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

FORM 10-Q

(Mark One)
☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2013

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, BK12, Austin, Texas	**78758**
(Address of principal executive offices)	**(Zip Code)**

(512) 836-6464
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

The number of shares of common stock, par value of $0.001 per share, outstanding at October 31, 2013 was 19,362,301.

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PART I – FINANCIAL INFORMATION
Item 1. Condensed Consolidated Financial Statements.

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

	September 30, 2013 (unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,252	$ 13,524
Restricted cash	511	-
Accounts receivable, net of allowance for doubtful accounts of $838 and $488 at September 30, 2013 and December 31, 2012, respectively	8,713	17,862
Inventories, net	13,244	11,079
Prepaid expenses and other	2,390	567
Total current assets	$ 39,110	43,032
Property and equipment, net	2,859	2,458
Deposits and other	294	309
Total assets	$ 42,263	$ 45,799
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,461	$ 4,036
Accrued expenses	5,134	4,948
Deferred revenue	3,064	4,568
Revolving line of credit	5,535	5,535
Total current liabilities	$ 18,194	19,087
Long-term liabilities	737	713
Stockholders' equity		
Preferred stock - $0.001 par value; 2,000 shares authorized	-	-
Common stock - $0.001 par value; 30,000 shares authorized; 19,421 and 19,171 issued and 19,362 and 19,125 outstanding at September 30, 2013 and December 31, 2012, respectively	19	19
Treasury stock	(200)	(144)
Additional paid-in capital	290,193	288,619
Accumulated deficit	(267,041)	(262,817)
Other accumulated comprehensive income	361	322
Total stockholders' equity	23,332	25,999
Total liabilities and stockholders' equity	$ 42,263	$ 45,799

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues:				
Product revenue	$ 8,023	$ 16,647	$ 34,858	$ 50,534
Service and other revenue	5,131	2,964	12,915	10,534
Total revenue	13,154	19,611	47,773	61,068
Cost of goods sold:				
Cost of product revenue	6,784	12,254	25,373	35,608
Cost of service and other revenue	2,426	1,742	7,180	6,766
Total cost of goods sold	9,210	13,996	32,553	42,374
Gross profit	3,944	5,615	15,220	18,694
Operating expenses:				
Research and development	2,149	1,325	5,580	4,045
Selling and marketing	2,714	3,447	8,684	10,891
General and administrative	2,046	1,691	4,759	5,175
Total operating expenses	6,909	6,463	19,023	20,111
Loss from Operations	(2,965)	(848)	(3,803)	(1,417)
Interest expense, net	(118)	(80)	(282)	(246)
Other income (expense), net	(52)	81	(139)	159
Net Loss	$ (3,135)	$ (847)	$ (4,224)	$ (1,504)
Net Loss per share, Basic	$ (0.16)	$ (0.04)	$ (0.22)	$ (0.08)
Shares used in computing net loss per share, basic	19,337	19,115	19,188	18,400
Comprehensive loss:				
Net loss	$ (3,135)	$ (847)	$ (4,224)	$ (1,504)
Translation gain (loss) on subsidiaries denominated in foreign currencies	238	211	39	(99)
Comprehensive loss:	$ (2,897)	$ (636)	$ (4,185)	$ (1,603)

See accompanying notes.

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

	Common Stock		Treasury Stock					
	Number of Shares	Par Value	Number of Shares	At Cost	Additional Paid-In Capital	Accumulated Deficit	Other Accumulated Comprehen-sive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2012	19,171	$ 19	33	$ (144)	$ 288,619	$ (262,817)	$ 322	$ 25,999
Employee stock purchases	189	-	-	-	684	-	-	684
Release of Restricted Stock	61	-	13	(56)	7	-	-	(49)
Net translation gain on foreign subsidiaries	-	-	-	-	-	-	39	39
Stock-based compensation	-	-	-	-	905	-	-	905
Issuance costs, shelf registration					(22)			(22)
Net Loss	-	-	-	-	-	(4,224)	-	(4,224)
Balance at September 30, 2013	19,421	$ 19	46	$ (200)	$ 290,193	$ (267,041)	$ 361	$ 23,332

See accompanying notes.

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

	Nine Months Ended September 30,	
	2013	2012
Operating activities		
Net Loss	$ (4,224)	$ (1,504)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:		
Depreciation expense	804	955
Change to allowance for doubtful accounts	350	325
Loss on disposal of fixed assets	33	31
Impairment on fixed assets	69	-
Stock-based compensation	916	1,131
Changes in operating assets and liabilities:		
Restricted cash	(511)	3
Accounts receivable	8,799	(6,828)
Inventories	(2,613)	77
Prepaid expenses and other assets	(1,808)	(946)
Accounts payable	425	(104)
Accrued expenses	174	(1,502)
Deferred revenue	(1,504)	3,098
Long term liabilities	24	72
Net cash provided by (used in) operating activities	934	(5,192)
Investing activities		
Purchases of property and equipment	(927)	(1,021)
Proceeds from sale of fixed assets	68	-
Net cash used in investing activities	(859)	(1,021)
Financing activities		
Proceeds from private placement of common stock	-	9,750
Issuance costs of private placement	-	(187)
Proceeds from draw on revolving line of credit	-	2,017
Payments on revolving line of credit	-	(2,017)
Proceeds from employee stock purchases	683	491
Issuance costs, shelf registration	(20)	-
Taxes paid related to the net share settlement of equity awards	(49)	(20)
Net cash provided by financing activities	614	10,034
Translation gain (loss) on subsidiaries in foreign currencies	39	(99)
Change in cash and cash equivalents	728	3,722
Cash and cash equivalents, beginning of period	13,524	10,357
Cash and cash equivalents, end of period	$ 14,252	$ 14,079

See accompanying notes.

Active Power, Inc.
Notes to Condensed Consolidated Financial Statements
September 30, 2013
(unaudited)

1. Significant Accounting Policies

Organization and Basis of presentation

Active Power, Inc. and its subsidiaries (hereinafter referred to as "we", "us", "Active Power" or the "Company") manufacture and provide critical power quality and modular infrastructure solutions that provide business continuity and protect customers in the event of an electrical power disturbance. Our products and solutions are designed to deliver continuous clean power, protecting customers from voltage fluctuations, such as surges and sags, and frequency fluctuations, and also to provide ride-through, or temporary, power to bridge the gap between a power outage and the restoration of utility power. Our target customers are those global enterprises requiring "power insurance" because they have zero tolerance for downtime in their mission critical operations. The Uninterruptible Power Supply ("UPS") products we manufacture use kinetic energy to provide short-term power as a cleaner alternative to electro-chemical battery-based energy. We sell stand-alone UPS products as well as complete continuous power and infrastructure solutions, including containerized continuous power systems that we brand as PowerHouse™. We sell our products globally through our direct sales force, manufacturer's representatives, Original Equipment Manufacturer ("OEM") channels and IT partners. Our current principal markets are the Americas, Europe Middle East and Africa ("EMEA"), and Asia.

The accompanying condensed consolidated balance sheet as of December 31, 2012, which has been derived from audited financial statements, and the unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial statements and pursuant to the rules and regulations of the SEC for interim reporting, and include the accounts of the Company and its consolidated subsidiaries. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring items) necessary to present fairly the consolidated financial position of the Company and its consolidated results of operations and cash flows. These interim financial statements should be read in conjunction with the financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. Please refer to our filings on Form 10-Q/A for the periods ended March 31, 2013 and June 30, 2013, for information regarding the restatements of our financial results for the periods ended March 31, 2013 and June 30, 2013, respectively, and the impact of such restatements on our unaudited condensed financial statements for the period ended September 30, 2013.

2. Supplemental Balance Sheet Information

Restricted Cash

Our restricted cash balance of $0.5 million as of September 30, 2013 consists primarily of secured performance and deposit guarantees given to customers. Upon satisfaction of these guarantees, the restriction on these funds will be released.

Receivables

Accounts receivable consist of the following (in thousands):

	September 30, 2013	December 31, 2012
Trade receivables	$ 9,551	$ 18,350
Allowance for doubtful accounts	838	488
	$ 8,713	$ 17,862

We estimate an allowance for doubtful accounts based on factors related to the credit risk of each customer. Historically, our credit losses have been minimal. The increase in allowance for doubtful accounts in the third quarter of 2013 was primarily related to customers in China.

Inventories

We state inventories at the lower of cost or market, using the first-in-first-out-method (in thousands, net of allowance):

	September 30, 2013	December 31, 2012
Raw materials	$ 5,417	$ 5,424
Work in process	3,136	2,186
Finished goods	4,691	3,469
	$ 13,244	$ 11,079

Property and Equipment

Property and equipment consist of the following (in thousands):

	September 30, 2013	December 31, 2012
Equipment	$ 9,093	$ 10,298
Demonstration units	1,587	1,828
Computers and purchased software	3,264	4,251
Furniture and fixtures	378	444
Leasehold improvements	7,201	7,662
Construction in progress	69	188
	21,592	24,671
Accumulated depreciation	(18,733)	(22,213)
	$ 2,859	$ 2,458

Accrued Expenses

Accrued expenses consist of the following (in thousands):

	September 30, 2013	December 31, 2012
Compensation and benefits	$ 1,871	$ 2,199
Warranty liability	574	694
Property, income, state, sales and franchise tax	620	320
Professional fees	699	502
Other	1,370	1,233
	$ 5,134	$ 4,948

Warranty Liability

Generally, the warranty period for our power quality 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 offer 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. 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 presented in the following table (in thousands):

Balance at December 31, 2012	$	755
Warranty expense		432
Warranty charges incurred		(590)
Balance at September 30, 2013	$	597
Warranty liability included in accrued expenses	$	574
Long-term warranty liability		23
Balance at September 30, 2013	$	597

Revenue Recognition

In general, 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. Revenue-generating transactions generally fall into one of the following categories of revenue recognition:

- We recognize product revenue at the time of shipment for substantially 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. If title and risk of loss pass at some other point in time, we recognize such revenue for our customers when the product is delivered to the customer and title and risk of loss have passed. We may enter into bill-and-hold arrangements and when this occurs delivery may not be present, but other criteria are reviewed to determine the proper timing of revenue recognition.

- We recognize installation and service and maintenance revenue at the time the service is performed.

- We recognize revenue associated with extended maintenance agreements ("EMAs") 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 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.

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

When collectability is not reasonably assured, we defer revenue and will recognize revenue on a cost recovery basis 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 PowerHouse products, combined with one or more of the following products: design services, project management, commissioning and installation services, spare parts or consumables, and EMAs. 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 delivery of product and commissioning and installation typically take place within six months of product delivery, depending upon customer requirements. EMAs, consumables, and repair, maintenance or consulting services generally are delivered over a period of one to five years. In certain arrangements, revenue recognized is limited to the amount invoiced or received that is not contingent on the delivery of future products and services.

When arrangements include multiple elements, we allocate revenue to each element based on the relative selling price and recognize revenue when the elements have stand-alone 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 stand-alone sales of the specific elements. When arrangements include an EMA, we recognize revenue related to the EMA at the stated contractual 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.

3. Net Loss Per Share

All common stock information regarding the prior year included in this note have been adjusted to reflect the reverse stock split that took effect on December 21, 2012.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Numerator:				
Net loss	$ (3,135)	$ (847)	$ (4,224)	$ (1,504)
Denominator:				
Weighted-average shares of common stock outstanding	19,337	19,115	19,188	18,400
Basic and diluted net loss per share	$ (0.16)	$ (0.04)	$ (0.22)	$ (0.08)

The calculation of basic and diluted net loss per share excludes shares of common stock issuable upon exercise of employee stock options of 1,943,064 and 1,928,236 as of September 30, 2013 and 2012, respectively, and non-vested shares of common stock issuable upon exercise of restricted stock units of 96,299 and 199,329 as of September 30, 2013 and 2012, respectively, because their inclusion would have the effect of being anti-dilutive.

4. Fair Value of Financial Instruments

Our assets and liabilities, which are carried at fair value, are classified in one of the following categories:

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.

Inputs are referred to as assumptions that market participants would use in pricing the asset or liability. The uses of inputs in the valuation process are categorized into a three-level fair value hierarchy.

Our Level 1 assets and liabilities 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.

Our cash and cash equivalents include money-market funds for which the fair value was determined using Level 1 inputs and was $3.1 million as of September 30, 2013 and December 31, 2012. For cash and cash equivalents, accounts receivable, and accounts payable, the carrying amount approximates fair value because of the relative short maturity of those instruments.

5. Guarantees

In certain geographical regions, particularly EMEA, 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 product warranty obligations. We secure these guarantees with standby letters of credit through our bank. At September 30, 2013 and December 31, 2012, we had $0.5 million and $0, respectively, of performance guarantees outstanding to customers that were secured with letters of credit. The current guarantee is set to expire on April 17, 2014. There is no foreseeable risk that we will not be able to meet the performance obligations. Our restricted cash, as shown on the balance sheet, is related to these guarantees.

6. Subsequent Events

On October 29, 2013, we received $0.2 million in cash from Qiyuan Network System Limited, as an additional payment towards the outstanding amount owed on previous shipments made by us. We will recognize revenue for this cash payment in the fourth quarter of 2013. We also accepted a return of goods from such customer on November 4, 2013 that we will put back into inventory in the amount of $1.6 million in the fourth quarter of 2013.

On September 10, 2013, a purported class action complaint was filed in the United States District Court for the Western District of Texas against the Company and certain of its current and former executives. The case is captioned Don Lee v. Active Power, Inc., et. al., Civil Action No. 1:3-cv-00797. The complaint alleges that on April 30, 2013, the Company announced during a conference call that it had entered into a strategic distribution partnership with Digital China. However, on September 5, 2013, after the close of trading, the Company disclosed that its partnership was with Qiyuan Network System Limited, which is neither an affiliate nor a subsidiary of Digital China. The complaint asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder, and seeks unspecified damages on behalf of all stockholders.

On September 13 and October 14, 2013, two separate stockholders filed complaints in the District Court of Travis County, Texas purporting to bring derivative actions on behalf of the Company against certain current and former officers and directors of the Company. The first derivative action is captioned Okumura v. Almgren, et. al., Cause No. D-1-GN-13-003230 and the second derivative action is captioned David B. Shaev IRA v. Milner, et. al., Cause No. D-1-GN-13-003557. The allegations of each derivative complaint mirror those of the class action complaint, and they assert claims for breach of fiduciary duty, unjust enrichment, and/or abuse of control and seek damages on behalf of the Company. Defendants have entered into an agreement with each of the plaintiffs to stay both of the derivative actions pending the outcome of the motion to dismiss in the securities class action described above.

As of November 18, 2013 we cannot assess the potential outcome of these lawsuits.

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

The following discussion should be read in conjunction with, and is qualified in its entirety by reference to, the financial statements and notes thereto included in Item 1 of this Form 10-Q and the financial statements and notes thereto and our Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2012 included in our 2012 Annual Report on Form 10-K. Please refer to our filings on Form 10-Q/A for the periods ended March 31, 2013 and June 30, 2013, for information regarding the restatements of our financial results for the periods ended March 31, 2013 and June 30, 2013, respectively, and the impact of such restatements on our unaudited condensed financial statements for the period ended September 30, 2013. This report contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, that involve risks and uncertainties. Our expectations with respect to future results of operations that may be embodied in oral and written forward-looking statements, including any forward-looking statements that may be included in this report, are subject to risks and uncertainties that must be considered when evaluating the likelihood of our realization of such expectations. Our actual results could differ materially. The words "believe," "expect," "intend," "plan," "project," "will" and similar phrases as they relate to us are intended to identify such forward-looking statements. In addition, please see the "Risk Factors" in Part 1, Item 1A of our 2012 Annual Report on Form 10-K and in Part II, Item 1A of this Form 10-Q for a discussion of items that may affect our future results.

Overview

Active Power designs and manufactures patented flywheel-based uninterruptible power supply ("UPS") products and Modular Infrastructure Solutions ("MIS"). These solutions 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 ("clean") power during power disturbances and outages, voltage sags and surges, and provide ride-through power in the event of utility failure, supporting operations until utility power is restored or a longer term alternative power source, such as a diesel generator, is engaged. We believe our products offer an advantage over those of our competitors in the areas of power density (less space) and energy efficiency, total cost of ownership, system reliability, modular design, and the economically green benefits of our solutions.

We have sold our patented flywheel-based UPS systems since 1999. Our patented flywheel-based UPS products store kinetic energy by constantly spinning a compact steel wheel ("flywheel") driven from utility power in a low friction environment. When the utility power used to spin the flywheel fluctuates or is interrupted, the flywheel's inertia causes it to continue spinning. The resulting kinetic energy of the spinning flywheel generates electricity known as "bridging power" for short periods, until either utility power is restored or a backup electric generator starts and takes over generating longer-term power in the case of an extended electrical outage. We believe our flywheel products provide many competitive advantages over conventional battery-based UPS products, including substantial space savings, higher power densities, "green" energy storage, and higher power efficiencies up to 98%. This high energy efficiency reduces operating costs and provides customers a lower total cost of ownership. We offer our flywheel products with load capabilities up to 8,400kVA. Our flywheel-based UPS systems are marketed under the brand name *CleanSource*®. UPS product revenue may include ancillary components delivered as part of a total UPS solution. As of September 30, 2013, we have shipped more than 3,900 flywheels in UPS system installations, delivering more than 900 megawatts of power to customers in 57 countries around the world, providing nearly 170 million runtime hours of operation. In late 2012, we introduced our next generation CSHD 625kVA and 750 kVA UPS products, which we plan to start distributing in the fourth quarter of 2013.

