AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JULY 3, 2000

REGISTRATION NO. 333-36946

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1 TO
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

ACTIVE POWER, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	3629	74-2642142
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

ACTIVE POWER, INC.
11525 STONEHOLLOW DR.
SUITE 110
AUSTIN, TX 78758
TELEPHONE: (512) 836-6464, FACSIMILE: (512) 836-4511
(Address, including zip code, and telephone number, including area code, of the registrant's principal executive offices)

JOSEPH F. PINKERTON, III
CHIEF EXECUTIVE OFFICER
11525 STONEHOLLOW DRIVE
SUITE 110
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(Name, address, including zip code, and telephone number, including area code, of agent for service)

COPIES TO:

J. MATTHEW LYONS, P.C. TED A. GILMAN BROBECK, PHLEGER & HARRISON LLP 301 CONGRESS AVENUE, SUITE 1200 AUSTIN, TEXAS 78701 TELEPHONE: (512) 477-5495 FACSIMILE: (512) 477-5813	ROBERT S. BAIRD JEFFREY A. CHAPMAN SHANNA DINWIDDIE JONES VINSON & ELKINS L.L.P. 600 CONGRESS AVENUE AUSTIN, TEXAS 78701 TELEPHONE: (512) 495-8400 FACSIMILE: (512) 495-8612

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after the effective date of this Registration Statement.

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

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

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

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

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [_]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (1)	AMOUNT OF REGISTRATION FEE (2)
Common Stock, $0.001 par value.....	$119,600,000	$31,574.40

(1) Includes 1,200,000 shares as to which the Registrant has granted the Underwriters an option to cover over-allotments.

(2) $26,400 was previously paid on May 12, 2000.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SUCH SECTION 8(A), MAY DETERMINE.

++
+THE INFORMATION IN THIS PRELIMINARY PROSPECTUS IS NOT COMPLETE AND MAY BE   +
+CHANGED. THESE SECURITIES MAY NOT BE SOLD UNTIL THE REGISTRATION STATEMENT   +
+FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS   +
+PRELIMINARY PROSPECTUS IS NOT AN OFFER TO SELL NOR DOES IT SEEK AN OFFER TO   +
+BUY THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT   +
+PERMITTED.   +
++

Subject to Completion. Dated July 3, 2000.

8,000,000 Shares

[LOGO OF ACTIVE POWER APPEARS HERE]

ACTIVE POWER, INC.

Common Stock

This is an initial public offering of shares of common stock of Active Power, Inc. All of the 8,000,000 shares of common stock are being sold by Active Power.

Prior to this offering, there has been no public market for the common stock. It is estimated that the initial public offering price per share will be between $11.00 and $13.00. Active Power intends to have the common stock approved for quotation on the Nasdaq National Market under the symbol "ACPW".

See "Risk Factors" beginning on page 7 to read about factors you should consider before buying shares of our common stock.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY OTHER REGULATORY BODY HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Per Share	Total
Initial public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to Active Power	$	$

To the extent that the underwriters sell more than 8,000,000 shares of common stock, the underwriters have the option to purchase up to an additional 900,000 shares from Active Power and up to an additional 300,000 shares from a selling stockholder identified in this prospectus at the initial public offering price less the underwriting discount. Active Power will not receive any of the proceeds from the sale of any shares sold by the selling stockholder.

The underwriters expect to deliver the shares against payment in New York, New York on , 2000.

GOLDMAN, SACHS & CO.
MERRILL LYNCH & CO.
MORGAN STANLEY DEAN WITTER
CIBC WORLD MARKETS

Prospectus dated , 2000.

[INSIDE FRONT COVER GRAPHICS]

[Description of graphics: The inside front cover has three graphical depictions.

The first graphic is located on the top half of the page and is captioned "Active Power transforms unreliable, inconsistent electricity..." at the top of the page and "...into high quality, dependable power," at the bottom of the graphic in the middle of the page.

The left side of the graphic depicts sine waves representing the three problems with power supplied from the electric utility grid. The first graphic shows a steady sine wave that turns into a straight line. Above the straight line is the word "Outage" with an arrow pointing at the straight line. Below this graphic is a graphic of another sine wave which has smaller peaks and valleys in the middle of the sine wave. Above the middle of the sine wave are the words "Voltage Sag" with an arrow pointing at the center of the sine wave. Below this graphic is a graphic of another sine wave which has larger peaks and valleys in the middle of the sine wave. Above the middle of the sine wave are the words "Voltage Surges" with an arrow pointing at the center of the sine wave.

In the center of the graphic is a rotor with the Active Power logo in the middle. From the rotor to the right of the page is a smooth, continuous sine wave.

At the left side of the bottom of the page is a graphic with the caption "CleanSource UPS Technology". The graphic is a three-dimensional rendering of our CleanSource UPS product showing the exposed internal components of the product without its sheet-metal shell. The graphic shows the appearance and relative size and location of the components of the product. The flywheel energy storage component is visible at the bottom of the CleanSource UPS product while the UPS electronics appear closer to the top.

At the right side of the bottom of the page is a graphic with the caption "CAT branded CleanSource UPS". This graphic is a three-dimensional rendering of a Caterpillar-branded CleanSource UPS product showing the external appearance of the product with its painted sheet-metal shell. Caterpillar's "CAT" logo is visible on the upper left of the front side of the product.]

