seek the views of our stockholders on the design and effectiveness of our executive compensation program. The Board has determined that our stockholders should have the opportunity to vote annually on the compensation of the NEOs.

Our goal for our executive compensation program is to attract and retain exceptional individuals as executive officers who will provide leadership for our success in dynamic, competitive markets. We seek to accomplish this goal in a way that is aligned with the long-term interests of our stockholders and suitably rewards our executives based on performance. We believe that our executive compensation program achieves this goal with its emphasis on long-term equity awards and performance-based compensation, which has, to date, enabled us to sufficiently motivate and reward our NEOs.

We encourage our stockholders to approve the compensation of our NEOs as disclosed in the Summary Compensation Table and the related narrative discussion.

Accordingly, the following resolution will be submitted to our stockholders for approval at the Annual Meeting:

"RESOLVED, that the compensation paid to our named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Summary Compensation Table and narrative discussion contained in this proxy statement, is hereby approved."

As an advisory vote, this proposal is not binding upon the Company, the Compensation Committee or the Board. However, the Compensation Committee, which is responsible for designing and administering our executive compensation program, values the opinions expressed by stockholders, and to the extent that a significant percentage of votes are cast against the compensation of our NEOs, the Compensation Committee will determine whether any actions are necessary to address the concerns reflected by such votes.

This proposal will be approved upon the affirmative vote of the holders of a majority of the Votes Cast on the proposal at the Annual Meeting. Broker non-votes and abstentions will not be considered "Votes Cast" with respect to this proposal and will have no effect.

THE BOARD UNANIMOUSLY RECOMMENDS A VOTE "*FOR*" THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS, AS DISCLOSED IN THE SUMMARY COMPENSATION TABLE AND THE ACCOMPANYING NARRATIVE DISCUSSION CONTAINED IN THIS PROXY STATEMENT.

EXECUTIVE COMPENSATION - 2015

SUMMARY COMPENSATION TABLE

The following table summarizes the compensation for the fiscal years ended December 31, 2015 and December 31, 2014.

Name and Principal Position	Year	Salary ($)	Option Awards ($)	Non-Equity Plan Compensation ($)	All Other Compensation ($)	Total ($)
		[1]	[2]	[3]	[4]	
Mark A. Ascolese, President and Chief Executive Officer	2015	$ 450,000	$ 388,020	$ 481,950	$ 708	$ 1,320,678
	2014	$ 450,000	$ —	$ —	$ 44,122	$ 494,122
James A. Powers, Chief Financial Officer and Vice President of Finance	2015	$ 280,000	$ 129,340	$ 179,928	$ 661	$ 589,929
	2014	$ 280,000	$ 402,868	$ —	$ 29,733	$ 712,601
Randall J. Adleman, Vice President of Global Sales and Marketing (through February 2, 2016)	2015	$ 250,000	$ 64,670	$ 137,839	$ 590	$ 453,099
	2014	$ 250,000	$ —	$ 141,242	$ —	$ 391,242

[1] Represents total salary earned during the calendar years 2015 and 2014.

[2] The amounts reported in this column represent the aggregate value of the stock options granted to the NEOs during 2015 and 2014, respectively, based on their grant date fair value, as determined in accordance with the share-based payment accounting guidance under ASC 718, excluding the impact of estimated forfeitures related to service-based vesting. Refer to the section titled "Stock-Based Compensation Expense" under Note 1, "Summary of Significant Accounting Policies," in the Notes to the Consolidated Financial Statements included in the Annual Report, on Form 10-K filed February 23, 2016 for the relevant assumptions used to determine the valuation of our stock option awards. Mr. Powers's 2014 award was approved in connection with his hiring in 2013.

[3] Represents commissions earned by Mr. Aldeman under his 2015 management incentive plan. Represents amounts earned but not paid under the 2015 Management Incentive Plan for Mr. Ascolese and Mr. Powers. After considering the input of the Chief Executive Officer, the Compensation Committee determined to defer all cash payouts under the 2015 Management Incentive Plan for Mr. Ascolese and Mr. Powers until a later time to be determined in the Compensation Committee's discretion.

[4] Includes (i) Mr. Ascolese's 2014 relocation costs ($35,962) and use of a company car ($8,160); and (ii) Mr. Powers's 2014 relocation costs.