We also sell modular power infrastructure solutions, which incorporate our UPS products with other equipment including switchboards, generators and monitoring and analytics tools to provide complete short- and long-term protection in the event of a power disturbance. Where this integrated solution is sold in a containerized package, it is marketed under the brand name PowerHouse TM. PowerHouse can be deployed in an International Shipping Organization ("ISO") or purpose built container depending upon location. These systems are specifically designed to handle the demands of the most technically advanced facilities requiring the highest power integrity available while maximizing up-time, useable floor space and operational efficiency. Designed to offer a highly flexible architecture to respond to a customer's constantly changing environment, our PowerHouse systems are offered in four standard configurations, enabling sizing for infrastructure on demand. These systems are highly differentiated as they offer flexibility in placement, space savings, rapid deployment, high energy efficiency, and just in time use of capital deployment. They also deliver significant value to customers as the entire system is integrated and tested prior to delivery for a repeatable simple solution. We also sell modular power infrastructure solutions to customers in a non-containerized format, typically deploying such solutions inside buildings. We plan to grow revenue in coming years from current and future customers as modular data center infrastructure continues to gain acceptance in the market.

In close cooperation with our strategic partners in the technology industry and leveraging our expertise in containerization and power distribution, in 2010 we began to manufacture modular IT infrastructure solutions, designed to specification for select IT channel business partners. These solutions serve as the infrastructure for the modular data center deployment model. Modular data centers may be rapidly deployed with other modular infrastructure such as power and cooling to deliver a cost-effective alternative to traditional raised-floor data centers. Active Power designs and delivers the exterior shell and a fully outfitted interior – including electrical, cooling, monitoring, and other elements – ready for the IT channel partner to add its IT racks and servers. After the IT channel partner adds its IT equipment to our modular IT infrastructure solution, the IT channel partner has a functional data center ready for deployment at its end-user site.

Finally, we offer services in the form of installation, maintenance, project management, and other professional services. Services are often sold in conjunction with the products above, and are increasingly becoming a larger part of our overall revenue.

Our headquarters are in Austin, Texas, with international offices in the United Kingdom, Germany, and China.

We sell our products to a wide array of commercial and industrial customers across a variety of vertical markets, including data centers, manufacturing, technology, broadcast and communications, financial, utilities, healthcare, government and airports. However, our primary focus is on data center applications within these vertical markets. We have expanded our global sales channels and direct sales force, selling in major geographic regions of the world, but particularly in North America, Europe and Asia. We sell our products through the following distribution methods:

- sales made directly by Active Power;
- manufacturer's representatives;
- distributors;
- OEM partners; and
- strategic IT partners.

We believe a number of underlying macroeconomic trends place us in a strong position to be one of the leading providers of critical power protection and infrastructure solutions. These trends include:

- the increasing business costs of downtime;
- a rapidly expanding need for data center infrastructure;
- ever-increasing demands placed on the public utility infrastructure;
- an inadequate investment in global utility infrastructure;
- rising costs of energy worldwide driven by volume of energy used; and
- an increasing demand for economically green solutions.

We have evolved significantly since the company was founded in 1992. Our early focus was on research and development of the core products that continue to enable our business today. Over the past several years, we have focused our efforts on brand, markets, and channels of distribution. The technological foundation of Active Power has yielded more than 100 worldwide patents and a highly differentiated, cost-efficient product platform that we have evolved into an expanding suite of infrastructure solutions. As we go forward, it is critical for us to focus on both developing technology to maintain and grow our leadership position and expand our addressable markets and on building channels of distribution to have more avenues into the market.

We have developed and implemented a go-to-market strategy to set the direction for our sales and marketing initiatives and plans around the following components:

- Customer: Data Center Applications Across Vertical Markets
- Distribution: Partner Enabled Distribution Strategy Transacted Locally
- Geography: Global Markets served from four Centers of Operation
- Products: UPS and Modular Infrastructure Systems
- Value: Efficient, Reliable, Green Solutions
- Service: Installation Maintenance, Project Management and Other Professional Services

As a result of this strategy, we have been successful in improving our operating performance, broadening our global footprint, diversifying our customer base, broadening our sales channels and partners, and moving higher up the customer value chain with innovative developments of our core underlying product technology.

Results of Operations

($ in thousands)	Three Months Ended September 30, 2013	% of total revenue	2012	% of total revenue	Variance 2013 vs. 2012 $	%
Product revenue	$ 8,023	61%	$ 16,647	85%	$ (8,624)	-52%
Service and other revenue	5,131	39%	2,964	15%	2,167	73%
Total revenue	13,154	100%	19,611	100%	$ (6,457)	-33%
Cost of product revenue	6,784	52%	12,254	62%	(5,470)	-45%
Cost of service and other revenue	2,426	18%	1,742	9%	684	39%
Total cost of goods sold	9,210	70%	13,996	71%	(4,786)	-34%
Gross profit	3,944	30%	5,615	29%	(1,671)	-30%
Operating expenses:						
Research and development	2,149	16%	1,325	7%	824	62%
Selling and marketing	2,714	21%	3,447	18%	(733)	-21%
General and administrative	2,046	16%	1,691	9%	355	21%
Total operating expenses	6,909	53%	6,463	34%	446	7%
Loss from Operations	(2,965)	-23%	(848)	-5%	(2,117)	-250%
Interest expense, net	(118)	-1%	(80)	0%	(38)	-48%
Other income (expense), net	(52)	0%	81	0%	(133)	-164%
Net loss	$ (3,135)	-24%	$ (847)	-5%	$ (2,288)	-270%

($ in thousands)	Nine Months Ended September 30, 2013	% of total revenue	2012	% of total revenue	Variance 2013 vs. 2012 $	%
Product revenue	$ 34,858	73%	$ 50,534	83%	$ (15,676)	-31%
Service and other revenue	12,915	27%	10,534	17%	2,381	23%
Total revenue	47,773	100%	61,068	100%	$ (13,295)	-22%
Cost of product revenue	25,373	53%	35,608	58%	(10,235)	-29%
Cost of service and other revenue	7,180	15%	6,766	11%	414	6%
Total cost of goods sold	32,553	68%	42,374	69%	(9,821)	-23%
Gross profit	15,220	32%	18,694	31%	(3,474)	-19%
Operating expenses:						
Research and development	5,580	12%	4,045	7%	1,535	38%
Selling and marketing	8,684	18%	10,891	18%	(2,207)	-20%
General and administrative	4,759	10%	5,175	8%	(416)	-8%
Total operating expenses	19,023	40%	20,111	33%	(1,088)	-5%
Loss from Operations	(3,803)	-8%	(1,417)	-2%	(2,386)	-168%
Interest expense, net	(282)	-1%	(246)	0%	(36)	-15%
Other income (expense), net	(139)	0%	159	0%	(298)	-187%
Net loss	$ (4,224)	-9%	$ (1,504)	-2%	$ (2,720)	-181%

Product revenue. Product revenue primarily consists of sales of our UPS and MIS products. Our CleanSource power quality products are comprised of both UPS and energy storage product lines and our MIS products consist of our modular power infrastructure solutions, including PowerHouse (which are comprised of our UPS systems and some combination of third party ancillary equipment, such as engine generators and switchgear) and our modular IT infrastructure solutions that provide a combination of power distribution, cooling capabilities, security systems, fire suppression and monitoring capabilities for our business partners. Our product revenue was derived from the following sources:

($ in thousands)	Three Months Ended September 30,		Variance	
	2013	2012	$	%
Product revenue:				
UPS product revenue	$ 6,495	$ 14,783	$ (8,288)	-56%
Modular Infrastructure Solutions	1,528	1,864	(336)	-18%
Total product revenue	$ 8,023	$ 16,647	$ (8,624)	-52%

($ in thousands)	Nine Months Ended September 30,		Variance	
	2013	2012	$	%
Product revenue:				
UPS product revenue	$ 16,731	$ 28,551	$ (11,820)	-41%
Modular Infrastructure Solutions	18,127	21,983	(3,856)	-18%
Total product revenue	$ 34,858	$ 50,534	$ (15,676)	-31%

Total product revenue for the three-month period ended September 30, 2013 decreased by $8.6 million, or 52%, compared to the same period in 2012 and decreased $7.4 million, or 48%, from $15.4 million in the second quarter 2013. The decrease from third quarter 2012 to third quarter 2013 was driven primarily by a reduction in UPS sales, while the reduction from the second quarter 2013 to the third quarter 2013 was primarily due to lower MIS sales, as the second quarter included two large MIS orders. UPS revenue was down $8.3 million, or 56%, in the third quarter 2013 from the same period in the prior year as we had a single large installation in our EMEA region included in the prior year period, of which $5.6 million was ancillary equipment. UPS revenue increased in third quarter 2013 compared to second quarter 2013 due to two large shipments of our 300 series flywheel units into Asia, $1.6 million of which was reversed in the first quarter 2013 restatement described in our Form 10-Q/A and recognized in the third quarter 2013 when the revenue was collected. MIS revenue was down $0.3 million, or 18%, in the third quarter 2013 from the same period in the prior year and decreased $11.0 million from the second quarter 2013 due to the two large customer shipments mentioned previously. We expect product mix to continue to shift as we obtain large customer orders for either UPS or MIS products in any particular quarter.

Product revenue for the nine-month period ended September 30, 2013 decreased by $15.7 million, or 31%, compared to the same period in 2012. This decrease was driven primarily by a decrease of $11.8 million in sales of UPS products, primarily in the EMEA region. MIS sales comprised 52% and 44% of product revenue in the nine-month period ended September 30, 2013 and 2012, respectively.

Product revenue from Active Power branded products through our direct and manufacturer's representative channels was $4.0 million, or 50% of our product revenue, for the three-month period ended September 30, 2013, compared to $10.2 million, or 61% of our product revenue, in the same period of 2012, and $6.4 million, or 42% of our product revenue, for the second quarter of 2013. For the nine-month period ended September 30, 2013, product sales of Active Power branded products through our direct and manufacturer's representative channels were $19.0 million, or 55% of our product revenue, compared to $24.5 million, or 48%, for the same period of 2012.

Product revenue from our OEM channels for the three-month period ended September 30, 2013 was $2.4 million, a decrease of approximately $2.6 million, or 52%, compared to revenue of $5.0 million for the third quarter of 2012. For the nine-month period ended September 30, 2013, product revenue from our OEM channel was $5.5 million, a decrease of $2.3 million, or 30%, compared to $7.8 million for the same period in 2012. Product revenue from our OEM channels for the three-month period ended September 30, 2013 increased by $1.4 million, or 138%, compared to $1.0 million for the second quarter of 2013. Sales to Caterpillar, our primary OEM channel, represented $2.4 million and $5.3 million, or 30% and 15% of our product revenue, for the three-month and nine-month periods ended September 30, 2013, respectively, compared to $5.0 million and $7.8 million, or 30% and 15% of our product revenue, in the comparable periods of 2012 and $1.0 million, or 6%, respectively, in the second quarter 2013. Caterpillar remains one of our largest UPS customers as well as our largest OEM customer.

Product revenue from our IT channel for the third quarter of 2013 was $1.5 million, which was relatively flat compared to $1.4 million for the third quarter of 2012 and decreased from the $7.9 million of IT channel revenue in the second quarter 2013. For the nine-month period ended September 30, 2013, product revenue from our IT channel was $10.4 million, a decrease of $8.0 million, or 43%, compared to $18.3 million for the same period of 2012. These decreases were primarily due to a decrease in demand for infrastructure solutions from Hewlett Packard ("HP"), our largest IT channel partner. Historically, we have manufactured and sold infrastructure solutions to HP, for them to re-sell to end users in conjunction with sales of their IT and computing products. Thus, the level of orders will fluctuate depending upon the timing of our partner's need for infrastructure solutions. We have historically experienced large quarterly fluctuations in the number and value of such orders. Sales to HP accounted for 19% of our product revenue for the third quarter of 2013 compared to 8% in the same period of 2012, however sales to HP accounted for only 28% of product revenue for the nine months ended September 30, 2013 compared to 36% of product revenue in the nine months ended September 30, 2012.

Our MIS products tend to be larger in value and derive sales from a smaller number of customers compared to sales of our UPS products. This smaller number of customers with greater transaction value can contribute to large quarterly fluctuations in revenue from each product family due to the timing of orders and shipments in any particular accounting period. A small number of transactions can lead to significant revenue, but cause greater volatility in our quarterly results and can increase liquidity risk. To manage this risk we continue to attempt to refine and improve the payment terms of these opportunities as part of our working capital management process.

Sales in the Americas were $4.1 million or 51% of our product revenue for the three-month period ended September 30, 2013, compared to $5.9 million, or 35% of our product revenue, for the same period in 2012 and $14.6 million, or 95% of product revenue, in the second quarter of 2013.

We also sell products directly to customers in Asia and EMEA and we have a network of international distributors in these and other territories. In some of these markets, customers are more likely to purchase a total power solution such as PowerHouse from us rather than a stand-alone UPS system. This usually results in a longer selling cycle and makes quarterly results from these regions more inconsistent and dependent upon a smaller number of larger value transactions. Thus, the amount of revenue from our international markets can fluctuate significantly on a quarterly basis. Product sales to customers in Asia were $2.8 million, or 35% of our total product revenue, in the three-month period ended September 30, 2013, compared to $2.0 million, or 12%, for the same period in 2012 and $0.4 million, or 3%, for the second quarter of 2013. Product revenue in EMEA was $1.1 million, or 14% of product revenue, in the three-month period ended September 30, 2013, compared to $8.8 million, or 53%, for the same period of 2012 and $0.4 million, or 2%, for the second quarter of 2013. These fluctuations are primarily attributable to variations in sales of our UPS products in each region in the relevant periods. Products may sometimes be shipped outside of the region in which the revenues were generated.

Product revenue sales in the Americas for the nine month period ending September 30, 2013 was $28.8 million, compared to $28.6 million for the nine months ended September 30, 2012. The slight increase was primarily related to more MIS products sold in North America in the current year. Product revenue in Asia was $2.9 million in the nine months ended September 2013, compared to $4.5 million in the nine months ended September 2012. This decrease was related to a decline in sales in China. See our first and second quarter 2013 results reported in our Forms 10-Q/A for more information on our distributor relationships in China and their impact on year to date revenues in Asia. Finally, product revenue from EMEA for the nine months ended September 2013 was $3.2 million compared to $17.5 million in the nine months ended September 2012. This decrease year over year was related to a large single customer project included in the 2012 period.

Service and other revenue. Service and other revenue primarily relates to revenue generated from both traditional (after-market) service work and from customer-specific system engineering. This includes revenue from design, installation, startup, repairs or reconfigurations of our products and the sale of spare or replacement parts to our OEM and end-user customers. It also includes revenue associated with the costs of travel of our service personnel and revenues or fees received upon contract deferment or cancellation. Revenue from extended maintenance contracts with our customers is also included in this revenue category.

Service and other revenue increased by approximately $2.2 million, or 73%, for the three-month period ended September 30, 2013, compared to the same period of 2012, and increased $0.3 million or 7% compared to the second quarter of 2013. This increase compared to the second quarter 2013 reflects a pricing increase for one of our primary OEM customers in the third quarter of 2013. For the nine-month period ended September 30, 2013, our service and other revenue increased by approximately $2.4 million, or 23%, compared to the same period in 2012. For our MIS customers, we provide a full power solution, including design services, site preparation, installation of an entire power solution and provision of all products required to provide a turnkey product to the end user, often including maintenance services. Where we make sales through our OEM channel, it is typical for the OEM to provide these types of services to their end-user customers, so these revenue opportunities do not typically exist for us on our OEM sales. We anticipate that service and other revenue will continue to grow with product revenue, particularly as our PowerHouse system revenue grows and as our installed base of UPS product expands, because as more units are sold to customers, more installation, startup and maintenance services will be required.

Cost of product revenue. Cost of product revenue includes the cost of component parts of our products, ancillary equipment that is sourced from external suppliers, personnel, equipment and other costs associated with our assembly and test operations, including costs from having underutilized facilities, depreciation of our manufacturing property and equipment, shipping costs, warranty costs, and the costs of manufacturing support functions such as logistics and quality assurance. The cost of product revenue as a percentage of total product revenue was 85% and 73% for the three-month and nine-month periods ended September 30, 2013, respectively, compared to 74% and 70%, respectively, for the same periods in 2012 and 69% for the second quarter of 2013. The increase in costs as a percentage of revenue compared to the third quarter 2012 reflected a higher percentage of revenue coming from distributors in Asia where margins are typically lower, and the prior year quarter also included one large shipment to EMEA that had a relatively high margin. We continue to operate a manufacturing facility that has a manufacturing and testing capacity that can be significantly greater than our current product revenue levels in any given quarter, dependent upon the product mix. A large portion of the costs involved in operating this manufacturing facility are fixed in nature and we have incurred unabsorbed overhead each quarter depending on the level of UPS system production. We continue to work on reducing our product costs through design enhancements and modifications and increasing our sales volume to absorb these expenses. We also are working to create cross-functional utilization of our personnel between UPS and MIS product manufacturing so as to obtain higher overall labor efficiency.