PROSPECTUS SUMMARY

This summary provides an overview of the key aspects of the offering. Because this is a summary, it may not contain all of the information that is important to you.

ACTIVE POWER, INC.

OVERVIEW

We design, manufacture and market power quality products that provide the consistent, reliable electric power required by today's digital economy. We are the first company to commercialize a flywheel energy storage system that provides a highly reliable, low-cost and non-toxic replacement for lead-acid batteries used in conventional power quality installations. Leveraging our expertise in this technology and in conjunction with Caterpillar, we have developed a battery-free power quality system which is marketed under the Caterpillar brand name. In addition, we are currently developing a fully integrated continuous power system, the initial target market for which is the rapidly growing telecommunications industry.

INDUSTRY BACKGROUND

The need for high quality electric power that is free of sags, surges and power outages has been increasing rapidly in recent years. This demand for power quality has been driven largely by the growth in the use of computers, the Internet and telecommunications products. These sophisticated applications are less tolerant of voltage disturbances than conventional uses of electricity. A 1999 study by the Electric Power Research Institute estimated that electric power problems annually cost U.S. industry more than $30 billion in lost data, material and productivity. Therefore, end users of sophisticated electronic equipment are seeking new solutions for their power quality and reliability problems.

CONVENTIONAL POWER QUALITY SYSTEMS AND THEIR LIMITATIONS

A variety of approaches currently exist that attempt to address the problems associated with the poor quality of power delivered by the electric utility grid. Conventional power quality systems have been constructed using three main components, batteries for short-term power disturbances, engine generators, commonly referred to as "gensets", for longer-term outages, and control electronics to bridge the two. A short-term (seconds to minutes) energy storage device with control electronics is referred to as an uninterruptible power supply, or UPS. A UPS coupled with a genset to protect against longer-term outages (minutes to hours or days) is referred to as a continuous power system, or CPS. The conventional patchwork approach to UPS and CPS has resulted in inefficient systems that generally are expensive, unreliable and environmentally unsound.

ACTIVE POWER'S PRODUCTS

We believe that our current products are superior alternatives to conventional UPS and CPS products and should be able to rapidly penetrate the power quality industry. With our future products, we anticipate that we will be able to compete in most segments of this industry.

CLEANSOURCE DC

Our first product, CleanSource DC, is a patented flywheel-based energy storage system that is a cost-effective, reliable, non-toxic replacement for the lead-acid batteries used in a UPS. Our

flywheel, powered with electricity from the utility grid, stores kinetic energy by constantly spinning a compact rotor inside a low friction environment. When the user requires power due to a power outage or sag, CleanSource DC converts the kinetic energy of the spinning flywheel into electricity. For longer term power outages, CleanSource DC can provide enough power to bridge the gap between the power disturbance and the start-up of the genset which will deliver long-term back-up power.

CLEANSOURCE UPS

Our second product, CleanSource UPS, is the primary focus of our current sales efforts. It integrates UPS electronics, which detect any power quality problems, with our flywheel-based energy storage system. As a result of the efficiencies created by the significant component overlap in the two systems, CleanSource UPS represents a more compact, reliable and efficient power quality solution. When used with a genset, CleanSource UPS also provides a continuous power solution. The power quality market is generally conservative and reluctant to adopt new products. We have granted Caterpillar distribution rights to CleanSource UPS, which is marketed under the Caterpillar brand name. We believe this arrangement will provide CleanSource UPS the credibility it will need to overcome this reluctance and penetrate the market.

FUTURE PRODUCTS

FULLY INTEGRATED CONTINUOUS POWER SYSTEM. Leveraging the technology and design expertise developed in our earlier products, we are developing a fully integrated continuous power system. This system will combine short and long term energy storage and UPS functionality into one fully integrated system. We believe that this product will provide customers with higher levels of power reliability and lower operating costs than conventional patchwork, lead-acid battery based approaches. The initial target market for this product is as a back-up power source for distributed telecommunications applications. We anticipate commercial availability of our first CPS product in the fourth quarter of 2001.

DISTRIBUTED POWER TECHNOLOGY. Under an agreement with Caterpillar, we are studying the potential benefits of a new type of electromechanical technology that can be used in distributed power applications.

MARKET OPPORTUNITIES

According to industry sources, in 1999 businesses spent in excess of $11.0 billion globally on power quality and reliability products in an attempt to reduce losses due to power disturbances. Industry sources also estimate that market growth rates for power quality and reliability products will be 30% per year. While more established companies currently serve the power quality market, we believe that our products are superior alternatives. Our current products, CleanSource DC and CleanSource UPS, are targeted at the $5.5 billion market for UPS. Our development efforts for our existing and future products will be focused on almost all of the remaining segments of this market.

With current and future products, we intend to focus on the following market opportunities:

INTERNET MARKET

A study conducted by the University of Texas and released by Cisco Systems projected that the U.S. Internet economy would grow to $850 billion in 2000, up 62% from 1999. To support this growth, internet service providers must construct new facilities to house the equipment required to provide the service demanded by their customers and are adding power quality equipment to ensure continuous service around-the-clock.