Narrative Disclosure to Summary Compensation Table - 2015

2015 Annual Bonus

Management Incentive Program. The 2015 Management Incentive Program ("MIP") is an annual bonus program that is designed to motivate and reward our NEOs for their contributions toward the achievement of short-term financial and operating goals that we believe drive our operating results and create long-term stockholder value. All of our NEOs except for Mr. Adleman (who participated in a separate incentive program described below) participated in this program.

The administrator of the MIP has the sole discretion and authority to change the payout calculation, the performance metrics and to increase or decrease the amount of the payout under the MIP. Notwithstanding the foregoing, MIP payouts are based on each participant's base salary, target bonus percentage, and Company performance multiplier, calculated as follows:

Base salary	**X**	**Participant's target bonus %**	**X**	**Company Performance multiplier**	**=**	**Participant's payout**

The Compensation Committee, with recommendations provided by our Chief Executive Officer, established an annual target award, expressed as a percentage of the executive's base salary. For 2015, the target award level for Mr. Ascolese was

100% of base salary and for Mr. Powers was 60% of base salary. The Compensation Committee makes the determination of the actual bonus earned by an NEO under this program and has discretion to choose to award a bonus or not, and to modify the actual award amount, in light of all relevant factors after completion of the fiscal year.

The Company performance multiplier is based on the Company's performance for three financial metrics – Bookings, Adjusted EBITDA, and Operating Cash Flow. Based on the Company's performance, the Company performance multiplier could range from 0% (in which case there would be no payout under the MIP) up to 200%. The Company Performance multiplier is equally weighted among each of the three financial metrics. The portion of the payout attributed to a metric will be 0% if the minimum threshold for that metric is not met. If the applicable minimum threshold is met, the 1/3 portion of the payout attributable to a metric will range from 25% to 200%, based on Company performance. However, if the Adjusted EBITDA minimum threshold is not met and the Bookings minimum threshold is met, the payout for the Bookings metric will be a straight-line calculation up to a cap of 150%.

The Compensation Committee determined that the corporate goals established for 2015 were attainable, though reasonably difficult to achieve. Since our actual 2015 results achieved the minimum threshold amounts, a payout was earned under this program. After considering the input of the Chief Executive Officer, the Compensation Committee determined to defer all cash payouts under the MIP for Mr. Ascolese and Mr. Powers until a later time to be determined in the Compensation Committee's discretion.

Vice President of Global Sales and Marketing Incentive Program. This annual bonus program is designed to motivate and reward Mr. Adleman for his contributions towards the achievement of bookings (i.e. order) growth, a goal that we believe drives our operating results and creates long-term stockholder value. This annual incentive plan was solely tied to the achievement of bookings. Mr. Adleman's bonus for 2015 had no minimum threshold and was determined at 0.225% of bookings up to target and at 0.295% of bookings in excess of target, up to a maximum of $500,000. Since our actual bookings fell below target, Mr. Adleman's payout for 2015 was determined at 0.225% of bookings. The Compensation Committee determined that Mr. Adleman's booking target for 2015 was attainable, though reasonably difficult to achieve.

Policy Regarding Tax Deductibility of Compensation

Within our performance-based compensation programs, we aim to compensate our senior executive management team in a manner that is tax efficient for the Company. However, the Compensation Committee may determine that it is appropriate to pay compensation which is not deductible from time-to-time.

Timing of Grants and Insider Trading Policy

Equity awards to our executive officers and other key employees are typically granted annually in conjunction with the review of their respective individual performance. This review takes place at regularly scheduled meetings of the Compensation Committee, which are typically held in conjunction with the meetings of our Board during the first quarter of each year. Equity awards are automatically granted to our non-employee directors on the date of our Annual Meeting of Stockholders, in accordance with the terms of our director compensation policy. Grants to newly hired executive officers are made in meetings of the Compensation Committee, with vesting typically commencing from the actual hire date. Grants to newly hired executive officers are typically made at the next regularly scheduled Compensation Committee meeting or at a special meeting on or following their hire date. The exercise price of all stock options is set at the closing price of our common stock on The NASDAQ Capital Market on the date of grant of the award, which is the date of approval of the award or the day that the stock trading black-out window under our insider trading policy opens if the Compensation Committee approved the award while the stock trading window was closed. Our insider trading policy prohibits all directors and NEOs of Active Power from making short sales of our stock, engaging in hedging transactions and other derivative securities involving our stock, using our securities as collateral for loans, and holding our securities in margin accounts.

Perquisites and Other Personal Benefits

The Compensation Committee does not believe that providing an executive perquisite is consistent with our pay-for-performance compensation philosophy. In this regard, it should be noted that we do not provide defined benefit pension arrangements, post-retirement health coverage, or similar benefits for our executives or employees.