Cost of service and other revenue. Cost of service and other revenue includes the cost of component parts that we use in service or sell as spare parts, as well as labor and overhead costs of our service organization. This includes travel and related costs incurred in fulfilling service obligations to our customers and the costs of third party contractors used in completion of some of our professional services. The cost of service and other revenue was 47% of service and other revenue in the three-month period ended September 30, 2013, compared to 59% for the same period of 2012 and 55% in the second quarter of 2013. The decrease in the third quarter of 2013 compared to the third quarter of 2012 and second quarter 2013 reflects favorable pricing increases on our spare parts with one of our primary OEM customers in the third quarter 2013. The utilization of our service personnel will be affected by the number of MIS solution products implemented in a particular period, and in periods where we have a low number of installation projects we would expect our costs as a percentage of revenue to increase due to lower employee utilization.

The cost of service and other revenue was 56% of service and other revenue in the nine-month period ended September 30, 2013, compared to 64% for the same period of 2012. The decrease in the nine-month period ended September 30, 2013, compared to the same period of 2012 was related to the decreased costs to install MIS solutions due to the concentrated timing and location of the 2013 shipments compared to 2012.

Gross profit. For the three-month period ended September 30, 2013, our gross profit margin was 30% of revenue, compared to 29% of revenue for the third quarter of 2012 and 34% of revenue for the second quarter of 2013. The slight increase in gross profit margin from the third quarter of 2012 is primarily related to our higher percentage of revenue coming from services. The decrease in the margin from the second quarter of 2013 is related high margin shipments of MIS products that occurred.

For the nine-month period ended September 30, 2013, our gross profit margin was 32% of revenue compared to 31% of revenue for the same period of 2012. Our ability to further improve gross profit margins will depend, in part, on our ability to further improve our sales channel mix, increase sales of higher margin products such as our UPS products, optimize our product pricing, improve our professional service margins through further pricing optimization and operating efficiency, and increase our total revenues to a level that will allow us to improve the utilization of our manufacturing and service operations.

Research and development. Research and development expense primarily consists of compensation and related costs for employees engaged in research, development and engineering activities, third party consulting and development activities, as well as an allocated portion of our occupancy costs. Overall, our research and development expenses were approximately $0.8 million, or 62%, higher in the third quarter of 2013 compared to the third quarter of 2012 and were $0.3 million, or 19%, higher than the second quarter of 2013. The increases were primarily due to development activities on our next generation of UPS product, which is in its final stages of production release. With our new product we feel we will offer greater power modularity and space efficiencies compared to our existing UPS products, especially as we target the higher power level market.

For the nine-month period ended September 30, 2013, our research and development expense was $5.6 million, compared to $4.0 million for the same period of 2012. The increase is due to our next generation UPS development as we are in the final phases of production release, as well as optimizing ways to reduce the overall future costs of production. It is anticipated that our new UPS product line will allow improved profit margins in the long term and provide a larger addressable market for our UPS systems business.

Selling and marketing. Selling and marketing expense primarily consists of compensation, including variable sales commissions for sales personnel, related travel, trade shows and promotional expenses, compensation paid to resellers and agents, an allocated portion of our occupancy and other costs, and the cost of our foreign sales operations. Selling and marketing costs were approximately $0.7 million, or 21%, lower in the third quarter of 2013 compared to the third quarter of 2012 related to lower sales expenditures in such areas as wages, commissions and travel costs in sales. Selling and marketing expenses decreased approximately $0.3 million, or 11%, from the second quarter of 2013 primarily due to decreased sales wages and commission costs.

Selling and marketing expenses were approximately $2.2 million, or 20%, lower for the nine-month period ended September 30, 2013 compared to the same period of 2012 primarily from reduced employee compensation costs, commissions for third party manufacturers' representatives and travel costs.

General and administrative. General and administrative expense is primarily comprised of compensation and related costs for board, executive and administrative personnel, and professional fees. General and administrative expenses for the third quarter of 2013 increased approximately $0.4 million, or 21%, compared to the same period in 2012 primarily due to higher bad debt expense. General and administrative expenses increased by approximately $0.5 million, or 30%, compared to the second quarter of 2013 primarily due to bad debt expense associated with customers in China.

General and administrative expenses for the nine-month period ended September 30, 2013 decreased approximately $0.4 million, or 8%, compared to the same period in 2012 due to lower stock compensation expense, bonus and legal fees, partially offset by higher relocation costs. We expect our legal fees to increase in the fourth quarter as a result of pending legal items. Refer to "Part II- Item 1.Legal Proceedings" for information regarding these items.

Interest expense, net. Net interest expense remained relatively flat for the third quarter of 2013 compared to the third quarter of 2012. The interest expense incurred during 2013 and 2012 was in connection with the outstanding balance on our revolving credit facility.

Other income (expense). Other income (expense), net in the third quarter of 2013 and 2012 primarily reflects foreign exchange losses or gains on bank accounts and sales contracts held in foreign currencies.

Liquidity and Capital Resources

Our primary sources of liquidity at September 30, 2013 are our cash and cash equivalents on hand, our bank credit facilities and projected cash flows from operating activities. If we meet our cash flow projections in our current business plan, we expect we will have adequate capital resources to continue operating our business for at least the next 12 months. Our business plan 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 needs may be greater than anticipated. Further, our estimates may change and future events or developments may also affect our estimates. Any of these factors may change our expectation of cash usage in the remainder of 2013 and beyond or adversely affect our level of liquidity.

A substantial increase in sales of our PowerHouse or our modular IT infrastructure solutions products or a substantial increase in UPS sales will likely materially increase the amount of liquidity 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 sales of our CleanSource UPS product can be as short as 45 days, and is typically 60 days, however this can vary by geographic market. The cash cycle on a MIS sale can be significantly longer due to the longer lead time needed on materials purchases and the longer manufacturing schedule. We attempt to mitigate the financial impact of this longer cash cycle by requiring customer deposits and periodic payments where possible from our customers. This is not always commercially feasible, and in order to increase our MIS sales, we may be required to make larger investments in inventory and receivables. These larger investments may require us to obtain additional sources of working capital, debt or equity financing in order to fund the MIS business.

Should additional funding be required, 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 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.

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

($ in thousands)	**Nine Months Ended September 30,**		**Variance**	
	2013	**2012**	**$**	**%**
Cash provided by (used in) operating activities	$ 934	$ (5,192)	$ 6,126	118%

Cash provided from operating activities was $0.9 million in the nine-month period ended September 30, 2013 compared to a use of cash of $5.2 million the same period of 2012. Changes in the period ending September 30, 2013 were primarily related to changes in our working capital, as were the changes in the prior year nine month period.

The fluctuations in working capital can be impacted by the timing of product orders and shipments. In the nine-month period ended September 30, 2013, we saw a $2.6 million use of cash related to inventory manufactured in the period. This was in part due to a reduction in UPS orders for our current product and an increase in build for our new product through the third quarter of 2013. There was also an increase in cash related to lower accounts receivable of approximately $8.8 million, partially offset by a use of cash of $1.8 million in other current assets primarily related to the restatement of amounts owed to us by Qiyuan Network Systems. We anticipate that cash flows from operations will fluctuate significantly based upon the volume and size of our customer orders and by the timing of product delivery relative to our reporting periods, and that such volatility in sources and uses of funds will continue based upon growth of our various product lines. We anticipate a significant reduction in operating cash in the fourth quarter 2013 as a result of lower sales in the third quarter of 2013.

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

($ in thousands)	Nine Months Ended September 30,		Variance	
	2013	2012	$	%
Cash used in investing activities	$ (859)	$ (1,021)	$ (162)	16%

Investing activities primarily consist of purchases of property and equipment. Capital expenditures were $0.1 million, or 9% lower in the nine-month period ending September 30, 2013, compared to the same period of 2012, which is attributable to the fact that in the 2012 period we invested in multiple demonstration UPS systems in Asia and EMEA. This year's expenditures include the purchase of equipment to support our next generation of UPS product in addition to the purchase of heavy equipment expected to help us make our manufacturing facility more efficient and reduce our rental expenses going forward.

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

($ in thousands)	NIne Months Ended September 30,		Variance	
	2013	2012	$	%
Cash provided by financing activities	$ 614	$ 10,034	$ (9,420)	-94%

Funds provided by financing activities in the period ending September 30, 2013 primarily includes proceeds received from stock option exercises. Funds provided during the nine-months ended September 30, 2012 primarily reflect the sale of common stock of approximately 2.9 million shares at a purchase price of $3.40 per share, for proceeds, net of fees and expenses, of approximately $9.6 million, and also reflects proceeds from the exercise of employee stock options.

The shares that were sold in the first quarter of 2012 were sold pursuant to our shelf registration statement on Form S-3 dated November 24, 2009, as amended on December 17, 2009 (Registration No. 333-163301), which was declared effective by the Securities and Exchange Commission (the "SEC") on December 21, 2009, as supplemented by a prospectus supplement dated March 7, 2012. No discounts or placement agent fees were payable in connection with the Offering. This shelf registration expired in late 2012.

We filed a new shelf registration statement on Form S-3 dated April 30, 2013, which was declared effective by the SEC on June 26, 2013. This shelf registration provides for the sale of a variety of security types up to an amount of $50.0 million. The net proceeds from sales of these securities will be used for general corporate purposes, which may include working capital, capital expenditures, other corporate expenses and acquisitions of complementary products, technologies or businesses.

While we expect the fourth quarter to result in a significant reduction in our overall cash position, we believe that our existing sources of liquidity combined with cash generated from operations and borrowings under our credit agreement will be sufficient to meet our currently anticipated cash requirements for the next 12 months. However, our industry is capital intensive and, to the extent we continue to incur operating losses, we may need to raise additional funding through further borrowings under our credit agreement or from additional equity or debt financing. The timing and amount of any such financing will depend on a number of factors, including our operating results, our compliance with the covenants in our credit agreement, our stock price, demand for our products, changes in industry conditions, product mix and competitive factors. There can be no assurance that such financing will be available on acceptable terms, and any additional equity or convertible debt financing would result in incremental ownership dilution to our existing stockholders.

Our cash cycle is such that we generally have some visibility in advance for future orders that allows us to anticipate revenues over this period of time. 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. The global economic uncertainty has reduced our confidence at predicting future revenues, and even with improving economic conditions, there is still uncertainty and risk in our forecasting. Our 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 or give us time to identify additional sources of funding if we anticipate an increase in our working capital requirements due to changes in revenues or in our revenue mix. A significant increase in sales, especially in our PowerHouse or our modular IT infrastructure solutions business, would likely increase our working capital requirements, due to the longer production time and cash cycle of sales of these products.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

We invest our cash in a variety of financial instruments, including bank time deposits, and taxable variable rate and fixed rate obligations of corporations, municipalities, and local, state and national government entities and agencies. These investments are denominated in U.S. dollars.

Our interest income is sensitive to changes in the general level of U.S. interest rates, particularly since the majority of our investments are in short-term instruments. We believe that our investment policy is conservative, both in terms of the average maturity of investments that we hold and in terms of the credit quality of the investments. Because of the nature of the majority of our investments, we do not believe a 1% decline in interest rates would have a material effect on interest income or on the fair value of our investments.

We continue to sell products and services in foreign markets and do business in multiple foreign countries, executing transactions that are denominated in other currencies. Those sales and expenses in currencies other than U.S. dollars can result in translation gains and losses which have not been significant to date. Currently, we do not engage in hedging activities for our international operations other than an increasing amount of sales and support expenses being incurred in foreign currencies as a natural hedge. However, recent volatility in currencies, particularly with the pound and Euro, is increasing the amount of potential translation gains and losses and we may engage in hedging activities in the future to mitigate the risks caused by such currency volatility.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and our Chief Financial Officer, based on the evaluation of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), required by paragraph (b) of Rule 13a-15 or Rule 15d-15, have concluded that, as of September 30, 2013, our disclosure controls and procedures were not 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 Securities and Exchange Commission rules and forms, and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

In connection with the restatements made for the periods ending March 31, 2013 and June 30, 2013 included in our Forms 10-Q/A filed with the SEC on November 18, 2013, management of the Company, including our current Chief Executive Officer and our Chief Financial Officer, reevaluated the effectiveness of our disclosure controls and procedures as of March 31, 2013 and June 30, 2013 pursuant to SEC Rule 13a-15(b) under the Exchange Act. As a result of such reevaluation, management has determined that there was a material weakness in our system of internal control over financial reporting as of such dates. As a result of such material weakness, management, including our current Chief Executive Officer and Chief Financial Officer, has revised its earlier assessment and has now concluded that our disclosure controls and procedures were not effective as of as of those dates. The material weakness has yet to be remediated and therefore our management concluded that our disclosure controls and procedures were not effective at September 30, 2013.

Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act are properly recorded, processed, summarized and reported within the time periods required by SEC rules and forms. Management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures that, by their nature, can provide only reasonable assurance regarding management's control objectives. Management does not expect that its disclosure controls and procedures will prevent all errors and fraud. A control system, irrespective of how well it is designed and operated, can only provide reasonable assurance, and cannot guarantee that it will succeed in its stated objectives.

Changes in Internal Control Over Financial Reporting

Other than as described below, there have been no changes in internal control over financial reporting that occurred during the quarter ended September 30, 2013 that have materially affected, or are reasonably likely to affect materially, our internal control over financial reporting.

A material weakness is a control deficiency (within the meaning of the Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 5) or combination of control deficiencies, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management has identified a material weakness resulting from control deficiencies related to our credit approval process whereby we did not confirm information from an employee of the Company in China regarding the facts surrounding Qiyuan, a distributor which we entered into a distribution agreement with. In response to such material weakness, management is implementing additional credit approval process procedures including actions to further verify the financial condition and ownership structure of all new customers.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

SEC Inquiry

By letter dated September 30, 2013, the SEC Division of Enforcement has notified us that it is conducting an investigation regarding us, including matters relating to our public statements regarding Digital China Information Services Company Limited ("Digital China") and our distribution relationships in China. We have been and intend to cooperate fully with the SEC.

Audit Committee Internal Investigation

The audit committee of our Board of Directors, with the assistance of independent counsel, is also conducting an investigation into the facts and circumstances surrounding our agreements and transactions with Qiyuan, including the statements made regarding Qiyuan's affiliation with Digital China. The investigation is ongoing.

Stockholder Litigation

On September 10, 2013, a purported class action complaint was filed in the United States District Court for the Western District of Texas against the Company and certain of its current and former executives. The case is captioned Don Lee v. Active Power, Inc., et. al., Civil Action No. 1:3-cv-00797. The complaint alleges that on April 30, 2013, the Company announced during a conference call that it had entered into a strategic distribution partnership with Digital China. However, on September 5, 2013, after the close of trading, the Company disclosed that its partnership was with Qiyuan Network System Limited, which is neither an affiliate nor a subsidiary of Digital China. The complaint asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder, and seeks unspecified damages on behalf of all stockholders.

On September 13 and October 14, 2013, two separate stockholders filed complaints in the District Court of Travis County, Texas purporting to bring derivative actions on behalf of the Company against certain current and former officers and directors of the Company. The first derivative action is captioned Okumura v. Almgren, et. al., Cause No. D-1-GN-13-003230 and the second derivative action is captioned David B. Shaev IRA v. Milner, et. al., Cause No. D-1-GN-13-003557. The allegations of each derivative complaint mirror those of the class action complaint, and they assert claims for breach of fiduciary duty, unjust enrichment, and/or abuse of control and seek damages on behalf of the Company. Defendants have entered into an agreement with each of the plaintiffs to stay both of the derivative actions pending the outcome of the motion to dismiss in the securities class action.

The Company has directors' and officers' and corporate liability insurance to cover risks associated with the stockholder litigation and has notified its insurers of the complaints described above. Due to the early stage of each litigation, however, it is not possible to estimate the amount or range of possible loss that might result from adverse judgments or settlements of the actions.

Item 1A. Risk Factors.

You should carefully consider the risks described below and in Item 1A of our 2012 Annual Report on Form 10-K before making a decision to invest in our common stock or in evaluating Active Power and our business. The risks and uncertainties described below and in our 2012 Annual Report on Form 10-K are not the only ones we face. Additional risks and uncertainties that we do not presently know, or that we currently view as immaterial, may also impair our business operations. This report is qualified in its entirety by these risk factors.

The actual occurrence of any of the risks described below and in our 2012 Annual Report on Form 10-K could materially harm our business, financial condition and results of operations. In that case, the trading price of our common stock could decline.

We have recognized additional risks that have not previously been mentioned in our 2012 Annual Report on Form 10-K as outlined below.

The transition to a new Chief Executive Officer may limit our ability to effectively execute on our business plan.

Mark A. Ascolese joined us as our Chief Executive Officer and President on October 14, 2013. The presence of a new Chief Executive Officer may destabilize our relationships with customers, vendors, and employees, resulting in loss of business, loss of vendor relationships, and the loss of key employees or declines in the productivity of existing employees. Any or all of these risks could adversely affect our business and operating results.

Our material weakness or other control deficiencies could result in errors in our reported results and could have a material adverse effect on our operations, investor confidence in our business and the trading price of our stock.

A material weakness is a control deficiency or combination of control deficiencies, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected. Our management has 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 which we entered into a distribution agreement with. In response to such material weakness, management is implementing additional credit approval process procedures including actions to further verify the financial condition and ownership structure of all new customers. This material weakness is still ongoing and had not been remediated as of September 30, 2013. Management's evaluation of our disclosure controls and procedures as of September 30, 2013 concluded that, as a result of the material weakness, our disclosure controls and procedures were not effective as of September 30, 2013 to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act are properly recorded, processed, summarized and reported within the time periods required by SEC rules. Any 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, if needed, could be materially and adversely affected, which in turn could materially and adversely affect our business, our financial condition and the market value of our stock. In addition, perceptions of us among customers, lenders, investors, securities analysts and others could also be adversely affected. We can give no assurances that the measures we have taken to date, or any future measures we may take, will remediate the material weaknesses identified or that any additional material weaknesses will not arise in the future.