TELECOMMUNICATIONS MARKET

To ensure uninterrupted service, wireless telecommunications providers must have continuous power at each cellular and PCS station. This segment represents approximately $4.0 billion of the $11.0 billion power quality market. While conventional CPS systems presently meet market demand, we are designing our next generation product, a fully integrated CPS to service the specific needs of telecommunications providers. While this product is still in development, we believe that we will be able to rapidly penetrate this market.

OTHER POWER QUALITY AND RELIABILITY MARKETS

INDUSTRIAL. Manufacturing organizations are employing increasing levels of automation. Even brief power disturbances, which result in lost material, lost data, and worker and plant down time, can be very expensive. Industries where we expect significant future opportunities include semiconductor and pharmaceutical manufacturing, plastic and fiber extrusion, textiles, and precision machining.

COMMERCIAL FACILITIES. Many commercial facilities, such as office buildings, hotels and university facilities, now have a large number of computers or servers. Historically, these facilities have been largely unprotected from power disturbances or have only been spot-protected with a surge protector or small PC UPS under each person's desk. A single CleanSource UPS system can protect as few as 200 PCs more cost effectively than many small PC UPS products.

RETROFIT MARKET. Caterpillar has the largest installed base of standby generators in the world. Because even a short power disturbance can cause an extended shutdown of sensitive electronic equipment, many of the customers that have historically relied on standby generators for long-term power outages can no longer afford the five to ten second outage while the generator starts. We believe that a significant market opportunity exists to upgrade, or retrofit, a portion of Caterpillar's approximately 250,000 installed gensets worldwide by adding our CleanSource UPS, thereby creating a CPS.

DISTRIBUTED GENERATION

We believe that employing our CleanSource products with fuel cells and microturbines represent potential markets for our CleanSource products. These new technologies, which allow users to bypass the electric utility grid by generating power locally, cannot respond effectively to rapid changes in electric power demands, or loads. CleanSource DC can absorb sharp peaks in electrical demand, allowing a microturbine or fuel cell to be sized for the average power requirement of the customer, rather than for peak power requirements, thereby generating significant cost savings. In addition, CleanSource UPS can seamlessly transfer a customer load from utility power to fuel cell or microturbine standby power in the event of a utility outage.

CORPORATE INFORMATION

We were founded as a Texas corporation in 1992. We changed our name from Magnetic Bearing Technologies, Inc. to Active Power, Inc. in 1996 and we reincorporated in Delaware in 2000.

Our principal executive offices are located at 11525 Stonehollow Drive, Suite 110, Austin, Texas 78758. Our telephone number is (512) 836-6464.

ASSUMPTIONS THAT APPLY TO THIS PROSPECTUS

This offering is for 8,000,000 shares. The underwriters have a 30-day option to purchase up to 900,000 additional shares from us and up to 300,000 additional shares from a selling stockholder to cover over-allotments. Unless we state otherwise, the information in this prospectus assumes that the underwriters will not exercise the over-allotment option.

Except where we state otherwise, the information we present in this prospectus:

- reflects a 2.3-for-1 split of our common stock which will be effected prior to the consummation of this offering;
- reflects our reincorporation in Delaware in April 2000, at which time each share of common stock and preferred stock issued by our predecessor Texas corporation was exchanged for two shares of a similar series of common stock or preferred stock in the successor Delaware corporation; and
- reflects the conversion of all outstanding shares of preferred stock, other than our 1992 preferred stock, into 18,593,672 shares of common stock upon the closing of this offering.

All references in this prospectus to "we", "us", "ours" and "Active Power" are intended to include Active Power, Inc., including our predecessor Texas corporation.

THE OFFERING

Common stock we are offering.....	8,000,000 shares
Outstanding common stock after the offering.....	39,584,560 shares
Use of proceeds.....	We intend to use the net proceeds for working capital and other general corporate purposes, including increases in both component and finished goods inventory, expansion of our manufacturing facilities and capacity, capital expenditures, research and development, sales and marketing, and possible acquisitions and international expansion. See "Use of Proceeds".
Proposed Nasdaq National Market symbol.....	ACPW

The number of shares of common stock to be outstanding after this offering is based on the number of shares outstanding as of May 31, 2000, and assumes the conversion of all of our preferred stock, other than our 1992 preferred stock, into 18,593,672 shares of common stock. This number excludes 3,505,745 shares of common stock issuable upon exercise of options outstanding as of May 31, 2000 with a weighted average exercise price of $0.77 per share, 248,060 additional shares of common stock reserved under our option plan as of May 31, 2000, and 460,000 shares of common stock issuable upon exercise of outstanding warrants as of May 31, 2000 with a weighted average exercise price of $4.93 per share, and assumes no exercise of the underwriters' over-allotment option.

SUMMARY FINANCIAL INFORMATION
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEAR ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1997	1998	1999	1999	2000
				(UNAUDITED)	
STATEMENT OF OPERATIONS DATA:					
Product revenue	$ 137	$ 915	$ 1,047	$ 203	$ 182
Product margin	(20)	(323)	(1,959)	(348)	(339)
Development funding	--	--	5,000	3,000	--
Total operating expenses	3,862	5,971	10,044	1,436	3,841
Operating income (loss)	(3,882)	(6,294)	(7,003)	(1,216)	(4,181)
Net income (loss)	(3,738)	(5,979)	(10,188)	22	(4,857)

The following table contains a summary of our unaudited balance sheet:

- on an actual basis at March 31, 2000;
- on a pro forma basis to reflect the conversion of all outstanding shares of convertible preferred stock into 18,593,672 shares of common stock upon the consummation of this offering and the May 2000 exercise by a stockholder of a warrant to purchase 460,000 shares of common stock, in each case as if such conversion or exercise had occurred on March 31, 2000; and
- on a pro forma as adjusted basis at March 31, 2000 to additionally reflect estimated net proceeds from the sale of 8,000,000 shares of common stock offered hereby at an assumed initial public offering price of $12.00 per share.