We provide employee benefits including a 401(k) plan without any matching contributions at this time, and coverage under health and insurance plans, which are the same for all employees. We also offer life insurance for all employees that provides coverage up to an employee's salary or a maximum of $200,000. For all other compensation, see the "Summary Compensation Table."

Employment Arrangements with Executive Officers

In connection with their initial employment, each NEO executed an offer letter and entered into a severance agreement. Please refer to the information under "Potential Payments Upon Termination or Change in Control" for information regarding other employment agreements in place with our NEOs.

Mr. Ascolese's offer letter provides that he will be paid an annual base salary of $450,000 and, beginning with fiscal year 2014, will be eligible to earn a bonus of up to 100% of his base salary at the target objective, subject to the terms and conditions of our executive bonus program. The offer letter also provides for vacation and health benefits and further provides that Mr. Ascolese will, subject to requisite approval, serve on the Board for as long as he is employed as our Chief Executive Officer.

Mr. Adleman's offer letter provides that Mr. Adleman will be paid an annual base salary of $250,000 and will be eligible to earn incentive compensation. The offer letter also provides for vacation and health benefits.

Mr. Powers' offer letter provides that he will be paid an annual base salary of $280,000 and will be eligible to participate in our executive bonus program with an annual target of 60% of base salary. The offer letter also provides for vacation and health benefits.

The following table of "Outstanding Equity Awards at Fiscal Year End" shows the equity awards held by our NEOs as of December 31, 2015.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END - 2015

	Option Awards					
Name	Number of securities underlying unexercised options (#) Exercisable	Number of securities underlying unexercised options (#) Unexercisable	Option exercise price ($)	Option expiration date	Number of options vested as of 12/31/15	
Mark A. Ascolese, President and Chief Executive Officer	170,000	170,000	2.91	11/21/2023	170,000	[1]
	—	300,000	2.00	2/25/2025	—	[3]
James A. Powers, Chief Financial Officer and Vice President of Finance	87,500	87,500	3.39	12/4/2023	87,500	[2]
	—	100,000	2.00	2/25/2025	—	[3]
Randall J. Adleman, Vice President of Global Sales and Marketing (through February 2, 2016)	100,000	100,000	2.91	11/21/2023	100,000	[1]
	—	50,000	2.00	2/25/2025	—	[3]

[1] These options vest over a four-year period from November 21, 2013, with 25% of the award vesting on November 21, 2014 and then 1/16th of the total award vesting in 12 quarterly installments over the subsequent three-year period, in each case subject to continued service with us.

[2] These options vest over a four-year period from December 4, 2013, with 25% of the award vesting on December 4, 2014 and then 1/16th of the total award vesting in 12 quarterly installments over the subsequent three-year period, in each case subject to continued service with us.

[3] These options vest over a four-year period from February 25, 2015, with 25% of the award vesting on February 25, 2016 and then 1/16th of the total award vesting in 12 quarterly installments over the subsequent three-year period, in each case subject to continued service with us.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE OF CONTROL

Amended and Restated 2010 Equity Incentive Plan (the "2010 Plan")

In the event of a Change in Control (as defined in the 2010 Plan), each outstanding Award (as defined in the 2010 Plan) will be treated as the Administrator (as defined in the 2010 Plan) determines without a participant's consent, including, without limitation, that (i) Awards will be assumed, or substantially equivalent Awards will be substituted, by the acquiring or succeeding corporation (or an affiliate thereof) with appropriate adjustments as to the number and kind of shares and prices; (ii) upon written notice to a participant, that the participant's Awards will terminate upon or immediately prior to the consummation of such merger or Change in Control; (iii) outstanding Awards will vest and become exercisable, realizable, or payable, or restrictions applicable to an Award will lapse, in whole or in part, prior to or upon consummation of such merger or Change in Control, and, to the extent the Administrator determines, terminate upon or immediately prior to the effectiveness of such merger or Change in Control; (iv) (A) the termination of an Award in exchange for an amount of cash and/or property, if any, equal to the amount that would have been attained upon the exercise of such Award or realization of the participant's rights as of the date of the occurrence of the transaction, or (B) the replacement of such Award with other rights or property selected by the Administrator in its sole discretion; or (v) any combination of the foregoing.