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

We are involved in ongoing legal matters as described in "Part II—Item 1—Legal Proceedings." These matters may harm our business or liquidity in the future. We have incurred and expect to 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 are unable to predict the duration, scope or results of the SEC investigation. In connection with our pending legal matters, including any further litigation that may be pursued, 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. Our pending legal matters are in the early stages and we cannot predict their outcomes. Adverse outcomes or other developments during the course of such matters may harm our business, financial condition, results of operations or liquidity as well as investors' perception of our business.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

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Item 6. Exhibits.

The following documents are filed as exhibits to this report:

3.1*	Restated Certificate of Incorporation, dated June 7, 2006 (filed as Exhibit 3.1 to Active Power's Quarterly Report on Form 10-Q filed on April 30, 2012)
3.2*	Certificate of Amendment to Restated Certificate of Incorporation (filed as Exhibit 3.1 to Active Power's Current Report on Form 8-K filed on December 27, 2012)
3.3*	Second Amended and Restated Bylaws as adopted February 1, 2007 (filed as Exhibit 3.2 to Active Power's Quarterly Report on Form 10-Q filed on April 30, 2012)
3.4*	Amendment to Second Amended and Restated Bylaws as adopted December 6, 2007 (filed as Exhibit 3.3 to Active Power's Quarterly Report on Form 10-Q filed on April 30, 2012)
4.1*	Specimen certificate for shares of Common Stock (filed as Exhibit 4.1 to Active Power's IPO Registration Statement on Form S-l (SEC File No. 333-36946))
4.2*	See Exhibits 3.1, 3.2 and 3.3 for provisions of the Certificate of Incorporation and Bylaws of the registrant defining the rights of holders of common stock
10.1	Offer Letter, dated September 26, 2013 between Active Power, Inc. and Mark A. Ascolese
10.2	Severance Benefits Agreement, dated September 26, 2013 between Active Power, Inc. and Mark A. Ascolese
10.3	Offer Letter, dated November 4, 2013 between Active Power, Inc. and Randall J. Adleman
10.4	Severance Benefits Agreement, dated November 4, 2013 between Active Power, Inc. and Randall J. Adleman
10.5	Separation Agreement and Release, dated November 7, 2013, between Active Power and Martin T. Olsen
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2003
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2003
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2003
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2003
101	The following financial statements from the Active Power's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, formatted in XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations and Comprehensive Loss, (iii) Condensed Consolidated Statements of Cash Flows, and (iv) Notes to Condensed Consolidated Financial Statements.

* Incorporated by reference to the indicated filing.

SIGNATURES

Pursuant to the requirements 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.
(Registrant)

November 18, 2013
(Date)

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

November 18, 2013
(Date)

/s/ Steven R. Fife
Steven R. Fife
Chief Financial Officer and Secretary
(Principal Financial and Accounting Officer)

Exhibit 10.1

September 25, 2013

Mark A. Ascolese
1117 Falls Bridge Drive
Raleigh North Carolina, 27614

Re: Offer of Employment with Active Power, Inc.

Dear Mark:

On behalf of Active Power, Inc. (the "Company"), I am pleased to invite you to join the Company as its Chief Executive Officer, reporting directly to the Board of Directors of the Company. In this position, you will be expected to devote your full business time, attention, and energies to the performance of your duties with the Company at its location in Austin, Texas, or while traveling on Company business. The effective date of your employment will be October 14, 2013 or such other date as you and the Company mutually agree in writing.

The terms of this offer of employment are as follows:

1. At-Will Employment. You should be aware that your employment with the Company is for no specified period and constitutes "at-will" employment. As a result, you are free to terminate your employment at any time, for any reason or for no reason. Similarly, the Company is free to terminate your employment at any time, for any reason or for no reason. We request that you give the Company at least two (2) weeks' notice in the event of a resignation. Notwithstanding the foregoing, you may be eligible for certain severance payments upon any such termination of your employment pursuant to the terms and conditions of the Company's Severance Benefits Agreement, a copy of which is attached hereto as Exhibit A (the "Severance Agreement").

2. Position and Duties. You will serve in a full-time capacity as CEO of the Company. In addition, and subject to the requisite Board and/or stockholder approval, you will serve on the Company's Board of Directors (the " Board") for as long as you are employed as CEO. You will render such business and professional services consistent with your executive position, as shall reasonably be assigned to you by the Company's Board.

3. Compensation. The Company will pay you a salary at the rate of $450,000 per year (the " Base Salary"), payable in accordance with the Company's standard payroll policies, including compliance with applicable withholding. Your Base Salary will not be changed for the remainder of 2013 or for 2014. Any future increase or decrease in Base Salary (together with the then existing Base Salary) shall serve as the "Base Salary" for future employment under this offer letter. The first and last payment by the Company to you will be adjusted, if necessary, to reflect a commencement or termination date other than the first or last working day of a pay period.

4. Equity Grant. Subject to approval by the Compensation Committee of the Board, you will be granted an option to purchase 340,000 shares of the Company's Common Stock (the "Option Shares") at an exercise price equal to the fair market value per share of the Common Stock on the date the Compensation Committee of the Board approves the option grant. The Option Shares shall vest as follows: 25% of the Option Shares shall vest upon completion of one (1) year of service measured from your vesting commencement date, and the balance of the Option Shares shall vest quarterly in a series of 12 successive equal installments upon your completion of each additional quarter of service measured from the one-year anniversary of your vesting commencement date. This option grant shall be subject to the terms and conditions of the Company's 2010 Equity Incentive Plan and Stock Option Agreement, including vesting requirements (the " Stock Agreements").

5. Signing Bonus. The Company will pay you a one-time signing bonus in the amount of $100,000 (the " Signing Bonus"), payable in accordance with the Company's standard payroll practices, including compliance with applicable withholding, such payment to be included in the first applicable pay period following the commencement of your employment with the Company. The Signing Bonus must be repaid to the Company under certain circumstances as set forth in Section 9 hereof.

6. Annual Bonus Program. Beginning with fiscal year 2014, you will be eligible to earn a bonus of up to 100% of your Base Salary based on the achievement of corporate objectives at target and MBO's, subject to the terms and conditions of the Company's Executive Bonus Program as approved from time to time by the Board of Directors (the "Bonus Program"). The bonus is determined and paid at the time and manner set forth under the Bonus Program by the Board of Directors, and the amount of bonus payable may be subject to thresholds and accelerators. Subject to the Severance Agreement, receipt of any bonus is contingent upon your continued employment with the Company through the date the bonus is paid. Subject to the Severance Agreement, no "pro-rated" or partial bonus will be provided unless approved by the Board in its sole discretion.

7. Benefits. During the term of your employment, you will be entitled to four (4) weeks vacation and benefits covering employees at your level, as such may be in effect from time to time.

8. Temporary Living Expenses; Relocation Assistance. The Company is also offering you reimbursement for the following relocation expenses for your move from Raleigh, North Carolina to Austin, Texas: (a) the reasonable costs of moving your and your family's household goods to Austin, and (b) closing costs on the purchase of a home in Austin; provided in each case that your relocation occurs on or prior to the first anniversary of the commencement of your employment with the Company (the "Relocation Expenses"). The Company will reimburse you for the following temporary living expenses, not to exceed an aggregate of $3,500 per month (the "Temporary Living Expenses"): (a) temporary corporate housing for the period beginning with your date of hire and continuing until you complete your relocation process, up to a maximum of nine (9) months from your date of hire (the " Temporary Housing Period"), and (b) coach airfare for you between Austin and Raleigh, North Carolina for you to visit your family up to two (2) times per month (or, for your wife to visit you in Austin). We will only reimburse you for these expenditures once you submit valid receipts to the Company and they are approved by the Board of Directors. If any Relocation Expenses or Temporary Living Expenses are deemed taxable income to you, the Company will tax equalize these items (the " Gross-Up") no later than the end of the calendar year following the calendar year in which you remit the tax on the payment for which the Company is providing the Gross-Up to fully offset your taxes attributable to relocation expenses. In addition to the reimbursement for Relocation Expenses and the Temporary Living Expenses, the Company will provide to you a car for your use in Austin during the Temporary Housing Period only. The Board expects that during the Temporary Housing Period you will devote the same amount of time in the performance of your duties and responsibilities as Chief Executive Officer as would be expected of a person in the same position whose principal residence is located in Austin, Texas.

9. Potential Repayment of Signing Bonus. Notwithstanding anything to the contrary herein, if, on or before the one (1) year anniversary of your date of hire (or, if later, the closing of your relocation and purchase of a home in Austin, Texas), you resign your employment with the Company for any reason other than Good Reason (as defined in the Severance Agreement) or are terminated for Cause (as defined in the Severance Agreement), you will repay the entire amount of your Signing Bonus.

10. Immigration Laws. For purposes of federal immigration laws, you will be required to provide to the Company documentary evidence of your identity and eligibility for employment in the United States. Such documentation must be provided within 3 business days of the effective date of your employment, or your employment relationship with the Company may be terminated.

11. Employee Proprietary Information Agreement. As a condition of this offer of employment, you will be required to complete, sign, and return the Company's standard form of employee proprietary information agreement (the " EPIA"), a copy of which is attached hereto as Exhibit B.

12. Severance Benefits. Should you accept the position offered by the Company, you will be eligible for severance benefits subject to the terms and conditions, including any conditions precedent, of the Severance Agreement.

13. Resignation on Termination. By signing below, you understand and agree that, upon the termination of your employment, regardless of the reason for such termination, you shall immediately (and with contemporaneous effect) resign any directorships, offices or other positions that you may hold in the Company or any affiliate, unless otherwise agreed in writing by you and the Company.

14. Background Check. You also understand that this offer of employment is contingent upon the successful completion of a background check, and you consent to such background check, and agree to timely complete the Company's standard forms required for such check upon request by the Company.

15. Indemnification. The Company will extend to you the coverage under its directors' and officers' insurance policy currently in effect. The Company will also enter into its standard form of Indemnification Agreement with you, providing for, among other things, indemnification in connection your discharging your fiduciary duties to the Company.

16. General. This offer letter, the EPIA, the Severance Agreement, and the Stock Agreements (if an option grant is approved by the Compensation Committee of the Board) covering the grant described in paragraph 4, when signed by you, set forth the terms of your employment with the Company and supersede any and all prior representations and agreements, whether written or oral. In the event of a conflict between the terms and provisions of this offer letter and the EPIA, the Severance Agreement, and the Stock Agreements, the terms and provisions of the EPIA, the Severance Agreement, and the Stock Agreements will control. Any amendment of this offer letter or any waiver of a right under this offer letter must be in a writing signed by you and an officer of the Company. **Texas law will govern this offer letter**.

We look forward to you joining the Company. If the foregoing terms are agreeable, please indicate your acceptance by signing this offer letter in the space provided below and returning it to me, along with your completed and signed EPIA and Severance Agreement.

Sincerely,

ACTIVE POWER, INC.

By: /s/ Ake Almgren 9/25/13

Ake Almgren, Chairman of the Board and Acting Chief Executive Officer

AGREED TO AND ACCEPTED:

"Employee"

/s / Mark A. Ascolese 9/26/13

Mark A. Ascolese

Exhibit 10.2

SEVERANCE BENEFITS AGREEMENT

THIS SEVERANCE BENEFITS AGREEMENT (the "Agreement") is made as of the 25th day of September, 2013 between Active Power, Inc., (the "Company"), and Mark A. Ascolese, an individual resident of Raleigh, North Carolina (" Employee"). Employee and the Company are collectively referred to herein as the "Parties."

1. At-Will Employment Status. Employee has accepted employment with the Company on an "at will" basis, which means that either the Company or Employee may terminate Employee's employment with the Company at any time and for any or no reason.

2. Severance Benefits upon Involuntary Termination Without Cause or Resignation for Good Reason. Although Employee's employment is at-will, if Employee is terminated by the Company without Cause (as defined below) or resigns with Good Reason (as defined below), then Employee shall be entitled to receive:

(a) if such termination by the Company or resignation by the Employee occurs on or prior to the first to occur of the one (1) year anniversary of the commencement of Employee's employment with the Company or the closing of Employee's relocation and purchase of a home in Austin, Texas, (i) continuing severance pay at a rate equal to 100% of Employee's base salary, as then in effect (less applicable withholding taxes), for a period of six (6) months from the date of such termination, to be paid periodically in accordance with the Company's normal payroll practices; and (ii) if Employee elects continuation coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended (" COBRA"), for Employee, within the time period prescribed pursuant to COBRA, the Company will reimburse Employee for the COBRA premiums for such coverage (at the coverage levels in effect immediately prior to Employee's termination) until the earlier of (i) a period of six (6) months from the last date of employment of the Employee with the Company, (ii) until Employee has secured other employment, or (iii) the date Employee is no longer eligible to receive continuation coverage pursuant to COBRA. COBRA reimbursements shall be made by the Company to Employee consistent with the Company's normal expense reimbursement policy, provided that Employee submits documentation to the Company substantiating Employee's payments for such COBRA coverage.

(b) if such termination by the Company or resignation by the Employee occurs after the first to occur of the one (1) year anniversary of the commencement of Employee's employment with the Company or the closing of Employee's relocation and purchase of a home in Austin, Texas,

(i) continuing severance pay at a rate equal to 100% of Employee's base salary, as then in effect (less applicable withholding taxes), for a period of twelve (12) months from the date of such termination, to be paid periodically in accordance with the Company's normal payroll practices; and

(ii) all stock options and restricted stock held by Employee in which Employee would have vested if Employee had remained employed with the Company for a period of twelve (12) months following the date of termination shall immediately vest and, if applicable, become exercisable as of the date of termination; and

(iii) if Employee elects continuation coverage pursuant to COBRA for Employee, within the time period prescribed pursuant to COBRA, the Company will reimburse Employee for the COBRA premiums for such coverage (at the coverage levels in effect immediately prior to Employee's termination) until the earlier of (i) a period of twelve (12) months from the last date of employment of the Employee with the Company, (ii) until Employee has secured other employment, or (iii) the date Employee is no longer eligible to receive continuation coverage pursuant to COBRA. COBRA reimbursements shall be made by the Company to Employee consistent with the Company's normal expense reimbursement policy, provided that Employee submits documentation to the Company substantiating Employee's payments for such COBRA coverage; and

(iv) all or a portion of Employee's bonus under the Company's Executive Bonus Program, as may be in effect, for the year in which Employee's termination without Cause or resignation for Good Reason occurs, determined as follows: (i) with respect to corporate or individual objectives that are measured over a period of time (such as revenue for a fiscal year), the amount of such bonus with respect to such objective shall be determined based on a comparison of the amount of such objective actually achieved through the date of such termination against a pro rated portion (based on a number of days, weeks or months, as applicable, during the applicable measurement period for which Employee remained a service provider of the Company) of the target objective, and shall be payable on a pro rata basis (based on the number of days during the applicable measurement period for which Employee remained a service provider of the Company), and (ii) with respect to corporate or individual objectives that are measured based on the occurrence of a specific event at a point in time, the full amount of such bonus with respect to such objective shall be payable if such objective is achieved prior to the date of such termination. All determinations of the amount of the achievement of such objectives and the amounts of such bonuses shall be made by the Board of Directors of the Company, in its sole discretion.

3. Acceleration Upon Termination After a Change in Control. Although Employee's employment is at-will, in the event that Employee is terminated by the Company without Cause or resigns with Good Reason within twelve (12) months after a Change in Control (as defined below), in addition to the benefits set forth in Sections 2(a), 2(b)(i), 2(b)(iii) and 2(b)(iv), as applicable, but in lieu of the benefits set forth in Section 2(b)(ii) above, as applicable, one hundred percent (100%) of the stock options and any restricted stock units held by Employee prior to the date of the Change of Control shall immediately vest and, if applicable, become exercisable as of the date of termination.

4. Confidential Information/ Non-Competition Agreement.

(a) Employee is employed hereunder by the Company in a confidential relationship wherein Employee, in the course of his employment with the Company, has and will continue to become familiar with and aware of Confidential Information (as defined in the Confidentiality Agreement (as defined below)), including but not limited to confidential information regarding the Company's customers and specific manner of doing business, including the processes, techniques and trade secrets utilized by the Company, and future plans with respect thereto. In consideration for Employee's promises herein and in the Confidentiality Agreement, the Company agrees to provide Employee with such Confidential Information; in return, Employee recognizes and acknowledges that such information must be maintained in confidence, and to further such protection agrees to the restrictive covenants set forth in this Section 4.

(b) Employee acknowledges that Employee's fulfillment of the obligations contained in this Agreement, including, but not limited to, Employee's obligation neither to use, except for the benefit of the Company, or to disclose the Company's Confidential Information and Employee's obligation not to compete contained in this Section 4 is necessary to protect the Company's Confidential Information and to preserve the Company's value and goodwill. Employee further acknowledges the time, geographic and scope limitations of Employee's obligations under this Section 4 are reasonable, especially in light of the Company's desire to protect its Confidential Information, and that Employee will not be precluded from gainful employment if Employee is obligated not to compete with the Company during the period and within the Territory as described in this Section 4.