	MARCH 31, 2000		
	ACTUAL	PRO FORMA	PRO FORMA AS ADJUSTED
BALANCE SHEET DATA:			
Cash, cash equivalents and short-term investments	$ 23,360	$23,390	$111,390
Working capital	23,661	23,691	111,691
Total assets	26,377	26,407	114,407
Redeemable convertible preferred stock	61,466	--	--
Stockholders' equity (deficit)	(40,902)	25,250	113,250

RISK FACTORS

You should carefully consider the following risks and all other information contained in this prospectus before deciding to invest in our common stock.

We have incurred significant losses and anticipate losses for the next several years.

We have incurred operating losses since our inception and expect to continue to incur losses in the foreseeable future. As of March 31, 2000, we had an accumulated deficit of $30.8 million. To date, our product revenue has been insignificant, and we have funded our operations through sales of our equity and a $5.0 million development funding payment from Caterpillar. We will need to generate significant revenue to achieve profitability, and we cannot assure you that we will ever realize sufficient revenue to achieve profitability. We also expect to incur significant product development, sales and marketing and administrative expenses and, as a result, we expect to continue to incur losses.

Due to our limited operating history and the uncertain market acceptance of our products, we may not ever achieve significant revenue and may have difficulty accurately predicting revenue for future periods and appropriately budgeting for expenses.

We have generated a total of $2.0 million in product revenue over the past two years, and we have sold fewer than 100 CleanSource DC and CleanSource UPS products. We are uncertain whether our products will achieve market acceptance such that our revenues will increase or whether we will be able to achieve significant revenue. Therefore, we have a very limited ability to predict future revenue. In addition, we currently have only a small backlog of orders. Our limited operating experience, the uncertain market acceptance for our products, and other factors that are beyond our control make it difficult for us to accurately forecast our quarterly and annual revenue. However, we use our forecasted revenue to establish our expense budget. Most of our expenses are fixed in the short term or incurred in advance of anticipated revenue. As a result, we may not be able to decrease our expenses in a timely manner to offset any revenue shortfall. Further, we are expanding our staff and facilities and increasing our expense levels in anticipation of future revenue growth. If our revenue does not increase as anticipated, we will incur significant losses.

Our business is subject to fluctuations in operating results, which could negatively impact the price of our stock.

Our product revenue, expense and operating results have varied in the past and may fluctuate significantly in the future due to a variety of factors, many of which are outside of our control. These factors include, among others:

- the timing of orders from our customers and the possibility that these customers may change their order requirements with little or no advance notice to us;
- the rate of adoption of our flywheel-based energy storage system as an alternative to lead-acid batteries;
- the deferral of customer orders in anticipation of new products from us or other providers of power quality systems;
- the ongoing need for short term power outage protection in traditional UPS systems;
- the uncertainty regarding the adoption of our current and future products, including our recently introduced CleanSource UPS product and our fully integrated continuous power system which we expect to introduce in the fourth quarter of 2001; and
- the rate of growth of the markets for our products.

Our business is dependent on the market for power quality products, and if this market does not expand as we anticipate, or if alternatives to our products are successful, our business will suffer.

The market for power quality products is rapidly evolving and it is difficult to predict its potential size or future growth rate. Most of the organizations that may purchase our products have invested substantial resources in their existing power systems and, as a result, may be reluctant or slow to adopt a new approach. Moreover, our products are alternatives to existing UPS and CPS systems and may never be accepted by our customers or may be made obsolete by other advances in power quality technologies. Improvements may also be made to the existing alternatives to our products which could render them less desirable or obsolete.

We have limited product offerings, and our success depends on our ability to develop in a timely manner new and enhanced products that achieve market acceptance.

We have only one principal product that has any significant operating history at customer sites, CleanSource DC, and we have only recently introduced our CleanSource UPS product. To grow our revenue, we must rely on Caterpillar to successfully market our CleanSource UPS product, and we must develop and introduce to market new products and product enhancements in a timely manner. Even if we are able to develop and commercially introduce new products and enhancements, they may not achieve market acceptance. This would substantially impair our revenue prospects.

Failure to expand our distribution channels and manage our distribution relationships could impede our future growth.

The future growth of our business will depend in part on our ability to expand our existing relationships with OEMs, to identify and develop additional channels for the distribution and sale of our products and to manage these relationships. As part of our growth strategy, we intend to expand our relationships with OEMs and to develop relationships with new OEMs. We will also look to identify and develop relationships with additional partners that could serve as distributors for our products. Our inability to successfully execute this strategy and to reduce our reliance on Caterpillar could impede our future growth.

We are heavily dependent on our relationship with Caterpillar. If our relationship is unsuccessful, our business and revenue will suffer.