In the event that the successor corporation does not assume or substitute for an Award (or portion thereof), then (i) all of an NEO's outstanding options and stock appreciation rights that are not assumed or substituted for will vest and become immediatley exercisable (including shares as to which such Awards would not otherwise be vested or exercisable), (ii) all restrictions on Restricted Stock, Restricted Stock Units, and Performance Shares/Units (each as defined in the 2010 Plan) not assumed or substituted for will lapse and, (iii) with respect to Awards with performance-based vesting not assumed or substituted for, all performance goals or other vesting criteria will be deemed achieved at 100% of target levels and all other terms and conditions with respect to such Awards will be deemed satisfied. In addition, if an option or stock appreciation right is not assumed or substituted for in the event of a Change in Control, the Administrator will notify the participant in writing or electronically that the option or stock appreciation right will be fully vested and exercisable for a period of time determined by the Administrator in its sole discretion, and the option or stock appreciation right will terminate upon the expiration of such period.

An Award will be considered assumed if, following a merger or Change in Control, the Award confers the right to purchase or receive, for each share subject to the Award immediately prior to the Change in Control, the consideration (whether stock, cash, or other securities or property) or, in the case of a stock appreciation right upon the exercise of which the Administrator determines to pay cash or a Restricted Stock Unit, Performance Share or Performance Unit which the Administrator can determine to pay in cash, the fair market value of the consideration received in the merger or Change in Control by holders of the common stock of Active Power for each share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares); provided, however, that if such consideration received in the merger or Change in Control is not solely common stock of the successor corporation or its parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of an option or stock appreciation right or upon the payout of a Restricted Stock Unit, Performance Unit or Performance Share, for each share subject to such Award (or in the case of an Award settled in cash, the number of implied shares determined by dividing the value of the Award by the per share consideration received by holders of common stock in the merger or Change in Control), to be solely common stock of the successor corporation or its parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger or Change in Control.

For purposes of the 2010 Plan, "Change in Control" means the occurrence of any of the following events: (i) a change in the ownership of Active Power which occurs on the date that any one person, or more than one person acting as a group ("Person"), acquires ownership of the stock of Active Power that, together with the stock held by such Person, constitutes more than fifty percent (50%) of the total voting power of the stock of Active Power; provided, however, that for purposes of this subsection (i), the acquisition of additional stock by any one Person, who is considered to own more than fifty percent (50%) of the total voting power of the stock of Active Power will not be considered a Change in Control; (ii) if we have a class of securities registered pursuant to Section 12 of the Exchange Act, a change in the effective control of Active Power which occurs on the date that a majority of members of the Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election (for purposes of this subsection (ii), if any Person is considered to be in effective control of Active Power, the acquisition of additional control of Active Power by the same Person will not be considered a Change in Control); or, (iii) a change in the ownership of a substantial portion of our assets which occurs on the date that any Person acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such Person or Persons) assets from us that have a total gross fair market value equal to or more than fifty percent (50%) of the total gross fair market value of all of the assets of Active Power immediately prior to such acquisition or acquisitions; provided, however, that for purposes of this subsection (iii), the following will not constitute a change in the ownership of a substantial portion of our assets: (A) a transfer to an entity that is controlled by our stockholders immediately after the transfer, or (B) a transfer of assets by Active Power to: (1) a stockholder of Active Power (immediately before the asset transfer) in exchange for or with respect to Active Power stock, (2) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by Active Power, (3) a Person, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of Active Power, or (4) an entity, at least fifty percent (50%) of the total value or voting power of which is owned, directly or indirectly, by a Person described in subsection (iii)(B)(3). For purposes of this subsection (iii), gross fair market value means the value of the assets of Active Power, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets. Persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with Active Power. Notwithstanding the foregoing, a transaction shall not be deemed a Change in Control unless the transaction qualifies as a change in control event within the meaning of Section 409A of the Internal Revenue Code of 1986, as it has been and may be amended from time to time, and any proposed or final Treasury Regulations and Internal Revenue Service guidance that has been promulgated or may be promulgated thereunder from time to time.