(c) Employee will not, during the period of his employment by or with the Company, and for a period of twelve (12) months immediately following the termination of his employment with the Company, for any reason whatsoever, directly or indirectly, for himself or on behalf of or in conjunction with any other person, company, partnership, corporation, business or entity of whatever nature:

(i) engage, as an officer, director, shareholder, owner, partner, joint venturer, or in a managerial capacity, whether as an employee, independent contractor, consultant or advisor, or as a sales representative, in any business selling any products or services in direct competition with the Company, within 100 miles of (i) the principal executive offices of the Company or (ii) any place where the Company conducts business, provides products or services, or in which the Company (including the subsidiaries thereof) is in the process of initiating business operations as of the date on which Employee's employment by the Company hereunder is terminated (the "Territory");

(ii) call upon any person who is, at that time, within the Territory, an employee of the Company (including the subsidiaries thereof) in a managerial capacity for the purpose or with the intent of enticing such employee away from or out of the employ of the Company (including the subsidiaries thereof);

(iii) call upon any person or entity which is, at that time, or which has been, within one (1) year prior to that time, a customer of the Company (including the subsidiaries thereof') within the Territory for the purpose of soliciting or selling products or services in direct competition with the Company within the Territory;

(iv) call upon any prospective acquisition candidate, on Employee's own behalf or on behalf of any competitor, which candidate was either called upon by the Company (including the subsidiaries thereof) or for which the Company made an acquisition analysis, for the purpose of acquiring such entity, provided however, that this section (iv) will not apply if the Company affirmatively declined to proceed with the acquisition; or

(v) disclose customers of the Company (or the subsidiaries thereof) to any person, firm, partnership, corporation or business for any competitive reason. As used in Section 4(c), references to the business, customers, Territory, etc. of the Company refer to the status of the Company prior to any Change in Control (*i.e.*, such breadth of business, customers, Territory, etc. shall not automatically be expanded to include those of a successor to the Company resulting from a Change in Control). Notwithstanding the above, the foregoing covenant shall not be deemed to prohibit Employee from acquiring as an investment not more than three percent (3%) of the capital stock of a competing business, whose stock is traded on a national securities exchange or over-the-counter.

(d) Because of the difficulty of measuring economic losses to the Company as a result of a breach of the foregoing covenant, and because of the immediate and irreparable damage that could be caused to the Company for which it would have no other adequate remedy, Employee agrees that the foregoing covenant may be enforced by the Company in the event of breach by him by injunctions and restraining orders without the necessity of posting any bond therefor.

(e) In the course of Employee's employment with the Company, Employee will become exposed to certain of the Company's confidential information and business relationships, which the above covenants are designed to protect and Employee agrees to keep such confidential information in the strictest confidence. It is agreed by the parties that the foregoing covenants in this Section 4 impose a reasonable restraint on Employee in light of the activities and business of the Company (including the Company's subsidiaries) on the date of the execution of this Agreement and the current plans of the Company (including the Company's subsidiaries); but it is also the intent of the Company and Employee that such covenants be construed and enforced in accordance with the changing activities, business and locations of the Company (including the Company's subsidiaries) throughout the term of this covenant, subject to the following paragraph. For example, if, during Employee's term of employment, the Company (including the Company's subsidiaries) engages in new and different activities, enters a new business or established new locations for its current activities or business in addition to or other than the activities or business of the Company (including the Company's subsidiaries) as of the date of this Agreement or the locations currently established therefor, then, to the extent described in Section 4(c), Employee will be precluded from soliciting the customers or employees of such new activities or business or from such new location and from directly competing with such new business within 100 miles of its then-established operating locations through the term of this covenant.

(f) The covenants in this Section 4 are severable and separate, and the unenforceability of any specific covenant shall not affect the provisions of any other covenant. Moreover, in the event any court of competent jurisdiction shall determine that the scope, time or territorial restrictions set forth herein are unreasonable, then it is the intention of the Parties that such restrictions be reformed and enforced to the fullest extent which the court deems reasonable, and the Agreement shall thereby be reformed to such extent.

(g) All of the covenants in this Section 4 shall be construed as an agreement independent of any other provision in this Agreement, and the existence of any claim or cause of action of Employee against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of such covenants.

(h) It is specifically agreed that the period of twelve (12) months following Employee's employment set forth at the beginning of this Section 4, during which the agreements and covenants of Employee made in this Section 4 shall be effective, shall be computed by excluding from such computation any time during which Employee is in violation of any provision of this Section 4.

5. Conditions Precedent. Any severance payments and/or benefits contemplated by Sections 2 and 3 above are conditional on Employee:

(a) continuing to comply with the terms of this Agreement and the Employee Proprietary Information Agreement between Employee and the Company (the "Confidentiality Agreement");

(b) signing and not revoking a separation agreement and release of claims in a form reasonably acceptable to the Company (the " Release") which becomes effective and irrevocable no later than sixty (60) days following the termination date (such deadline, the " Release Deadline"). If the Release does not become effective and irrevocable by the Release Deadline, Employee will forfeit any rights to severance payments and benefits under this Agreement. In no event will severance payments or benefits be paid or provided until the Release becomes effective and irrevocable.

(i) In the event the termination occurs at a time during the calendar year where the Release could become effective in the calendar year following the calendar year in which Employee's termination occurs (whether or not it actually becomes effective in the following year), then any severance payments and benefits under this Agreement that would be considered Deferred Payments (as defined in below) will be paid on the first payroll date to occur during the calendar year following the calendar year in which such termination occurs, or, if later, (A) the date the Release actually becomes effective, (B) such time as required by the payment schedule applicable to each payment or benefit as set forth in Section 2 above or (C) such time as required by Section 8 below.

(ii) No severance payments and benefits under this Agreement will be paid or provided until the Release becomes effective and irrevocable, and any such severance payments and benefits otherwise payable between Employee's termination date and the date the Release becomes effective and irrevocable will be paid on the date the Release becomes effective and irrevocable. In the event of Employee's death before all of the severance payments and benefits under this Agreement have been paid, such unpaid amounts will be paid in a lump sum payment promptly following such event to Employee's designated beneficiary, if living, or otherwise to the personal representative of Employee's estate; and

(c) in the event of a resignation for Good Reason, providing the Company with written notice of the acts or omissions constituting the grounds for Good Reason within ninety (90) days of the initial existence of the grounds for Good Reason and a reasonable opportunity for the Company to cure the conditions giving rise to such Good Reason, which shall not be less than thirty (30) days following the date of notice from Employee. If the Company cures the conditions giving rise to such Good Reason within thirty (30) days of the date of such notice, Employee will not be entitled to severance payments and/or benefits contemplated by Sections 2 or 3 above if Employee thereafter resigns from the Company based on such grounds. Unless otherwise required by law, no severance payments and/or benefits under Sections 2 or 3 will be paid and/or provided until after the expiration of any relevant revocation period.

6. Definitions. For purposes of this Agreement,

(a) *Cause*. For purposes of this Agreement, "Cause" shall mean (i) Employee's continued failure to substantially perform the duties and obligations of Employee's position (for reasons other than death or Disability (as defined below)), which failure, if curable within the discretion of the Company, is not cured to the reasonable satisfaction of the Company within thirty (30) days after receipt of written notice from the Company of such failure; (ii) Employee's failure to devote the same amount of time in the performance of his duties and responsibilities as Chief Executive Officer as would be expected of a person in the same position whose principal residence is located in Austin, Texas, which failure, if curable within the discretion of the Company, is not cured to the reasonable satisfaction of the Company within thirty (30) days after receipt of written notice from the Company of such failure; (iii) Employee's failure or refusal to comply with reasonable written policies, standards and regulations established by the Company from time to time which failure, if curable in the discretion of the Company, is not cured to the reasonable satisfaction of the Company within thirty (30) days after receipt of written notice of such failure from the Company; (iv) any act of personal dishonesty, fraud, embezzlement, misrepresentation, or other unlawful act committed by Employee that results in a substantial gain or personal enrichment of Employee at the expense of the Company; (v) Employee's violation of a federal or state law or regulation applicable to the Company's business, which violation was or is reasonably likely to be materially injurious to the Company; (vi) Employee's violation of, or a plea of nolo contendere or guilty to, a felony under the laws of the United States or any state; (vii) the Employee's material breach of the terms of Section 4 of this Agreement or of the Confidentiality Agreement; or (viii) failing to consent to or to satisfactorily complete the Company's background check following his acceptance of employment with the Company or failing to satisfy the federal immigration requirements set forth under paragraph 10 of his offer letter.

(b) *Change in Control*. For purposes of this Agreement, "Change in Control" shall mean the occurrence of any of the following events:

(i) Change in Ownership of the Company. A change in the ownership of the Company 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 the Company that, together with the stock held by such Person, constitutes more than 50% of the total voting power of the stock of the Company, except that any change in the ownership of the stock of the Company as a result of a private financing of the Company that is approved by the Board will not be considered a Change in Control; or

(ii) Change in Effective Control of the Company. If the Company has a class of securities registered pursuant to Section 12 of the Exchange Act, a change in the effective control of the Company which occurs on the date that a majority of members of the Board is replaced during any twelve (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 clause (ii), if any Person is considered to be in effective control of the Company, the acquisition of additional control of the Company by the same Person will not be considered a Change in Control; or

(iii) Change in Ownership of a Substantial Portion of the Company's Assets. A change in the ownership of a substantial portion of the Company's assets which occurs on the date that any Person acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than 50% of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions. For purposes of this subsection (iii), gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets. For these purposes, 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 the Company. Notwithstanding the foregoing provisions of this definition, a transaction will not be deemed a Change in Control unless the transaction qualifies as a change in control event within the meaning of Section 409A. Further and for the avoidance of doubt, a transaction will not constitute a Change in Control if: (i) its sole purpose is to change the state of the Company's incorporation, or (ii) its sole purpose is to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

(c) *Disability*. For purposes of this Agreement, "Disability" shall mean the inability of Employee to engage in substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months.

(d) *Good Reason*. For purposes of this Agreement, "Good Reason" shall mean, without Employee's written consent: (i) there is a material reduction of the level of Employee's base compensation (except where there is a general reduction applicable to the management team generally); (ii) there is a material reduction in Employee's overall responsibilities or authority, or scope of duties, provided, however, that a reduction in responsibilities, authority or duties solely by virtue of the Company being acquired and made part of a larger entity (as, for example, when the Chief Executive Officer of the Company remains as such following a Change of Control but is not made the Chief Executive Officer of the acquiring corporation) will not constitute "Good Reason" so long as Employee continues to maintain substantially the same duties and responsibilities with respect to the primary business of the Company; (iii) the Company's material breach of this Agreement or the Employee's offer letter, which failure is not cured within thirty (30) days after receipt of written notice from Employee of such failure; or (iv) a material change in the geographic location at which Employee must perform his services; provided, that in no instance will the relocation of Employee to a facility or a location of fifty (50) miles or less from Employee's then current office location be deemed material for purposes of this Agreement. In no instance will a resignation by Employee be deemed to be for Good Reason if it is made more than twenty four (24) months following the initial occurrence of any of the events that otherwise would constitute Good Reason hereunder.

(e) The Board shall make all determinations relating to termination, including without limitation any determination regarding Cause.

7. Tax Treatment. The Company makes no representations or warranties with respect to the tax consequences of the payment of any sums to Employee under the terms of this Agreement. Employee agrees and understands that, with the exception of the withholdings from the severance payments, Employee is responsible for payment of any local, state and/or federal taxes on the sums paid hereunder by the Company and any penalties or assessments thereon. Employee further agrees to indemnify and hold the Company harmless from any claims, demands, deficiencies, penalties, assessments, executions, judgments, or recoveries by any government agency against the Company for any amounts claimed due on account of Employee's failure to pay federal or state taxes or damages sustained by the Company by reason of any such claims, including reasonable attorney fees.

8. Section 409A.

(a) Notwithstanding anything to the contrary in this Agreement, no severance payments or benefits payable to Employee, if any, pursuant to this Agreement that, when considered together with any other severance payments or separation benefits, is considered deferred compensation under Internal Revenue Code Section 409A (together, the "Deferred Payments") will be payable until Employee has a "separation from service" within the meaning of Section 409A ("Section 409A") of the Internal Revenue Code of 1986, as amended (the "Code"). Similarly, no severance payable to Employee, if any, pursuant to this Agreement that otherwise would be exempt from Section 409A pursuant to Treasury Regulation Section 1.409A-1(b)(9) will be payable until Employee has a "separation from service" within the meaning of Section 409A.

(b) Further, if Employee is a "specified employee" within the meaning of Section 409A at the time of Employee's separation from service (other than due to death), any Deferred Payments that otherwise are payable within the first six (6) months following Employee's separation from service will become payable on the first payroll date that occurs on or after the date six (6) months and one (1) day following the date of Employee's separation from service. All subsequent Deferred Payments, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, in the event of Employee's death following Employee's separation from service but prior to the six (6) month anniversary of Employee's separation from service (or any later delay date), then any payments delayed in accordance with this paragraph will be payable in a lump sum as soon as administratively practicable after the date of Employee's death and all other Deferred Payments will be payable in accordance with the payment schedule applicable to each payment or benefit. Each payment and benefit payable under the Agreement is intended to constitute a separate payment for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations.

(c) Any severance payment that satisfies the requirements of the "short-term deferral" rule set forth in Section 1.409A-1(b)(4) of the Treasury Regulations shall not constitute Deferred Payments for purposes of the Agreement. Any severance payment that qualifies as a payment made as a result of an involuntary separation from service pursuant to Section 1.409A-1(b)(9)(iii) of the Treasury Regulations that does not exceed the Section 409A Limit shall not constitute Deferred Payments for purposes of the Agreement. For purposes of this subsection (c), " Section 409A Limit" will mean the lesser of two (2) times: (i) Employee's annualized compensation based upon the annual rate of pay paid to Employee during Employee's taxable year preceding Employee's taxable year of Employee's separation from service as determined under Treasury Regulation Section 1.409A-1(b)(9)(iii)(A)(1) and any Internal Revenue Service guidance issued with respect thereto; or (ii) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Code for the year in which Employee's employment is terminated.

(d) The foregoing provisions are intended to comply with the requirements of Section 409A so that none of the severance payments and benefits to be provided under the Agreement will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to so comply. Employee and the Company agree to work together in good faith to consider amendments to the Agreement and to take such reasonable actions which are necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition prior to actual payment to Employee under Section 409A.

9. Limitation on Payments. In the event that the severance and other benefits provided for in this Agreement or otherwise payable to Employee (i) constitute "parachute payments" within the meaning of Section 280G of the Code, and (ii) would be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), then Employee's benefits under this Agreement shall be either

(a) delivered in full, or

(b) delivered as to such lesser extent which would result in no portion of such benefits being subject to the Excise Tax, whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the Excise Tax, results in the receipt by Employee on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under Section 4999 of the Code. If a reduction in severance and other benefits constituting "parachute payments" is necessary so that benefits are delivered to a lesser extent, reduction will occur in the following order: reduction of cash payments, cancellation of equity awards granted within the twelve (12) month period prior to a "change in control" (as determined under Code Section 280G) that are deemed to have been granted contingent upon the change in control (as determined under Code Section 280G), cancellation of accelerated vesting of equity awards, reduction of employee benefits. Unless the Company and Employee otherwise agree in writing, any determination required under this Section shall be made in writing by the Company's independent public accountants (the " Accountants"), whose determination shall be conclusive and binding upon Employee and the Company for all purposes. For purposes of making the calculations required by this Section, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Section 280G and 4999 of the Code. The Company and Employee shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section. The Company shall bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section.

10. Confidential Information. Employee shall continue to comply with the terms and conditions of the Confidentiality Agreement, and maintain the confidentiality of all of the Company's confidential and proprietary information. Such information includes, but is not limited to, all customer lists, equipment, records, data, notes, reports, proposals, correspondence, specifications, drawings, blueprints, sketches, materials, or other documents or property belonging to the Company.

11. Miscellaneous.

(a) Withholding Taxes. The Company may withhold from all benefits payable under this Agreement all federal, state, city or other taxes as shall be required pursuant to any law or governmental regulation or ruling.

(b) Entire Agreement; Binding Effect. This Agreement and the Confidentiality Agreement set forth the entire understanding between the Parties as to the subject matter of this Agreement and supersede all prior agreements, commitments, representations, writings and discussions between them; and neither of the Parties shall be bound by any obligations, conditions, warranties or representations with respect to the subject matter of this Agreement, except as expressly provided herein or therein or as duly set forth on or subsequent to the date hereof in a written instrument signed by the proper and fully authorized representative of the party to be bound hereby. This Agreement is binding on Employee and on the Company and his/her and its successors and assigns (whether by assignment, by operation of law or otherwise).

(c) Arbitration. The Parties agree that any and all disputes arising out of, or relating to, the terms of this Agreement, their interpretation, and any of the matters herein released, shall be subject to binding arbitration as set forth under Section 10 of the Confidentiality Agreement.

(d) Governing Law; Jurisdiction. This Agreement shall be governed by, and construed and enforced in accordance with, the employment laws of Texas and the other laws of the State of Texas as they apply to contracts entered into and wholly to be performed therein by residents thereof. In addition, each party hereto irrevocably and unconditionally agrees that, subject to Section 11(c) above, any suit, action or other legal proceeding arising out of this Agreement may be brought only in a state or federal court within Texas.

(e) Severability. In the event that any provision hereof becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement shall continue in full force and effect without said provision.

(f) Effect of Headings. The Section and subsection headings contained herein are for convenience only and shall not affect the construction hereof.

(g) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original, and all such counterparts shall constitute but one instrument.

IN WITNESS WHEREOF, the Parties have executed this Agreement on the dates set forth below.