Caterpillar provided us with $5.0 million in funding to support the development of our CleanSource UPS product. In exchange for this payment, Caterpillar received co-ownership of the proprietary rights in this product. During 1999 and the first quarter of 2000, we received approximately $412,000, or 39%, and $181,000, or 99%, respectively, of our product revenue from Caterpillar. We have entered into an agreement with Caterpillar whereby they are the exclusive distributor, subject to limited exceptions, of our CleanSource UPS product. Caterpillar is not obligated to purchase any CleanSource UPS units. If our relationship with Caterpillar is not successful, or if Caterpillar's distribution of our CleanSource UPS product is not successful, our business and revenue will suffer.

We depend on a limited number of OEM customers for the vast majority of our revenue, and the loss of or significant reduction in orders from any key OEM customer, particularly Caterpillar, would significantly reduce our revenue.

We rely on OEMs as a primary distribution channel as they are able to sell our products to a large number of end-user organizations. We believe that the use of OEM channels will enable our products to achieve broad market penetration, while we devote a limited amount of our resources to

sales, marketing and customer service and support. Our operating results in the foreseeable future will continue to depend on sales to a relatively small number of OEM customers, primarily Caterpillar. For example, in 1999 sales to our four largest customers, Caterpillar, Powerware, Micron Technologies and Lee Technologies, accounted for 39%, 21%, 16% and 13%, respectively, of our revenue. Therefore, the loss of any of our key OEM customers, particularly Caterpillar, or a significant reduction in sales to any one of them, would significantly reduce our revenue.

OEMs may devote a limited amount of their resources to sales, marketing and customer service and support of our products, which would adversely affect our product revenues.

As a part of our OEM strategy, we do not make all of our products available to all of our OEMs. Consequently, an OEM could sell one of our products and compete with another product that we have not made available to it. For example, because of our relationship with Caterpillar, none of our current or potential future CleanSource DC OEMs, other than Caterpillar, is able to sell CleanSource UPS. As a result, OEMs may devote a limited amount of resources to sales, marketing and customer service and support of our products.

We may have difficulty managing the expansion of our operations.

We are undergoing rapid growth in the number of our employees, the size of our physical facilities and the scope of our operations. For example, we had 38 employees on January 1, 1998 and had 125 employees on May 31, 2000. Such rapid expansion is likely to place a significant strain on our senior management team and other resources. Our business, prospects, results of operations or financial condition could be harmed if we encounter difficulties in effectively managing the budgeting, forecasting and other process control issues presented by such a rapid expansion.

We have no experience manufacturing our products in the quantities we expect to sell in the future.

To be financially successful, we will have to manufacture our products in commercial quantities at acceptable costs while also preserving the quality levels achieved in manufacturing these products in more limited quantities. This presents a number of technological and engineering challenges for us. We cannot assure you that we will be successful in executing the planned expansion of our manufacturing activities. We have not previously manufactured our products in high volume. We do not know whether or when we will be able to develop efficient, low-cost manufacturing capability and processes that will enable us to meet the quality, price, engineering, design and product standards or production volumes required to successfully manufacture large quantities of our products. Even if we are successful in developing our manufacturing capability and processes, we do not know whether we will do so in time to meet our product commercialization schedule or to satisfy the requirements of our customers.

We are subject to increased inventory risks and costs because we outsource the manufacturing of components of our products in advance of binding commitments from our customers to purchase our products.

To assure the availability of our products to our OEM customers, we outsource the manufacturing of components prior to the receipt of purchase orders from OEM customers based on their forecasts of their product needs. However, these forecasts do not represent binding purchase commitments, and we do not recognize revenue for such products until the product is shipped to the OEM. As a result, we incur inventory and manufacturing costs in advance of anticipated revenue. As demand for our products may not materialize, this product delivery method subjects us to increased risks of high inventory carrying costs and obsolescence and may increase our operating costs. In

addition, we may from time to time make design changes to our products which could lead to obsolescence of inventory.

WE DEPEND ON SOLE SOURCE AND LIMITED SOURCE SUPPLIERS FOR CERTAIN KEY COMPONENTS, AND IF WE ARE UNABLE TO BUY THESE COMPONENTS ON A TIMELY BASIS, OUR DELAYED ABILITY TO DELIVER OUR PRODUCTS TO OUR CUSTOMERS MAY RESULT IN REDUCED REVENUE AND LOST SALES.

We purchase a power module and a microprocessor for our products from sole sources. We do not have long-term contracts with any of our suppliers, and to date most of our component purchases have been made in relatively small volumes. As a result, if our suppliers receive excess demand for their products, we may receive a low priority for order fulfillment as large volume customers will receive priority. If we are delayed in acquiring components for our products, the manufacture and shipment of our products also will be delayed. We generally use a twelve month forecast of our future product sales to determine our component requirements. Lead times for ordering materials and components vary significantly and depend on factors such as specific supplier requirements, contract terms, the extensive production time required and current market demand for such components. Some of these delays may be substantial. As a result, we purchase these components in large quantities to protect our ability to deliver finished products. If we overestimate our component requirements, we may have excess inventory, which will increase our costs. If we underestimate our component requirements, we will have inadequate inventory, which will delay our manufacturing and render us unable to deliver products to customers on scheduled delivery dates. If we are unable to obtain a component from a supplier or if the price of a component has increased substantially, we will be required to manufacture the component internally, which will result in delays. Manufacturing delays could negatively impact our ability to sell our products and could damage our customer relationships.