Termination and Change in Control Agreements

Each of Messrs. Ascolese, Powers and Adleman has entered into a severance agreement ("Severance Agreements"). The Severance Agreement signed by Mr. Adleman provides that if his employment is terminated for reasons other than Cause (as defined in the Severance Agreements) or by him for Good Reason (as defined by the Severance Agreements), then he shall be entitled to receive continued severance pay equal to six months of his then-current base salary payable over such period, as well as reimbursement of health benefits during such period and vesting under all unvested options and restricted stock would be accelerated by six months. Upon termination without Cause or resignation for Good Reason, Mr. Ascolese and Mr. Powers are each entitled to severance equal to twelve months of his respective then-current base salary, as well as reimbursement of health benefits during such period and vesting under all unvested options and restricted stock would be accelerated by twelve months. The Severance Agreements further provide that each executive execute a release of claims in favor of us, and the Severance Agreements signed by Messrs. Powers and Adleman include noncompetition and non-solicitation covenants for a period of up to six months following his respective termination of employment. Mr. Ascolese's Severance Agreement includes noncompetition and non-solicitation covenants for a period of up to twelve months following termination of employment.

Each of the Severance Agreements also provides that if within twelve months following a Change in Control (as defined in the Severance Agreements) the executive officer's employment is terminated for reasons other than Cause, or by the executive for Good Reason, then any unvested options or shares of restricted stock held by the executive on the date of such Change in Control would accelerate and vest in full as of the date of the termination.

The table set forth below sets forth the payments for which each NEO would be eligible if his employment had been terminated on December 31, 2015 by us for reasons other than Cause or by the executive for Good Reason. The values in the table below include amounts earned through the time of termination and are only estimates of the amounts that would be paid to these executives upon their termination. The actual amounts to be paid can only be determined at the time of an NEO's separation from Active Power. The benefits payable in connection with a termination following a Change in Control as of December 31, 2015, would have been the same since, as set forth in footnote 1 below, all outstanding equity awards were underwater at such time.

POTENTIAL PAYMENTS UNDER TERMINATION ARRANGEMENTS AND CHANGE IN CONTROL

	Salary ($)	Benefits ($)	Accrued Vacation Pay	Accelerated Vesting of Restricted Stock	Accelerated Vesting of Stock Options [1]	Total ($)
Mark A. Ascolese	$ 450,000	$ 13,530	$ —	$ —	$ —	$ 463,530
James A. Powers	$ 280,000	$ 12,888	$ —	$ —	$ —	$ 292,888
Randall J. Adleman	$ 125,000	$ 7,001	$ —	$ —	$ —	$ 132,001

[1] Accelerated vesting has no value because the outstanding equity awards were under water as of December 31, 2015. In general, options may be exercised only within three months of termination of employment.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information about our common stock that, as of December 31, 2015, may be issued upon the exercise of options and rights under the following existing equity compensation plans (which are all of our equity compensation plans as of December 31, 2015):

Plan Category	**Number of Securities to be Issued Upon Exercise of Outstanding Options**	**Weighted Average Exercise Price of Outstanding Options ($)**	**Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column A)**
Equity Compensation Plans Approved by Stockholders	3,461,737	$ 3.36	2,871,977
Equity Compensation Plans Not Approved by Stockholders	—	—	—
Total	3,461,737	$ 3.36	2,871,977

PROPOSAL THREE: RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

As disclosed in its charter, the Audit Committee is responsible for selecting the Company's independent registered public accounting firm, reviewing that selection with the Board of Directors, approving all related fees and compensation for the accounting firm, and overseeing the work of the firm. In accordance with its charter, the Audit Committee has appointed Grant Thornton LLP as our independent registered public accounting firm for the fiscal year ended December 31, 2016. The Audit Committee is asking the stockholders to ratify this appointment. Grant Thornton LLP has served in this capacity since its appointment in 2010.

In the event the stockholders fail to ratify the appointment, our Audit Committee will reconsider its selection. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of a different independent auditing firm at any time during the year if the Audit Committee believes that such a change would be in the best interests of Active Power and our stockholders.

A representative of Grant Thornton LLP is expected to be present at the Annual Meeting, where he or she will have the opportunity to make a statement if he or she desires to do so and will be available to respond to appropriate questions.

Fees incurred by Grant Thornton LLP

The following table presents fees for professional services rendered by Grant Thornton LLP and billed to us for the audit of our annual financial statements and review of our interim quarterly financial statements for the years ended December 31, 2015 and 2014, respectively, and fees for other services billed by Grant Thornton LLP during those periods.

Fees	2015	2014
Audit fees	$ 250,900	$ 282,725
Audit-related fees	$ —	$ —
Tax fees	$ —	$ 25,236
All other fees	$ —	$ —
Total	$ 250,900	$ 307,961

Audit Fees. Annual audit fees relate to services rendered in connection with the audit of the annual financial statements included in our Form 10-K, the quarterly reviews of financial statements included in our Forms 10-Q, Form S-8 and Form S-3 consent procedures and audit and testing of our internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002.