Employee	**Active Power, Inc.**
/s/ Mark A. Ascolese	By: /s/ Ake Almgren
Signature	
	Name: Ake Almgren
Mark A. Ascolese	
(Printed Name)	Title: Chairman & Acting CEO
Dated: September 26, 2013	Dated: September 26, 2013

Exhibit 10.3

October 30, 2013
Randall Adleman
14815 Avery Ranch Blvd
Austin, TX 78717

Re: Offer of Employment with Active Power, Inc.

Dear Randy:

We are pleased to offer you employment with Active Power, Inc. ("Active Power" or the "Company"), in the position of Vice President of Global Sales and Marketing, reporting directly to Mark Ascolese, President and CEO. In this position, you will be expected to devote your full business time, attention and energies to the performance of your duties with Active Power. The effective date of your employment will be November 18, 2013, or such other date as you and the Company mutually agree in writing.

The terms of this offer of employment are as follows:

1. Base Compensation. The Company will pay you a salary at the rate of $9,615.38 bi-weekly (which if annualized would be about $250,000.00 per year) payable in accordance with the Company's standard payroll policies, including compliance with applicable withholding. The first and last payment by the Company to you will be adjusted, if necessary, to reflect a commencement or termination date other than the first or last working day of a pay period.

2. Stock Option. Subject to approval by the Compensation Committee of the Company's Board of Directors, you will be granted an option to purchase 200,000 shares of the Company's common stock. The share options vest as follows: 25% shall vest upon completion of one year of service measured from your vesting commencement date, and the balance shall vest quarterly in a series of 12 successive equal installments upon your completion of each additional quarter of service, measured from the one year anniversary of your vesting commencement date. The exercise price of the options and the commencement of vesting will be set on the date that the option is approved by the Compensation Committee. A Notice of Grant of Stock Option will be provided to you following this approval.

3. Incentive Compensation: You will be paid at a rate of .18% on all bookings up to target and .25% on anything that exceeds target, up to a maximum incentive of $500k. This incentive plan will be in effect during your first twelve months of employment.

4. Benefits. During the term of your employment, you will be entitled to the Company's standard vacation and benefits covering employees at your level, as such may be in effect from time to time.

5. Expense Reimbursement. Expenses incurred on behalf of the Company will be reimbursed in accordance with the Company's Travel and Entertainment Policy. A copy of this policy will be provided to you upon commencement of employment.

6. At-Will Employment. Please note that your employment at Active Power is not for a specified period of time and constitutes "at will" employment. As a result, either you or the Company can terminate the employment relationship at any time, with or without notice and with or without cause. Nothing contained in this offer letter, or in any other communication, oral or written, between you and Active Power, may modify the at-will employment relationship, which may only be modified by a written agreement signed by you and the Chief Executive Officer of Active Power. The Company requests that you provide at least two (2) weeks' notice in the event of a resignation.

7. Proprietary Information and Nondisclosure Agreement . As a condition of this offer of employment, you will be required to complete, sign and return the Company's Proprietary Information and Nondisclosure Agreement ("Confidentiality Agreement"). A copy of this agreement is attached for your review.

8. Immigration Laws. To satisfy federal immigration laws, you will be required to provide documentary evidence of your identity and eligibility for employment in the United States. Such documentation must be provided within three (3) business days of the effective date of your employment, or your employment relationship with the Company may be terminated.

9. General. This offer letter, the Confidentiality Agreement, and any stock option agreement (if approved by the Board of Directors) covering the grant described in paragraph 2, when signed by you, set forth the terms of your employment with the Company and supersede any and all prior representations and agreements, whether oral or written. In the event of a conflict between the terms and provisions of this offer letter and the Confidentiality Agreement and the stock option agreement, the terms and provisions of the Confidentiality Agreement and the stock option agreement will control. Any amendment of this offer letter or any waiver of a right under this offer letter must be in writing signed by you and the Chief Executive Officer of Active Power. Texas law will govern this offer letter.

This offer is subject to the satisfactory completion of a background check and employment verification. If the foregoing terms of this offer are agreeable, please indicate your acceptance thereto by signing this offer letter in the space provided below and returning it to me, along with your completed and signed Confidentiality Agreement. You may fax your acceptance and signed Confidentiality Agreement to my attention at (512) 836-4511 or email scanned signed copies to msnell@activepower.com . We will plan your new-hire orientation after we have finalized the initial offer process.

We are very excited about your joining the team at Active Power and look forward to hearing from you.

Sincerely,

/s/ Mark A. Ascolese

Date: 11/04/13
Mark A. Ascolese
President and Chief Executive Officer

****

I accept Active Power's offer of employment and have read, understood and agreed to the terms and conditions contained and referred to in this letter.

AGREED TO AND ACCEPTED:

/s/ Randall Adelman
Randall Adleman
Date: 10 / 31 / 13

Exhibit 10.4

SEVERANCE BENEFITS AGREEMENT

THIS SEVERANCE BENEFITS AGREEMENT (the "Agreement") is made as of the 22th day of October, 2013 between Active Power, Inc., (the "Company"), and Randall Adleman, an individual resident Austin, Texas ("Employee"). Employee and the Company are collectively referred to herein as the "Parties."

1. At-Will Employment Status. Employee has accepted employment with the Company on an "at will" basis, which means that either the Company or Employee may terminate Employee's employment with the Company at any time and for any or no reason.

2. Severance Benefits upon Involuntary Termination Without Cause or Resignation for Good Reason. Although Employee's employment is at-will, if Employee is terminated by the Company without Cause (as defined below) or resigns with Good Reason (as defined below), then Employee shall be entitled to receive:

(a) continuing severance pay at a rate equal to 100% of Employee's base salary, as then in effect (less applicable withholding taxes), for a period of six (6) months from the date of such termination, to be paid periodically in accordance with the Company's normal payroll practices; and

(b) [all stock options and restricted stock held by Employee in which Employee would have vested if Employee had remained employed with the Company for a period of six (6) months following the date of termination shall immediately vest and, if applicable, become exercisable as of the date of termination; and]

(c) if Employee elects continuation coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA") for Employee, within the time period prescribed pursuant to COBRA, the Company will reimburse Employee for the COBRA premiums for such coverage (at the coverage levels in effect immediately prior to Employee's termination) until the earlier of (i) a period of six months from the last date of employment of the Employee with the Company, (ii) until Employee has secured other employment, or (iii) the date Employee is no longer eligible to receive continuation coverage pursuant to COBRA. COBRA reimbursements shall be made by the Company to Employee consistent with the Company's normal expense reimbursement policy, provided that Employee submits documentation to the Company substantiating Employee's payments for such COBRA coverage; and

(d) all or a portion of Employee's bonus under the Company's management incentive program for the year in which Employee's termination without Cause or resignation for Good Reason occurs, determined as follows: (i) with respect to corporate or individual objectives that are measured over a period of time (such as revenue for a fiscal year), the amount of such bonus with respect to such objective shall be determined based on a comparison of the amount of such objective actually achieved through the date of such termination against a pro rated portion (based on a number of days, weeks or months, as applicable, during the applicable measurement period for which Employee remained a service provider of the Company) of the target objective, and shall be payable on a pro rata basis (based on the number of days during the applicable measurement period for which Employee remained a service provider of the Company), and (ii) with respect to corporate or individual objectives that are measured based on the occurrence of a specific event at a point in time, the full amount of such bonus with respect to such objective shall be payable if such objective is achieved prior to the date of such termination. All determinations of the amount of the achievement of such objectives and the amounts of such bonuses shall be made by the Board of Directors of the Company, in its sole discretion.

3. Acceleration Upon Termination After a Change in Control. Although Employee's employment is at-will, in the event that Employee is terminated by the Company without Cause or resigns with Good Reason within twelve months after a Change in Control (as defined below), in addition to the benefits set forth in Sections 2(a), 2(c) and 2(d), but in lieu of the benefits set forth in Section 2(b) above, one hundred percent (100%) of the stock options and restricted stock held by Employee shall immediately vest and, if applicable, become exercisable as of the date of termination.

4. Confidential Information/ Non-Competition Agreement.

(a) Employee is employed hereunder by the Company in a confidential relationship wherein Employee, in the course of his employment with the Company, has and will continue to become familiar with and aware of Confidential Information (as defined in the Confidentiality Agreement), including but not limited to confidential information regarding the Company's customers and specific manner of doing business, including the processes, techniques and trade secrets utilized by the Company, and future plans with respect thereto. In consideration for Employee's promises herein, the Company agrees to provide Employee with such Confidential Information; in return, Employee recognizes and acknowledges that such information must be maintained in confidence, and to further such protection agrees to the restrictive covenants set forth in this Section 4.

(b) Employee acknowledges that Employee's fulfillment of the obligations contained in this Agreement, including, but not limited to, Employee's obligation neither to use, except for the benefit of the Company, or to disclose the Company's Confidential Information and Employee's obligation not to compete contained in this Section 4 is necessary to protect the Company's Confidential Information and to preserve the Company's value and goodwill. Employee further acknowledges the time, geographic and scope limitations of Employee's obligations under this Section 4 are reasonable, especially in light of the Company's desire to protect its Confidential Information, and that Employee will not be precluded from gainful employment if Employee is obligated not to compete with the Company during the period and within the Territory as described in this Section 4.

(c) Employee will not, during the period of his employment by or with the Company, and for a period of six (6) months immediately following the termination of his employment with the Company, for any reason whatsoever, directly or indirectly, for himself or on behalf of or in conjunction with any other person, company, partnership, corporation, business or entity of whatever nature:

(i) engage, as an officer, director, shareholder, owner, partner, joint venturer, or in a managerial capacity, whether as an employee, independent contractor, consultant or advisor, or as a sales representative, in any business selling any products or services in direct competition with the Company, within 100 miles of (i) the principal executive offices of the Company or (ii) any place where the Company conducts business, provides products or services, or in which the Company (including the subsidiaries thereof) is in the process of initiating business operations as of the date on which Employee's employment by the Company hereunder is terminated (the "Territory");

(ii) call upon any person who is, at that time, within the Territory, an employee of the Company (including the subsidiaries thereof) in a managerial capacity for the purpose or with the intent of enticing such employee away from or out of the employ of the Company (including the subsidiaries thereof);

(iii) call upon any person or entity which is, at that time, or which has been, within one (1) year prior to that time, a customer of the Company (including the subsidiaries thereof') within the Territory for the purpose of soliciting or selling products or services in direct competition with the Company within the Territory;

(iv) call upon any prospective acquisition candidate, on Employee's own behalf or on behalf of any competitor, which candidate was either called upon by the Company (including the subsidiaries thereof) or for which the Company made an acquisition analysis, for the purpose of acquiring such entity, provided however, that this section (iv) will not apply if the Company affirmatively declined to proceed with the acquisition; or

(v) disclose customers of the Company (or the subsidiaries thereof) to any person, firm, partnership, corporation or business for any competitive reason.

As used in Section 4(c), references to the business, customers, Territory, etc. of the Company refer to the status of the Company prior to any Change in Control (*i.e.*, such breadth of business, customers, Territory, etc. shall not automatically be expanded to include those of a successor to the Company resulting from a Change in Control). Notwithstanding the above, the foregoing covenant shall not be deemed to prohibit Employee from acquiring as an investment not more than three percent (3%) of the capital stock of a competing business, whose stock is traded on a national securities exchange or over-the-counter.

(d) Because of the difficulty of measuring economic losses to the Company as a result of a breach of the foregoing covenant, and because of the immediate and irreparable damage that could be caused to the Company for which it would have no other adequate remedy, Employee agrees that the foregoing covenant may be enforced by the Company in the event of breach by him by injunctions and restraining orders without the necessity of posting any bond therefor.

(e) In the course of Employee's employment with the Company, Employee will become exposed to certain of the Company's confidential information and business relationships, which the above covenants are designed to protect and Employee agrees to keep such confidential information in the strictest confidence. It is agreed by the parties that the foregoing covenants in this Section 4 impose a reasonable restraint on Employee in light of the activities and business of the Company (including the Company's subsidiaries) on the date of the execution of this Agreement and the current plans of the Company (including the Company's subsidiaries); but it is also the intent of the Company and Employee that such covenants be construed and enforced in accordance with the changing activities, business and locations of the Company (including the Company's subsidiaries) throughout the term of this covenant, subject to the following paragraph. For example, if, during Employee's term of employment, the Company (including the Company's subsidiaries) engages in new and different activities, enters a new business or established new locations for its current activities or business in addition to or other than the activities or business of the Company (including the Company's subsidiaries) as of the date of this Agreement or the locations currently established therefor, then, to the extent described in Section 4(c), Employee will be precluded from soliciting the customers or employees of such new activities or business or from such new location and from directly competing with such new business within 100 miles of its then-established operating locations through the term of this covenant.

It is further agreed by the parties hereto that, in the event that Employee shall cease to be employed by the Company, and shall later enter into a business or pursue other activities not in competition with the Company (including the Company's subsidiaries) as of Employee's last date of employment with the Company, or similar activities or business in locations the operation of which, under such circumstances, does not violate clause (i) of this Section 4, and in any event such new business, activities or location are not in violation of this Section 4 or of Employee's obligations under this Section 4, if any, Employee shall not be chargeable with a violation of this Section 4 if the Company (including the Company's subsidiaries) shall thereafter enter the same, similar or a competitive (i) business, (ii) course of activities or (iii) location, as applicable.

(f) The covenants in this Section 4 are severable and separate, and the unenforceability of any specific covenant shall not affect the provisions of any other covenant. Moreover, in the event any court of competent jurisdiction shall determine that the scope, time or territorial restrictions set forth herein are unreasonable, then it is the intention of the Parties that such restrictions be enforced to the fullest extent which the court deems reasonable, and the Agreement shall thereby be reformed to such extent.

(g) All of the covenants in this Section 4 shall be construed as an agreement independent of any other provision in this Agreement, and the existence of any claim or cause of action of Employee against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of such covenants.

(h) It is specifically agreed that the period of six (6) months following Employee's employment set forth at the beginning of this Section 4, during which the agreements and covenants of Employee made in this Section 4 shall be effective, shall be computed by excluding from such computation any time during which Employee is in violation of any provision of this Section 4.]

5. Conditions Precedent. Any severance payments and/or benefits contemplated by Sections 2 and 3 above are conditional on Employee:

(a) continuing to comply with the terms of this Agreement and the Proprietary Information and Nondisclosure Agreement between Employee and the Company (the "Confidentiality Agreement");

(b) signing and not revoking a separation agreement and release of claims in a form reasonably acceptable to the Company (the "Release") which becomes effective and irrevocable no later than sixty (60) days following the termination date (such deadline, the "Release Deadline"). If the Release does not become effective and irrevocable by the Release Deadline, Employee will forfeit any rights to severance payments and benefits under this Agreement. In no event will severance payments or benefits be paid or provided until the Release becomes effective and irrevocable.

(i) In the event the termination occurs at a time during the calendar year where the Release could become effective in the calendar year following the calendar year in which Employee's termination occurs (whether or not it actually becomes effective in the following year), then any severance payments and benefits under this Agreement that would be considered Deferred Payments (as defined in below) will be paid on the first payroll date to occur during the calendar year following the calendar year in which such termination occurs, or, if later, (A) the date the Release actually becomes effective, (B) such time as required by the payment schedule applicable to each payment or benefit as set forth in Section 2 above or (C) such time as required by Section 8 below.

(ii) No severance payments and benefits under this Agreement will be paid or provided until the Release becomes effective and irrevocable, and any such severance payments and benefits otherwise payable between Employee's termination date and the date the Release becomes effective and irrevocable will be paid on the date the Release becomes effective and irrevocable. In the event of Employee's death before all of the severance payments and benefits under this Agreement have been paid, such unpaid amounts will be paid in a lump sum payment promptly following such event to Employee's designated beneficiary, if living, or otherwise to the personal representative of Employee's estate; and

(c) in the event of a resignation for Good Reason, providing the Company with written notice of the acts or omissions constituting the grounds for Good Reason within ninety (90) days of the initial existence of the grounds for Good Reason and a reasonable opportunity for the Company to cure the conditions giving rise to such Good Reason, which shall not be less than thirty (30) days following the date of notice from Employee. If the Company cures the conditions giving rise to such Good Reason within thirty (30) days of the date of such notice, Employee will not be entitled to severance payments and/or benefits contemplated by Sections 2 or 3 above if Employee thereafter resigns from the Company based on such grounds. Unless otherwise required by law, no severance payments and/or benefits under Sections 2 or 3 will be paid and/or provided until after the expiration of any relevant revocation period.

6. Definitions. For purposes of this Agreement,

(a) *Cause*. For purposes of this Agreement, "Cause" shall mean (i) Employee's continued failure to substantially perform the duties and obligations of Employee's position (for reasons other than death or Disability (as defined below)), which failure, if curable within the discretion of the Company, is not cured to the reasonable satisfaction of the Company within thirty (30) days after receipt of written notice from the Company of such failure; (ii) Employee's failure or refusal to comply with reasonable written policies, standards and regulations established by the Company from time to time which failure, if curable in the discretion of the Company, is not cured to the reasonable satisfaction of the Company within thirty (30) days after receipt of written notice of such failure from the Company; (iii) any act of personal dishonesty, fraud, embezzlement, misrepresentation, or other unlawful act committed by Employee that results in a substantial gain or personal enrichment of Employee at the expense of the Company; (iv) Employee's violation of a federal or state law or regulation applicable to the Company's business, which violation was or is reasonably likely to be materially injurious to the Company; (v) Employee's violation of, or a plea of nolo contendere or guilty to, a felony under the laws of the United States or any state; or (vi) the Employee's material breach of the terms of Section 4 of this Agreement or of the Confidentiality Agreement.