WE DEPEND ON KEY PERSONNEL TO MANAGE OUR BUSINESS AND DEVELOP NEW PRODUCTS IN A RAPIDLY CHANGING MARKET, AND IF WE ARE UNABLE TO RETAIN OUR CURRENT PERSONNEL AND HIRE ADDITIONAL PERSONNEL, OUR ABILITY TO DEVELOP AND SELL OUR PRODUCTS COULD BE IMPAIRED.

We believe our future success will depend in large part upon our ability to attract and retain highly skilled managerial, engineering and sales and marketing personnel. In particular, due to the relatively early stage of our business, we believe that our future success is highly dependent on Joseph F. Pinkerton, III, our founder, chief executive officer and president, to provide continuity in the execution of our growth plans. The loss of the services of any of our key employees, the inability to attract or retain qualified personnel in the future or delays in hiring required personnel, particularly engineers and sales personnel, could delay the development and introduction of, and negatively impact our ability to sell, our products.

WE HAVE HIRED A SUBSTANTIAL NUMBER OF OUR EMPLOYEES FROM OUR CURRENT CUSTOMERS AND FROM SOME OF OUR COMPETITORS, WHICH COULD DAMAGE OUR CUSTOMER RELATIONSHIPS AND EXPOSE US TO POTENTIAL LITIGATION.

There is a limited supply of skilled employees in the power quality industry. We have hired many of our current employees from our customers and our competitors. As a result, some of our current customers might begin to view us as competitors in the future, and one or more of our competitors could file lawsuits against us alleging the infringement of their trade secrets and other intellectual property. Although we do not believe we have infringed upon the intellectual property of our competitors, such lawsuits could divert our attention and resources from our business operations.

We are a relatively small company with limited resources compared to some of our current and potential competitors, and competition within our markets may limit our sales growth.

The markets for power quality and power reliability are intensely competitive. There are many companies engaged in all areas of traditional and alternative UPS and CPS systems in the United States, Canada and abroad, including, among others, major electric and specialized electronics firms, as well as universities, research institutions and foreign government-sponsored companies. There are many companies located in the United States, Canada and abroad that are developing flywheel-based energy storage systems and flywheel-based power quality systems. We also compete indirectly with companies that are developing other types of power technologies, such as superconducting magnetic energy storage, ultra-capacitors and dynamic voltage restorers.

Many of our current and potential competitors have longer operating histories, significantly greater resources, broader name recognition and a larger customer base than we have. As a result, these competitors may have greater credibility with our existing and potential customers. They also may be able to adopt more aggressive pricing policies and devote greater resources to the development, promotion and sale of their products than we can to ours, which would allow them to respond more quickly than us to new or emerging technologies or changes in customer requirements. In addition, some of our current and potential competitors have established supplier or joint development relationships with our current or potential customers. These competitors may be able to leverage their existing relationships to discourage these customers from purchasing products from us or to persuade them to replace our products with their products. Increased competition could decrease our prices, reduce our sales, lower our margins, or decrease our market share. These and other competitive pressures could prevent us from competing successfully against current or future competitors and could materially harm our business.

If we are unable to protect our intellectual property, we may be unable to compete.

Our products rely on our proprietary technology, and we expect that future technological advancements made by us will be critical to sustain market acceptance of our products. Therefore, we believe that the protection of our intellectual property rights is, and will continue to be, important to the success of our business. We rely on a combination of patent, copyright, trademark and trade secret laws, and restrictions on disclosure to protect our intellectual property rights. We also enter into confidentiality or license agreements with our employees, consultants and business partners and control access to and distribution of our software, documentation and other proprietary information. Despite these efforts, unauthorized parties may attempt to copy or otherwise obtain and use our products or technology. Monitoring unauthorized use of our products is difficult, and we cannot be certain that the steps we have taken will prevent unauthorized use of our technology, particularly in foreign countries where applicable laws may not protect our proprietary rights as fully as in the United States. In addition, the measures we undertake may not be sufficient to adequately protect our proprietary technology and may not preclude competitors from independently developing products with functionality or features similar to those of our products.

Our efforts to protect our intellectual property may cause us to become involved in costly and lengthy litigation which could seriously harm our business.

In recent years, there has been significant litigation in the United States involving patents, trademarks and other intellectual property rights. Although we have not been involved in intellectual property litigation, we may become involved in litigation in the future to protect our intellectual property or defend allegations of infringement asserted by others. Legal proceedings could subject us to significant liability for damages or invalidate our intellectual property rights. Any litigation, regardless of its outcome, would likely be time consuming and expensive to resolve and would divert

management's time and attention. Any potential intellectual property litigation also could force us to take specific actions, including:

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

ANY ACQUISITIONS WE MAKE COULD DISRUPT OUR BUSINESS AND HARM OUR FINANCIAL CONDITION.

Although we are not currently negotiating any business or technology acquisitions, as part of our growth strategy, we intend to review opportunities to acquire other businesses or technologies that would complement our current products, expand the breadth of our markets or enhance our technical capabilities. We have no experience in making acquisitions. Acquisitions entail a number of risks that could materially and adversely affect our business and operating results, including:

- problems integrating the acquired operations, technologies or products with our existing business and products;
- potential disruption of our ongoing business and distraction of our management;
- difficulties in retaining business relationships with suppliers and customers of the acquired companies;
- difficulties in coordinating and integrating overall business strategies, sales and marketing, and research and development efforts;
- the maintenance of corporate cultures, controls, procedures and policies;
- risks associated with entering markets in which we lack prior experience; and
- potential loss of key employees.