Audit-Related Fees. Audit-related services include fees for consultations concerning financial accounting and reporting matters and responding to SEC comments. Audit-related fees are disclosed as those audit-related fees paid during the specified fiscal year.

Tax Fees. We used Grant Thornton LLP for tax-related activities in foreign jurisdictions in 2014.

All Other Fees. All other fees include amounts billed by Grant Thornton LLP in connection with consultation on accounting matters addressed during the audit or interim reviews.

Pre-Approval Policies

The Audit Committee pre-approves all audit and non-audit services provided by our independent auditors prior to the engagement of the independent auditors with respect to such services, including those set forth in the table above. The Chairman of the Audit Committee has the authority to approve any additional audit services and permissible non-audit services, provided the Chairman informs the Audit Committee of such approval at its next regularly scheduled meeting. Our independent registered public accounting firm and management are required to report to the Audit Committee periodically regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval, and the fees for the services performed to date. The Audit Committee pre-approved 100% of the Company's 2014 and 2015 audit fees, audit-related fees, tax fees and all other fees.

Required Vote and Recommendation of the Board

The affirmative vote of the holders of a majority of the Votes Cast on the proposal at the Annual Meeting is required to ratify the appointment of Grant Thornton LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2016. Abstentions will not be considered "Votes Cast" with respect to this proposal and will have no effect.

THE BOARD UNANIMOUSLY RECOMMENDS A VOTE "*FOR*" THE RATIFICATION OF APPOINTMENT OF GRANT THORNTON LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2016.

AUDIT COMMITTEE REPORT

The Audit Committee reports as follows with respect to our fiscal 2015 financial statements:

Management is responsible for Active Power's internal controls and the financial reporting process. Our independent registered public accounting firm is responsible for performing an independent audit of Active Power's financial statements in accordance with U.S. generally accepted auditing standards and to issue a report thereon. The Audit Committee's responsibility is to monitor and oversee these processes.

In this context, the Audit Committee has met and held discussions with management and the independent auditors. Management represented to the Audit Committee that Active Power's financial statements were prepared in accordance with U.S. generally accepted accounting principles, and the Audit Committee has reviewed and discussed the financial statements with management and the independent auditors. The Audit Committee has also met and held discussions with management and the independent auditors regarding Active Power's internal controls. Management provided the Audit Committee management's assessment of our internal controls, and the Audit Committee has reviewed and discussed the internal controls with management and the independent auditors. The Audit Committee discussed with the independent auditors matters required to be discussed by Auditing Standard No. 16, "Communication with Audit Committees," as adopted by the Public Company Accounting Oversight Board.

Active Power's independent auditors also provided to the Audit Committee the written disclosures required by Rule 3526 (Independence Discussions with Audit Committees), and the Audit Committee discussed with the independent auditors that firm's independence and considered the compatibility of non-audit services with the independent auditors' independence.

Based upon the Audit Committee's discussion with management and the independent auditors and the Audit Committee's review of the representation of management and the report of the independent auditors to the Audit Committee, the Audit Committee recommended that the Board include the audited financial statements in Active Power's Annual Report on Form 10-K for the year ended December 31, 2015 filed with the Securities and Exchange Commission.

Submitted by the Audit Committee of the Board:

T. Patrick Kelly (Chair)

Ake Almgren

James E. J. deVenny III

OTHER MATTERS

We know of no other matters that will be presented for consideration at the Annual Meeting. If any other matters properly come before the Annual Meeting, it is the intention of the persons named in the enclosed form of proxy to vote the shares they represent as our Board may recommend. Discretionary authority with respect to such other matters is granted by the execution of the enclosed proxy.

OWNERSHIP OF SECURITIES

The following table sets forth certain information known to us with respect to the beneficial ownership of our common stock as of February 12, 2016 (unless otherwise indicated), by:

- each person known by us to be a beneficial owner of five percent (5%) or more of our common stock;
- each current director;
- each named executive officer; and
- all current directors and executive officers as a group.

Our common stock is the only class of voting securities outstanding. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and includes voting and investment power with respect to the securities. Except as indicated in the notes following the table, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. The percentage of beneficial ownership is based on 23,109,207 shares of common stock outstanding as of February 12, 2016. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of our common stock subject to options held by that person that are currently exercisable or will become exercisable within 60 days following February 12, 2016 are deemed outstanding. However, these shares are not deemed outstanding for the purpose of computing the percentage ownership of any other person or entity.