(b) *Change in Control*. For purposes of this Agreement, "Change in Control" shall mean the occurrence of any of the following events:

(i) Change in Ownership of the Company. A change in the ownership of the Company 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 the Company that, together with the stock held by such Person, constitutes more than 50% of the total voting power of the stock of the Company, except that any change in the ownership of the stock of the Company as a result of a private financing of the Company that is approved by the Board will not be considered a Change in Control; or

(ii) Change in Effective Control of the Company. If the Company has a class of securities registered pursuant to Section 12 of the Exchange Act, a change in the effective control of the Company which occurs on the date that a majority of members of the Board is replaced during any twelve (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 clause (ii), if any Person is considered to be in effective control of the Company, the acquisition of additional control of the Company by the same Person will not be considered a Change in Control; or

(iii) Change in Ownership of a Substantial Portion of the Company's Assets. A change in the ownership of a substantial portion of the Company's assets which occurs on the date that any Person acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than 50% of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions. For purposes of this subsection (iii), gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

For these purposes, 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 the Company.

Notwithstanding the foregoing provisions of this definition, a transaction will not be deemed a Change in Control unless the transaction qualifies as a change in control event within the meaning of Section 409A.

Further and for the avoidance of doubt, a transaction will not constitute a Change in Control if: (i) its sole purpose is to change the state of the Company's incorporation, or (ii) its sole purpose is to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

(c) *Disability*. For purposes of this Agreement, "Disability" shall mean the inability of Employee to engage in substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months.

(d) *Good Reason*. For purposes of this Agreement, "Good Reason" shall mean, without Employee's written consent: (i) there is a material reduction of the level of Employee's base compensation (except where there is a general reduction applicable to the management team generally); (ii) there is a material reduction in Employee's overall responsibilities or authority, or scope of duties, provided, however, that a reduction in responsibilities, authority or duties solely by virtue of the Company being acquired and made part of a larger entity (as, for example, when the Chief Executive Officer of the Company remains as such following a Change of Control but is not made the Chief Executive Officer of the acquiring corporation) will not constitute "Good Reason"; or (iii) a material change in the geographic location at which Employee must perform his services; provided, that in no instance will the relocation of Employee to a facility or a location of fifty (50) miles or less from Employee's then current office location be deemed material for purposes of this Agreement. In no instance will a resignation by Employee be deemed to be for Good Reason if it is made more than twenty four (24) months following the initial occurrence of any of the events that otherwise would constitute Good Reason hereunder.

(e) The Board shall make all determinations relating to termination, including without limitation any determination regarding Cause.

7. Tax Treatment. The Company makes no representations or warranties with respect to the tax consequences of the payment of any sums to Employee under the terms of this Agreement. Employee agrees and understands that, with the exception of the withholdings from the severance payments, Employee is responsible for payment of any local, state and/or federal taxes on the sums paid hereunder by the Company and any penalties or assessments thereon. Employee further agrees to indemnify and hold the Company harmless from any claims, demands, deficiencies, penalties, assessments, executions, judgments, or recoveries by any government agency against the Company for any amounts claimed due on account of Employee's failure to pay federal or state taxes or damages sustained by the Company by reason of any such claims, including reasonable attorney fees.

8. Section 409A.

(a) Notwithstanding anything to the contrary in this Agreement, no severance payments or benefits payable to Employee, if any, pursuant to this Agreement that, when considered together with any other severance payments or separation benefits, is considered deferred compensation under Internal Revenue Code Section 409A (together, the "Deferred Payments") will be payable until Employee has a "separation from service" within the meaning of Section 409A ("Section 409A") of the Internal Revenue Code of 1986, as amended (the "Code"). Similarly, no severance payable to Employee, if any, pursuant to this Agreement that otherwise would be exempt from Section 409A pursuant to Treasury Regulation Section 1.409A -1(b)(9) will be payable until Employee has a "separation from service" within the meaning of Section 409A.

(b) Further, if Employee is a "specified employee" within the meaning of Section 409A at the time of Employee's separation from service (other than due to death), any Deferred Payments that otherwise are payable within the first six (6) months following Employee's separation from service will become payable on the first payroll date that occurs on or after the date six (6) months and one (1) day following the date of Employee's separation from service. All subsequent Deferred Payments, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, in the event of Employee's death following Employee's separation from service but prior to the six (6) month anniversary of Employee's separation from service (or any later delay date), then any payments delayed in accordance with this paragraph will be payable in a lump sum as soon as administratively practicable after the date of Employee's death and all other Deferred Payments will be payable in accordance with the payment schedule applicable to each payment or benefit. Each payment and benefit payable under the Agreement is intended to constitute a separate payment for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations.

(c) Any severance payment that satisfies the requirements of the "short-term deferral" rule set forth in Section 1.409A-1(b)(4) of the Treasury Regulations shall not constitute Deferred Payments for purposes of the Agreement. Any severance payment that qualifies as a payment made as a result of an involuntary separation from service pursuant to Section 1.409A -1(b)(9)(iii) of the Treasury Regulations that does not exceed the Section 409A Limit shall not constitute Deferred Payments for purposes of the Agreement. For purposes of this subsection (c), " Section 409A Limit" will mean the lesser of two (2) times: (i) Employee's annualized compensation based upon the annual rate of pay paid to Employee during Employee's taxable year preceding Employee's taxable year of Employee's separation from service as determined under Treasury Regulation Section 1.409A-1(b)(9)(iii)(A)(1) and any Internal Revenue Service guidance issued with respect thereto; or (ii) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Code for the year in which Employee's employment is terminated.

(d) The foregoing provisions are intended to comply with the requirements of Section 409A so that none of the severance payments and benefits to be provided under the Agreement will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to so comply. Employee and the Company agree to work together in good faith to consider amendments to the Agreement and to take such reasonable actions which are necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition prior to actual payment to Employee under Section 409A.

9. Limitation on Payments. In the event that the severance and other benefits provided for in this Agreement or otherwise payable to Employee (i) constitute "parachute payments" within the meaning of Section 280G of the Code, and (ii) would be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), then Employee's benefits under this Agreement shall be either

(a) delivered in full, or

(b) delivered as to such lesser extent which would result in no portion of such benefits being subject to the Excise Tax, whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the Excise Tax, results in the receipt by Employee on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under Section 4999 of the Code. If a reduction in severance and other benefits constituting "parachute payments" is necessary so that benefits are delivered to a lesser extent, reduction will occur in the following order: reduction of cash payments, cancellation of equity awards granted within the twelve (12) month period prior to a "change in control" (as determined under Code Section 280G) that are deemed to have been granted contingent upon the change in control (as determined under Code Section 280G), cancellation of accelerated vesting of equity awards, reduction of employee benefits.

Unless the Company and Employee otherwise agree in writing, any determination required under this Section shall be made in writing by the Company's independent public accountants (the "Accountants"), whose determination shall be conclusive and binding upon Employee and the Company for all purposes. For purposes of making the calculations required by this Section, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Section 280G and 4999 of the Code. The Company and Employee shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section. The Company shall bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section.

10. Confidential Information. Employee shall continue to comply with the terms and conditions of the Confidentiality Agreement, and maintain the confidentiality of all of the Company's confidential and proprietary information. Such information includes, but is not limited to, all customer lists, equipment, records, data, notes, reports, proposals, correspondence, specifications, drawings, blueprints, sketches, materials, or other documents or property belonging to the Company.

11. Miscellaneous.

(a) Withholding Taxes. The Company may withhold from all benefits payable under this Agreement all federal, state, city or other taxes as shall be required pursuant to any law or governmental regulation or ruling.

(b) Entire Agreement; Binding Effect. This Agreement and the Confidentiality Agreement set forth the entire understanding between the Parties as to the subject matter of this Agreement and supersede all prior agreements, commitments, representations, writings and discussions between them , including the Prior Agreement; and neither of the Parties shall be bound by any obligations, conditions, warranties or representations with respect to the subject matter of this Agreement, except as expressly provided herein or therein or as duly set forth on or subsequent to the date hereof in a written instrument signed by the proper and fully authorized representative of the party to be bound hereby. This Agreement is binding on Employee and on the Company and his/her and its successors and assigns (whether by assignment, by operation of law or otherwise).

(c) Arbitration. The Parties agree that, unless otherwise agreed to in a writing signed by the Employee and the Chairman of the Board of Directors of the Company, any and all disputes arising out of, or relating to, the terms of this Agreement, their interpretation, and any of the matters herein released, shall be subject to binding arbitration in Travis County, Texas before the American Arbitration Association under its National Rules for the Resolution of Employment Disputes. The Parties agree that the prevailing party in any arbitration shall be entitled to injunctive relief in any court of competent jurisdiction to enforce the arbitration award. The Parties agree that the prevailing party in any arbitration shall be awarded its reasonable attorney fees and costs. The Parties hereby agree to waive their right to have any dispute between them resolved in a court of law by a judge or jury. This section will not prevent either party from seeking injunctive relief (or any other provisional remedy) from any court having jurisdiction over the Parties and the subject matter of their dispute relating to Employee's obligations under this Agreement and the agreements incorporated herein by reference.

(d) Governing Law; Jurisdiction. This Agreement shall be governed by, and construed and enforced in accordance with, the employment laws of Texas and the other laws of the State of Texas as they apply to contracts entered into and wholly to be performed therein by residents thereof. In addition, each party hereto irrevocably and unconditionally agrees that any suit, action or other legal proceeding arising out of this Agreement may be brought only in a state or federal court within Texas.

(e) Severability. In the event that any provision hereof becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement shall continue in full force and effect without said provision.

(f) Effect of Headings. The Section and subsection headings contained herein are for convenience only and shall not affect the construction hereof.

(g) Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed to be an original, and all such counterparts shall constitute but one instrument.

IN WITNESS WHEREOF, the Parties have executed this Agreement on the dates set forth below.

Employee	**Active Power, Inc.**
/s/ Randall Adleman	/s/ Mark Ascolese
Signature	By: Mark Ascolese, Chief Executive Officer and President
Randall Adleman	
(Printed Name)	
Dated: 10/31/13	Dated: 11/04/13

Exhibit 10.5

SEPARATION AGREEMENT AND RELEASE

This Separation Agreement and Release ("Agreement") is made by and between **Martin Olsen** ("Employee") and **Active Power, Inc.** (the "Company") (collectively referred to as the "Parties" or individually referred to as a "Party").

RECITALS

WHEREAS, Employee and the Company entered into a Severance Benefits Agreement dated April 15, 2010 (the "Severance Agreement");

WHEREAS, Employee and the Compny entered into a Proprietary Information and Nondisclosure Agreement dated March 4, 2007 (the "Confidentiality Agreement");

WHEREAS, Employee has been granted certain stock options and/or restricted stock, subject to the terms and conditions of the Company's stock plan (the "Stock Plan");

WHEREAS, Employee is employed as the Vice President, Global Marketing and Sales Operations of the Company and is separating from the Company, effective as of November 5, 2013 (the "Separation Date");

WHEREAS, the Parties agree that Employee's separation will be considered a "termination without Cause," as defined in the Severance Agreement;

WHEREAS, the Parties wish to resolve any and all disputes, claims, complaints, grievances, charges, actions, petitions, and demands that the Employee may have against the Company and any of the Releasees as defined below, including, but not limited to, any and all claims arising out of or in any way related to Employee's employment with or separation from the Company;

NOW, THEREFORE, in consideration of the mutual promises made herein, the Company and Employee hereby agree as follows:

COVENANTS

1. Consideration.

   a. Payment. The Company agrees to provide the following to Employee in consideration for Employee entering into this Agreement:

      (i) Following the Separation Date, provided that this Agreement is in effect and Employee is in compliance with this Agreement (and any agreements incorporated herein) the Company will provide Employee with the following benefits (the "Separation Benefits"):

      a. Salary continuation at the rate in effect on the Effective Date of this Agreement, for six (6) months following the Separation Date (the "Salary Continuation Period"). All such payments, if any, will be less applicable withholding, and will be made in accordance with the Company's regular payroll practices and schedule.

      b. Reimbursement of Employee for insurance continuation premiums made by Employee pursuant to COBRA for the shorter of (i) twelve (12) months after the Separation Date, (ii) the date Employee has secured other employment pursuant to which Employee is eligible for health insurance coverage, or (iii) the date Employee is no longer eligible to receive continuation coverage pursuant to COBRA, subject to Employee's providing evidence of payment to the Company within thirty (30) days of Employee making such payments.

      c. All stock options and restricted stock held by Employee in which Employee would have vested if Employee had remained employed with the Company for a period of six (6) months following the date of termination shall immediately vest and, if applicable, become exercisable as of the date of termination.

d. Employee will remain eligible to potentially receive compensation related to the Company's management incentive plan for 2013 subject to the terms and conditions set forth in section 2(d) of the Severance Agreement. If applicable, Employee will be paid according to the formula set forth in section 2(d) of the Severance Agreement. All determinations of the amount of the achievement of objectives and the amounts of such bonuses, if any, shall be made by the Board of Directors of the Company in its sole discretion.

b. Payment in Full. Employee further specifically acknowledges and agrees that the consideration provided to her hereunder fully satisfies any obligation that the Company had to pay Employee wages or any other compensation for any of the services that Employee rendered to the Company, any severance or other benefits pursuant to the Severance Agreement, including but not limited to any bonus entitlement or any severance due to Employee in accordance with her Severance Agreement. Employee further agrees that the amount paid is in excess of any disputed wage claim that Employee may have, that the consideration paid shall be deemed to be paid first in satisfaction of any disputed wage claim with the remainder sufficient to act as consideration for the release of claims set forth herein, and that Employee has not earned and is not entitled to receive any additional wages or other form of compensation from the Company up through the Effective Date.

2. Benefits. Employee's health, dental and vision insurance benefits shall cease on the last day of the month in which the Separation Date occurs, subject to Employee's COBRA insurance continuation rights. Except as otherwise specifically stated in this Agreement, Employee's participation in all benefits and incidents of employment, including, but not limited to, vesting in stock options as a result of employment, and the accrual of vacation and paid time off, will cease as of the Separation Date.

3. Payment of Salary and Receipt of All Benefits. Employee acknowledges and represents that, other than the consideration set forth in this Agreement, the Company has paid or provided all salary, wages, bonuses, accrued vacation/paid time off, leave, housing allowances, relocation costs, interest, severance, outplacement costs, fees, reimbursable expenses, commissions, stock, stock options, vesting, and any and all other benefits and compensation due to Employee through the Effective Date.

4. Release of Claims. Employee agrees that the foregoing consideration represents settlement in full of all outstanding obligations owed to Employee by the Company and its current and former officers, directors, employees, agents, investors, attorneys, shareholders, administrators, affiliates, benefit plans, plan administrators, insurers, divisions, and subsidiaries, and predecessor and successor corporations and assigns (collectively, the "Releasees"). Employee, on her own behalf and on behalf of her respective heirs, family members, executors, agents, and assigns, hereby and forever releases the Releasees from, and agrees not to sue concerning, or in any manner to institute, prosecute, or pursue, any claim, complaint, charge, duty, obligation, or cause of action relating to any matters of any kind, whether presently known or unknown, suspected or unsuspected, that Employee may possess against any of the Releasees arising from any omissions, acts, facts, or damages that have occurred up until and including the Effective Date of this Agreement, including, without limitation:

a. any and all claims relating to or arising from Employee's employment relationship with the Company and the decision to terminate that relationship;

b. any and all claims relating to, or arising from, Employee's right to purchase, or actual purchase of shares of stock of the Company, including, without limitation, any claims for fraud, misrepresentation, breach of fiduciary duty, breach of duty under applicable state corporate law, and securities fraud under any state or federal law;

c. any and all claims for wrongful discharge of employment; termination in violation of public policy; discrimination; harassment; retaliation; breach of contract, both express and implied; breach of covenant of good faith and fair dealing, both express and implied; promissory estoppel; negligent or intentional infliction of emotional distress; fraud; negligent or intentional misrepresentation; negligent or intentional interference with contract or prospective economic advantage; unfair business practices; defamation; libel; slander; negligence; personal injury; assault; battery; invasion of privacy; false imprisonment; conversion; and disability benefits;

d. any and all claims for violation of any federal, state, or municipal statute, including, but not limited to, Title VII of the Civil Rights Act of 1964; the Civil Rights Act of 1991; the Rehabilitation Act of 1973; the Americans with Disabilities Act of 1990; the Equal Pay Act; the Fair Labor Standards Act, except as prohibited by law; the Fair Credit Reporting Act; the Age Discrimination in Employment Act of 1967; the Older Workers Benefit Protection Act; the Employee Retirement Income Security Act of 1974; the Worker Adjustment and Retraining Notification Act; the Family and Medical Leave Act, except as prohibited by law; the Sarbanes-Oxley Act of 2002; the Texas Payday Act; Texas Workers' Compensation Act; and Chapter 21 of the Texas Labor Code (also known as the Texas Commission on Human Rights Act); and any other laws of the states of Texas or any other state, except as prohibited by law;

e. any and all claims for violation of the federal or any state constitution;

f. any and all claims arising out of any other laws and regulations relating to employment or employment discrimination;

g. any claim for any loss, cost, damage, or expense arising out of any dispute over the non-withholding or other tax treatment of any of the proceeds received by Employee as a result of this Agreement; and

h. any and all claims for attorneys' fees and costs.