WE MAY REQUIRE SUBSTANTIAL ADDITIONAL FUNDS IN THE FUTURE TO FINANCE OUR PRODUCT DEVELOPMENT AND COMMERCIALIZATION PLANS.

Our product development and commercialization schedule could be delayed if we are unable to fund our research and development activities or the development of our manufacturing capabilities with our revenue, cash on hand and proceeds from this offering. We expect that the net proceeds of this offering, together with our other available sources of working capital, will be sufficient to fund development activities for at least 24 months. However, unforeseen delays or difficulties in these activities could increase costs and exhaust our resources prior to the full commercialization of our products under development. 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.

INSIDERS WILL CONTINUE TO HAVE SUBSTANTIAL CONTROL OVER OUR COMPANY AFTER THIS OFFERING AND COULD DELAY OR PREVENT A CHANGE IN CORPORATE CONTROL.

Upon completion of this offering, our executive officers and directors, and their respective affiliates, will beneficially own, in the aggregate, approximately 45.0% of our outstanding common stock. As a result, these stockholders will be able to exert significant control over all matters requiring

stockholder approval, including the election of directors and approval of significant corporate transactions. This concentration of voting power could delay or prevent an acquisition of our company on terms which other stockholders may desire.

Provisions in our charter documents and of Delaware law, and provisions in our agreement with Caterpillar, could prevent, delay or impede a change in control of our company and may depress the market price of our common stock.

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

Our stock price may be volatile, and you may not be able to resell your shares at or above the initial public offering price.

Prior to this offering, there has been no public market for our common stock. Although we have applied to have our common stock quoted on the Nasdaq National Market, an active trading market for our shares may never develop or be sustained following this offering. The initial public offering price for our common stock will be determined through negotiations between the underwriters and us. This initial public offering price may vary from the market price of our common stock after the offering. If you purchase shares of common stock, you may not be able to resell those shares at or above the initial public offering price. The market price of our common stock may fluctuate significantly in response to numerous factors, some of which are beyond our control, including the following:

- actual or anticipated fluctuations in our operating results;
- changes in financial estimates by securities analysts or our failure to perform in line with such estimates;
- changes in market valuations of other technology companies, particularly those that sell products used in power quality systems;
- announcements by us or our competitors of significant technical innovations, acquisitions, strategic partnerships, joint ventures or capital commitments;
- introduction of technologies or product enhancements that reduce the need for flywheel energy storage systems;
- the loss of one or more key OEM customers; and
- departures of key personnel.

OF OUR TOTAL OUTSTANDING SHARES, 31,584,560, OR 79.8%, ARE RESTRICTED FROM IMMEDIATE RESALE BUT MAY BE SOLD INTO THE MARKET IN THE NEAR FUTURE. THIS COULD CAUSE THE MARKET PRICE OF OUR COMMON STOCK TO DROP SIGNIFICANTLY, EVEN IF OUR BUSINESS IS DOING WELL.

After this offering, we will have outstanding 39,584,560 shares of common stock based on the number of shares outstanding at May 31, 2000. This includes the 8,000,000 shares we are selling in this offering, which may be resold in the public market immediately. The remaining 31,584,560 shares will become available for resale in the public market as shown in the chart below.

NUMBER OF SHARES/ % OF TOTAL SHARES OUTSTANDING	DATE OF AVAILABILITY FOR RESALE INTO THE PUBLIC MARKET
8,000,000/20.2%	Immediately (except to the extent purchased by our affiliates).
5,341,026/13.5%	90 days after the date of this prospectus due to lock-up agreements these stockholders have with the underwriters if the conditions described under "Shares Eligible for Future Sale--Lock-up Agreements" are satisfied.
5,354,510/13.5%	120 days after the date of this prospectus if additional conditions described under "Shares Eligible for Future Sale--Lock-up Agreements" are satisfied.
20,566,989/52.0%	180 days after the date of this prospectus due to the release of the lock-up agreement these stockholders have with the underwriters.
322,035/0.8%	At some point after 180 days from the date of this prospectus subject to vesting requirements and the requirements of Rule 144 (subject, in some cases, to volume limitations), Rule 144(k) or Rule 701.

As restrictions on resale end, the market price of our stock could drop significantly if the holders of restricted shares sell them or are perceived by the market as intending to sell them. For more detailed information, see "Shares Eligible for Future Sale" on page 59.

OUR MANAGEMENT MAY APPLY THE PROCEEDS OF THIS OFFERING TO USES THAT OUR STOCKHOLDERS MAY NOT AGREE WITH AND IN WAYS THAT DO NOT IMPROVE OUR EFFORTS TO ACHIEVE PROFITABILITY OR INCREASE OUR STOCK PRICE.