Beneficial Owner	Shares Beneficially Owned	Percentage of Shares Beneficially Owned
Named Executive Officers and Directors		
Mark A. Ascolese	320,281	*
James A. Powers	137,437	*
Randall J. Adleman	170,625	*
Ake Almgren	139,300	*
Robert S. Greenberg	84,260	*
Peter Gross	7,500	*
James E. J. deVenny III	101,000	*
Daryl Dulaney	—	*
T. Patrick Kelly	74,000	*
Steven Sams	47,026	*
Stephen Clearman (inclusive of shares held by Kinderhook Partners, L.P.)	3,530,597	15.3%
All current directors and executives as a group (11 persons)	4,612,026	20.0%
Other 5% stockholders:		
Kinderhook Partners, L.P. (inclusive of shares held by Stephen Clearman)	3,526,597	15.3%
Pacific View Asset Management (UK) LLP	2,233,549	9.7%
Joshua Ruch	1,286,429	5.6%

* *Less than one percent of the outstanding common stock.Notes Regarding Beneficial Ownership Table:*

The address for all officers and directors is c/o Active Power, Inc., 2128 W. Braker Lane, BK 12, Austin, Texas 78758.

- ***Mark A. Ascolese***. Includes 45,400 shares of outstanding common stock held directly, 8,631 shares held indirectly, and 266,250 shares of common stock issuable upon exercise of options within 60 days of February 12, 2016.
- ***James A. Powers***. Includes 14,000 shares of outstanding common stock held indirectly and 123,437 shares of common stock issuable upon exercise of options within 60 days of February 12, 2016.
- ***Randall J. Adleman***. Includes 30,000 shares of outstanding common stock and 140,625 shares of common stock issuable upon exercise of options within 60 days of February 12, 2016.
- ***Ake Almgren***. Includes 70,300 shares of outstanding common stock held jointly with his spouse and 69,000 shares of common stock issuable upon exercise of options within 60 days of February 12, 2016.
- ***Robert S. Greenberg***. Includes 33,260 shares of outstanding common stock and 51,000 shares of common stock issuable upon exercise of options within 60 days of February 12, 2016.
- ***Peter Gross***. Includes 7,500 shares of common stock issuable upon exercise of options within 60 days of February 12, 2016.
- ***James E. J. deVenny III***. Includes 32,000 shares of outstanding common stock held directly, 12,000 shares held of record indirectly by JD Investments Defined Benefit Plan, 3,000 shares held jointly with his spouse, and 54,000 shares of common stock issuable upon exercise of options within 60 days of February 12, 2016.
- ***Daryl Dulaney***. Does not own any shares of outstanding common stock as of February 12, 2016, or shares of common stock subject to options that are currently exercisable or will become exercisable within 60 days following February 12, 2016.
- ***T. Patrick Kelly***. Includes 41,000 shares held jointly with his spouse, and 33,000 shares of common stock issuable upon exercise of options within 60 days of February 12, 2016.
- ***Steven Sams***. Includes 43,226 shares of outstanding common stock held directly and 3,800 shares held by his spouse.
- ***Stephen J. Clearman***. Consists of 3,526,597 shares of common stock held of record by Kinderhook Partners, LP ("Kinderhook") and 4,000 shares of outstanding common stock held by Mr. Clearman. Mr. Clearman agreed to remit any proceeds from the sale of the 4,000 shares to Kinderhook. Accordingly, Mr. Clearman disclaims beneficial ownership of all shares except to the extent of his pecuniary interest, if any, therein.
- ***All current directors and executive officers as a group***. Includes 3,867,214 shares of outstanding common stock and 744,812 shares of common stock issuable upon exercise of options within 60 days after February 12, 2016.
- ***Kinderhook Partners, LP***. Based on a Schedule 13D/A filed with the SEC on February 26, 2013, reported that it had shared voting power and shared dispositive power with Kinderhook GP, LLC, Kinderhook Partners, LLC, Stephen J. Clearman, and Tushar Shah over 3,526,597 shares of common stock as of January 3, 2013, and that each reporting person's address was 2 Executive Drive, Suite 585, Fort Lee, NJ 07024. Mr. Clearman is the chief principal at Kinderhook Partners, LP and therefore his total shares shown also include the shares of Kinderhook Partners, L.P..
- ***Pacific View Asset Management (UK) LLP.*** Based on a Schedule 13G/A filed with the SEC on February 26, 2016, reported that it had shared voting power and shared dispositive power over 2,233,549 shares of common stock as of December 31, 2015, and that its address is North Hall Farm Road, North Hall Road, Quendon, Essex, United Kingdom CB113XP. PacificView Asset Management (UK) LLP shares voting and dispositive power of the shares with PVAM Perlus Microcap Fund L.P., located at 5th Floor, 37 Esplanade, St. Helier, Jersey, Channel Islands JEI 2TR, and PVAM Holdings, Ltd., its managing member, located at 600 Montgomery Street, 6th Floor, San Francisco, California 94111.
- ***Joshua Ruch***. Pursuant to a Schedule 13G/A filed with the SEC on February 5, 2013, Mr. Ruch reported that, as Managing Member of Atlas Capital Holding L.L.C., in its capacity as general partner of Pinnacle Management Partners L.P., he had that he had sole voting power and sole dispositive power over 1,286,429 shares of common stock as of February 5, 2013. Mr. Ruch is a citizen of the United States and of the Republic of South Africa. Each reporting person's business address is 4 Dune Road, East Quogue, New York 11942.