Employee agrees that the release set forth in this section shall be and remain in effect in all respects as a complete general release as to the matters released. This release does not extend to any obligations incurred under this Agreement. This release does not release claims that cannot be released as a matter of law, including, but not limited to Employee's right to file a charge with or participate in a charge by the Equal Employment Opportunity Commission, or any other local, state, or federal administrative body or government agency that is authorized to enforce or administer laws related to employment, against the Company (with the understanding that any such filing or participation does not give Employee the right to recover any monetary damages against the Company; Employee's release of claims herein bars Employee from recovering such monetary relief from the Company).

5. Acknowledgment of Waiver of Claims under ADEA. Employee acknowledges that he is waiving and releasing any rights he may have under the Age Discrimination in Employment Act of 1967 ("ADEA"), and that this waiver and release is knowing and voluntary. Employee agrees that this waiver and release does not apply to any rights or claims that may arise under the ADEA after the Effective Date of this Agreement. Employee acknowledges that the consideration given for this waiver and release is in addition to anything of value to which Employee was already entitled. Employee further acknowledges that he has been advised by this writing that: (a) he should consult with an attorney prior to executing this Agreement; (b) he has twenty-one (21) days within which to consider this Agreement; (c) he has seven (7) days following her execution of this Agreement to revoke this Agreement; (d) this Agreement shall not be effective until after the revocation period has expired; and (e) nothing in this Agreement prevents or precludes Employee from challenging or seeking a determination in good faith of the validity of this waiver under the ADEA, nor does it impose any condition precedent, penalties, or costs for doing so, unless specifically authorized by federal law. In the event Employee signs this Agreement and returns it to the Company in less than the 21-day period identified above, Employee hereby acknowledges that he has freely and voluntarily chosen to waive the time period allotted for considering this Agreement.

Employee acknowledges and understands that revocation must be accomplihed by a written notification to the Company's Chief Executive Officer that is received prior to the Effective Date. The Parties agree that any changes to this Agreement, whether material or immaterial, do not restart the running of the 21-day consideration period.

6. Unknown Claims. Employee acknowledges that he has been advised to consult with legal counsel and that he is familiar with the principle that a general release does not extend to claims which the releasor does not know or suspect to exist in her favor at the time of executing the release, which if known by her must have materially affected her settlement with the releasee. Employee, being aware of said principle, agrees to expressly waive any rights Employee may have to that effect, as well as under any other statute or common law principles of similar effect.

7. No Pending or Future Lawsuits. Employee represents that he has no lawsuits, claims, or actions pending in her name, or on behalf of any other person or entity, against the Company or any of the other Releasees. Employee also represents that he does not intend to bring any claims on her own behalf or on behalf of any other person or entity against the Company or any of the other Releasees.

8. Confidentiality. Employee agrees to maintain in complete confidence the existence of this Agreement, the contents and terms of this Agreement, and the consideration for this Agreement (hereinafter collectively referred to as "Separation Information"). Except as required by law, Employee may disclose Separation Information only to her immediate family members, the Court in any proceedings to enforce the terms of this Agreement, Employee's undersigned counsel, and Employee's accountant and any professional tax advisor to the extent that they need to know the Separation Information in order to provide advice on tax treatment or to prepare tax returns, and must prevent disclosure of any Separation Information to all other third parties. Employee agrees that he will not publicize, directly or indirectly, any Separation Information.

Employee acknowledges and agrees that the confidentiality of the Separation Information is of the essence. The Parties agree that if the Company proves that Employee breached this Confidentiality provision, the Company shall be entitled to an award of its costs spent enforcing this provision, including all reasonable attorneys' fees associated with the enforcement action, without regard to whether the Company can establish actual damages from Employee's breach, except to the extent that such breach constitutes a legal action by Employee that directly pertains to the ADEA. Any such individual breach or disclosure shall not excuse Employee from her obligations hereunder, nor permit her to make additional disclosures. Employee warrants that he has not disclosed, orally or in writing, directly or indirectly, any of the Separation Information to any unauthorized party.

9. Trade Secrets and Confidential Information/Noncompete/Company Property. Employee reaffirms and agrees to observe and abide by the surviving terms of the Confidentiality Agreement and the Severance Agreement, specifically including the provisions therein regarding non-competition, nondisclosure of the Company's trade secrets and confidential and proprietary information, and non-solicitation of Company employees. Employee's signature below constitutes her certification under penalty of perjury that he will return all documents and other items provided to Employee by the Company, developed or obtained by Employee in connection with her employment with the Company, or otherwise belonging to the Company on or before the Separation Date. Employee acknowledges and agrees that the Company is relying on Employee's compliance with the Confidentiality Agreement and the Severance Agreement **as an essential term of this Agreement**, and that if Employee violates either such agreement, that the Company will be entitled to cease and/or recover any payments made pursuant to Section 1, in addition to any seeking remedies it may have under the Confidentiality Agreement, the Severance Agreement or otherwise. All other provisions of this Agreement shall remain in full force and effect.

10. No Cooperation. Employee agrees not to act in any manner that might damage the business of the Company. Employee further agrees that he will not knowingly encourage, counsel, or assist any attorneys or their clients in the presentation or prosecution of any disputes, differences, grievances, claims, charges, or complaints by any third party against any of the Releasees, unless under a subpoena or other court order to do so or as related directly to the ADEA waiver in this Agreement. Employee agrees both to immediately notify the Company upon receipt of any such subpoena or court order, and to furnish, within three (3) business days of its receipt, a copy of such subpoena or other court order. If approached by anyone for counsel or assistance in the presentation or prosecution of any disputes, differences, grievances, claims, charges, or complaints against any of the Releasees, Employee shall state no more than that he cannot provide counsel or assistance.

11. Communications and Transition of Duties. The Parties agree to work together in good faith with regard to all communications made to customers, vendors, employees or other individuals or entities regarding Employee's separation from employment. Employee further agrees that any statement made by Employee to customers, vendors, employees or other individuals or entities regarding his separation from employment must be consistent in all respects with the terms of this Agreement. Employee further agrees to cooperate with the Company with regard to the transition of Employee's job duties and business relationships. Employee agrees to sign and return a resignation letter substantially in the form attached as Exhibit A within one (1) day following the Effective Date, or earlier.

12. Non-Disparagement. Employee agrees to refrain from any disparaging statements about the Company or any of the other Releasees including, without limitation, the business, products, intellectual property, financial standing, future, or employment/compensation/benefit practices of the Company. The Company agrees to refrain from any disparaging statements about Employee; provided, however, that the Company's obligations in this regard extend only to its senior executives and directors, and only for so long as such individuals are employed by or are on the Board of Directors of the Company.

13. Non-Solicitation. Employee agrees that for a period of twelve (12) months immediately following the Effective Date of this Agreement, Employee shall not directly or indirectly solicit any of the Company's employees to leave their employment at the Company.

14. Breach. Employee acknowledges and agrees that any material breach of this Agreement, unless such breach constitutes a legal action by Employee challenging or seeking a determination in good faith of the validity of the waiver herein under the ADEA, or of the Employment Agreement shall entitle the Company immediately to recover and/or cease providing the consideration provided to Employee under this Agreement, except as provided by law. Except as provided by law, Employee shall also be responsible to the Company for all costs, attorneys' fees, and any and all damages incurred by the Company in (a) enforcing Employee's obligations under this Agreement or the Employment Agreement, including the bringing of any action to recover the consideration, and (b) defending against a claim or suit brought or pursued by Employee in violation of the terms of this Agreement.

15. No Admission of Liability. Employee understands and acknowledges that this Agreement constitutes a compromise and settlement of any and all actual or potential disputed claims by Employee. No action taken by the Company hereto, either previously or in connection with this Agreement, shall be deemed or construed to be (a) an admission of the truth or falsity of any actual or potential claims or (b) an acknowledgment or admission by the Company of any fault or liability whatsoever to Employee or to any third party.

16. Costs. The Parties shall each bear their own costs, attorneys' fees, and other fees incurred in connection with the preparation of this Agreement.

17. ARBITRATION. THE PARTIES AGREE THAT ANY AND ALL DISPUTES ARISING OUT OF THE TERMS OF THIS AGREEMENT, THEIR INTERPRETATION, AND ANY OF THE MATTERS HEREIN RELEASED, SHALL BE SUBJECT TO ARBITRATION IN DALLAS COUNTY, TEXAS BEFORE JAMS, THE RESOLUTION EXPERTS ("JAMS"), PURSUANT TO ITS EMPLOYMENT ARBITRATION RULES & PROCEDURES ("JAMS RULES"). THE ARBITRATOR MAY GRANT INJUNCTIONS AND OTHER RELIEF IN SUCH DISPUTES. THE ARBITRATOR SHALL ADMINISTER AND CONDUCT ANY ARBITRATION IN ACCORDANCE WITH TEXAS LAW, AND THE ARBITRATOR SHALL APPLY SUBSTANTIVE AND PROCEDURAL TEXAS LAW TO ANY DISPUTE OR CLAIM, WITHOUT REFERENCE TO ANY CONFLICT-OF-LAW PROVISIONS OF ANY JURISDICTION. TO THE EXTENT THAT THE JAMS RULES CONFLICT WITH TEXAS LAW, TEXAS LAW SHALL TAKE PRECEDENCE. THE DECISION OF THE ARBITRATOR SHALL BE FINAL, CONCLUSIVE, AND BINDING ON THE PARTIES TO THE ARBITRATION. THE PARTIES AGREE THAT THE PREVAILING PARTY IN ANY ARBITRATION SHALL BE ENTITLED TO INJUNCTIVE RELIEF IN ANY COURT OF COMPETENT JURISDICTION TO ENFORCE THE ARBITRATION AWARD. THE PARTIES TO THE ARBITRATION SHALL EACH PAY AN EQUAL SHARE OF THE COSTS AND EXPENSES OF SUCH ARBITRATION, AND EACH PARTY SHALL SEPARATELY PAY FOR ITS RESPECTIVE COUNSEL FEES AND EXPENSES; PROVIDED, HOWEVER, THAT THE ARBITRATOR SHALL AWARD ATTORNEYS' FEES AND COSTS TO THE PREVAILING PARTY, EXCEPT AS PROHIBITED BY LAW. THE PARTIES HEREBY AGREE TO WAIVE THEIR RIGHT TO HAVE ANY DISPUTE BETWEEN THEM RESOLVED IN A COURT OF LAW BY A JUDGE OR JURY. NOTWITHSTANDING THE FOREGOING, THIS SECTION WILL NOT PREVENT EITHER PARTY FROM SEEKING INJUNCTIVE RELIEF (OR ANY OTHER PROVISIONAL REMEDY) FROM ANY COURT HAVING JURISDICTION OVER THE PARTIES AND THE SUBJECT MATTER OF THEIR DISPUTE RELATING TO THIS AGREEMENT AND THE AGREEMENTS INCORPORATED HEREIN BY REFERENCE. SHOULD ANY PART OF THE ARBITRATION AGREEMENT CONTAINED IN THIS PARAGRAPH CONFLICT WITH ANY OTHER ARBITRATION AGREEMENT BETWEEN THE PARTIES, THE PARTIES AGREE THAT THIS ARBITRATION AGREEMENT SHALL GOVERN.

18. Tax Consequences. The Company makes no representations or warranties with respect to the tax consequences of the payments and any other consideration provided to Employee or made on her behalf under the terms of this Agreement. Employee agrees and understands that he is responsible for payment, if any, of local, state, and/or federal taxes on the payments and any other consideration provided hereunder by the Company and any penalties or assessments thereon. Employee further agrees to indemnify and hold the Company harmless from any claims, demands, deficiencies, penalties, interest, assessments, executions, judgments, or recoveries by any government agency against the Company for any amounts claimed due on account of (a) Employee's failure to pay or the Company's failure to withhold, or Employee's delayed payment of, federal or state taxes, or (b) damages sustained by the Company by reason of any such claims, including attorneys' fees and costs.

19. Section 409(A). If the Company determines that any cash severance benefits, health continuation coverage, or additional benefits provided under this Agreement shall fail to satisfy the distribution requirement of Section 409A(a)(2)(A) or the Internal Revenue Code of 1986, as amended (the "Code") as result of Section 409A(a)(2)(B)(i) of the Code, the payment of such benefit shall be accelerated to the minimum extent necessary so that the benefit is not subject to the provisions of Section 409(a)(1) of the Code. (It is the intention of the preceding sentence to apply the short-term deferral provisions of Section 409A of the Code, and the regulations and other guidance thereunder, to such payments, and the payment schedule as revised after the application of the preceding sentence shall be referred to as the "Revised Payment Schedule.") However, if there is no Revised Payment Schedule that would avoid the application of Section 409A(a)(1) of the Code, the payment of such benefits shall not be paid pursuant to a Revised Payment Schedule and instead shall be delayed to the minimum extent necessary so that such benefits are not subject to the provisions of section 409A(a)(1) of the Code. The Company may attach conditions to or adjust the amounts paid pursuant to this paragraph to preserve, as closely as possible, the economic consequences that would have applied in the absence of this paragraph; *provided, however*, that no such condition or adjustment shall result in the payments being subject to Section 409A(a)(1) of the Code.

20. Successors and Assigns. Employee understands and acknowledges that this Agreement is personal in its nature and agrees that he shall not assign or transfer her rights under this Agreement. The provisions of this Agreement shall inure to the benefit of, and shall be binding on, each successor of the Company whether by merger, consolidation, transfer of all or substantially all assets, or otherwise, and the heirs and legal representatives of Employee.

21. Authority. The Company represents and warrants that the undersigned has the authority to act on behalf of the Company and to bind the Company and all who may claim through it to the terms and conditions of this Agreement. Employee represents and warrants that he has the capacity to act on her own behalf and on behalf of all who might claim through her to bind them to the terms and conditions of this Agreement. Each Party warrants and represents that there are no liens or claims of lien or assignments in law or equity or otherwise of or against any of the claims or causes of action released herein.

22. No Representations. Employee represents that he has had an opportunity to consult with an attorney, and has carefully read and understands the scope and effect of the provisions of this Agreement. Employee has not relied upon any representations or statements made by the Company that are not specifically set forth in this Agreement.

23. Severability. In the event that any provision or any portion of any provision hereof or any surviving agreement made a part hereof becomes or is declared by a court of competent jurisdiction or arbitrator to be illegal, unenforceable, or void, this Agreement shall continue in full force and effect without said provision or portion of provision.

24. Attorneys' Fees. Except with regard to a legal action challenging or seeking a determination in good faith of the validity of the waiver herein under the ADEA, in the event that either Party brings an action to enforce or effect its rights under this Agreement, the prevailing Party shall be entitled to recover its costs and expenses, including the costs of mediation, arbitration, litigation, court fees, and reasonable attorneys' fees incurred in connection with such an action.

25. Entire Agreement. This Agreement represents the entire agreement and understanding between the Company and Employee concerning the subject matter of this Agreement and Employee's employment with and separation from the Company and the events leading thereto and associated therewith, and supersedes and replaces any and all prior agreements and understandings concerning the subject matter of this Agreement and Employee's relationship with the Company, with the exception of the surviving portions of the Severance Agreement, the Confidentiality Agreement and the Stock Plan.

26. No Oral Modification. This Agreement may only be amended in a writing signed by Employee and the Company's Chief Executive Officer.

27. Governing Law. This Agreement shall be governed by the laws of the State of Texas, without regard for choice-of-law provisions. Employee consents to personal and exclusive jurisdiction and venue in the State of Texas.

28. Effective Date. Each Party has seven (7) days after that Party signs this Agreement to revoke it. This Agreement will become effective on the eighth (8th) day after Employee signed this Agreement, so long as it has been signed by the Parties and has not been revoked by either Party before that date (the "Effective Date").

29. Counterparts. This Agreement may be executed in counterparts and by facsimile, and each counterpart and facsimile shall have the same force and effect as an original and shall constitute an effective, binding agreement on the part of each of the undersigned.

30. Voluntary Execution of Agreement. Employee understands and agrees that he executed this Agreement voluntarily, without any duress or undue influence on the part or behalf of the Company or any third party, with the full intent of releasing all of her claims against the Company and any of the other Releasees. Employee acknowledges that:

(a) he has read this Agreement;

(b) he has been represented in the preparation, negotiation, and execution of this Agreement by legal counsel of her own choice or has elected not to retain legal counsel;

(c) he understands the terms and consequences of this Agreement and of the releases it contains; and

(d) he is fully aware of the legal and binding effect of this Agreement.

IN WITNESS WHEREOF, the Parties have executed this Agreement on the respective dates set forth below.

Martin Olsen, an individual

Dated: November 7, 2013

/s/ Martin Olsen
Martin Olsen

ACTIVE POWER, INC.

Dated: November 5, 2013

By: /s/ Mark A. Ascolese
Mark A. Ascolese
President & CEO

Exhibit 31.1

CERTIFICATIONS

I, Mark A. Ascolese, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Active Power, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 18, 2013

/s/ Mark Ascolese
Mark Ascolese
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Steven R. Fife, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Active Power, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 18, 2013

/s/ Steven R. Fife
Steven R. Fife
Chief Financial Officer and Secretary
(Principal Financial and Accounting Officer)

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of Active Power, Inc. (the "Company") for the period ending September 30, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark A. Ascolese, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

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

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

/s/ Mark A. Ascolese
Mark A. Ascolese
President and Chief Executive Officer
November 18, 2013

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of Active Power, Inc. (the "Company") for the period ending September 30, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven R. Fife, Chief Financial Officer and Secretary of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

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

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

/s/ Steven R. Fife
Steven R. Fife
Chief Financial Officer and Secretary
November 18, 2013