CERTAIN TRANSACTIONS

Employment agreements. For information regarding the employment agreements we have with our named executive officers, please see “Employment Arrangements with Executive Officers."

Stock options granted to executive officers and directors. For more information regarding the grant of stock options to executive officers and directors in 2015, please see the table “Fiscal 2015 Grants of Plan-based Awards” and the footnotes thereto.

Termination of employment and change in control arrangements. For information regarding the employment agreements we have with our named executive officers, please see “Employment Arrangements with Executive Officers."

Indemnification and insurance. Our bylaws require us to indemnify our directors and executive officers to the fullest extent permitted by Delaware law. We have entered into indemnification agreements with all of our directors and executive officers and have purchased directors’ and officers’ liability insurance. In addition, our certificate of incorporation limits the personal liability of our Board members for breaches of their fiduciary duties.

NO INCORPORATION BY REFERENCE OF CERTAIN PORTIONS OF THIS PROXY STATEMENT

Notwithstanding anything to the contrary set forth in any of our previous filings made under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that might incorporate future filings made by us under those statutes, neither the preceding Audit Committee Report nor the Compensation Committee Report is to be incorporated by reference into any such prior filings, nor shall such reports be incorporated by reference into any future filings made by us under those statutes.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires Active Power's directors, executive officers, and 10% or greater stockholders to file forms with the SEC to report their ownership of Active Power shares and any changes in ownership. Anyone required to file forms with the SEC must also send copies of the forms to Active Power. We have reviewed all such forms provided to us and, based solely on that review and written representations provided by these individuals, Active Power believes that all reports for our executive officers and directors that were required to be filed under Section 16 of the Securities Exchange Act of 1934 were timely filed.

ANNUAL REPORT

A copy of our Annual Report to Stockholders for 2015 has been mailed concurrently with this proxy statement to all stockholders entitled to notice of and to vote at the Annual Meeting. The Annual Report is not incorporated into this proxy statement and is not considered proxy solicitation material.

ANNUAL REPORT ON FORM 10-K

We filed an Annual Report on Form 10-K with the Securities and Exchange Commission on February 23, 2016. Stockholders may obtain a copy of this report, without charge, by writing to the attention of Investor Relations, at our principal executive offices, located at 2128 W. Braker Lane, BK 12, Austin, Texas 78758.

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Board of Directors

Dr. Ake Almgren, Chairman
Mark A. Ascolese
Stephen J. Clearman
James E. J. deVenny III
Daryl Dulaney
Robert S. Greenberg
Peter Gross
T. Patrick Kelly
Steven Sams

Officers

Mark A. Ascolese
President and Chief Executive Officer

James A. Powers
Chief Financial Officer and Vice President of Finance

Stock Listing

Active Power is listed on The Nasdaq Capital Market under the symbol ACPW.

Investor Relations

Active Power invites stockholders, security analysts, portfolio managers, and other interested parties to contact the company's investor relations department at

+1.512.836.6464 or via e-mail at **ir@activepower.com**.

To obtain a free copy of Active Power's annual report on Form 10-K, quarterly reports on Form 10-Q, earnings releases, to access other SEC filings, or to listen to past earnings calls, please visit **www.activepower.com**.

Transfer Agent

Communications concerning stock transfer requirements and change of address should be sent to our transfer agent:

American Stock Transfer & Trust Company
59 Maiden Lane Plaza Level
New York, NY 10038
+1.800.937.5449

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www.activepower.com