Although in "Use of Proceeds" we have specified some ways in which we initially intend to use a portion of the proceeds of this offering, our management will have considerable discretion in the application of the net proceeds received by us from this offering, and you will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. You must rely on the judgment of our management regarding the application of the proceeds of this offering. The net proceeds may be used for corporate purposes that do not improve our efforts to achieve profitability or increase our stock price. Pending application of the net proceeds from this offering, they may be placed in investments that do not produce income or that lose value.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as:

- "may"
- "will"
- "expect"
- "intend"
- "anticipate"
- "believe"
- "estimate"
- "continue"
- and other similar words.

You should read statements that contain these words and other forward-looking statements carefully because they discuss our future expectations, make projections of our future results of operations or of our financial condition or state other "forward-looking" information. We believe that it is important to communicate our future expectations to our investors. However, there may be events in the future that we are not able to accurately predict or control. The factors listed in the sections captioned "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations", as well as any cautionary language in this prospectus, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Before you invest in our common stock, you should be aware that the occurrence of the events described in the "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections and elsewhere in this prospectus could have a material adverse effect on our business, operating results and financial condition.

USE OF PROCEEDS

At the assumed initial public offering price of $12.00 per share, we will receive approximately $88.0 million from our sale of 8,000,000 shares of common stock, net of estimated offering expenses and underwriting discounts and commissions payable by us. If the underwriters exercise their over-allotment option in full, we will receive an additional $10.0 million in net proceeds and the selling stockholder will receive approximately $3.3 million in net proceeds. We will not receive any portion of the net proceeds received by a selling stockholder from the sale of his shares upon exercise of the underwriters' over-allotment option. See "Principal and Selling Stockholders".

The principal purposes of this offering are to increase our equity capital, create a public market for our common stock under market conditions that we believe are favorable, facilitate future access by us to public equity markets and provide us with increased visibility in our markets. We estimate that we will use the net proceeds of the offering for general corporate purposes, including increases in both component and finished goods inventory, expansion of our manufacturing facilities and capacity, capital expenditures, research and development, sales and marketing and possible acquisitions and international expansion. We anticipate general capital expenditures of approximately $2.0 million through 2000 and expenditures of approximately $2.0 million for the expansion of our manufacturing facilities and capacity. We currently anticipate using at least a portion of the proceeds of this offering to pay for these expenditures. Additionally, following this offering, our board of directors may determine to use $210,000 of our proceeds to redeem our 1992 preferred stock. As of the date of this prospectus, we have not allocated any specific amount of proceeds for these purposes.

Notwithstanding the estimates set forth above, our management will have significant flexibility in applying the net proceeds of this offering. For example, we may use a portion of the net proceeds to acquire businesses, products or technologies that are complimentary to our current or future business and product lines. Although we are not subject to any agreement or letter of intent with respect to potential acquisitions, we have from time to time engaged in acquisition discussions with other parties. Pending any such uses of the proceeds of this offering, we will invest the net proceeds of this offering in short-term, investment grade, interest-bearing instruments.

DIVIDEND POLICY

We have never declared or paid any dividends on our capital stock. We expect to retain future earnings, if any, for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon, among other factors, our results of operations, financial condition and capital requirements. Our credit agreements prohibit us from paying cash dividends while any borrowings are outstanding under the credit agreements.

CAPITALIZATION

The following table sets forth our short-term debt and capitalization:

- on an actual basis at March 31, 2000;
- on a pro forma basis at March 31, 2000 to reflect the conversion of all outstanding shares of our preferred stock, other than the 1992 preferred stock, into 18,593,672 shares of our common stock, and the exercise in May 2000 by a stockholder of warrants to purchase 460,000 shares of common stock;
- on a pro forma as adjusted basis at March 31, 2000 to additionally reflect estimated net proceeds from the sale of 8,000,000 shares of common stock offered hereby at an assumed initial public offering price of $12.00 per share.

You should read the following table in conjunction with our financial statements and the notes to those statements which are included in this prospectus.

	AS OF MARCH 31, 2000		
	ACTUAL	PRO FORMA	PRO FORMA AS ADJUSTED
	(IN THOUSANDS, EXCEPT SHARE DATA) (UNAUDITED)		
Warrants with redemption rights	$ 4,656	--	--
Redeemable convertible preferred stock, $0.001 par value, 8,527,166 shares designated, 7,732,082 issued and outstanding, actual; no shares designated, issued or outstanding, pro forma and pro forma as adjusted	61,466	--	--
1992 preferred stock, $0.001 par value, 420,000 shares designated, issued and outstanding	--	--	--
Stockholders' equity (deficit):			
Common stock, $0.001 par value, 30,000,000 shares authorized; 12,072,838 shares issued and outstanding, actual; 31,089,669 shares issued and outstanding, pro forma; 39,089,669 shares issued and outstanding, pro forma as adjusted	12	31	39
Additional paid-in capital	--	66,133	154,125
Unearned stock compensation	(10,081)	(10,081)	(10,081)
Accumulated deficit	(30,833)	(30,833)	(30,833)
Total stockholders' equity (deficit)	(40,902)	25,250	113,250
Total capitalization	$25,220	$ 25,250	$113,250

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The share information set forth above excludes, as of March 31, 2000:

- 460,000 shares issuable upon exercise of warrants with a weighted average exercise price of $4.93 per share;
- 3,756,838 shares issuable upon exercise of outstanding options under our stock option plan with a weighted average exercise price of $0.46 per share; and
- 31,860 additional shares of common stock reserved for issuance under our stock option plan.

DILUTION

Our historical net tangible book deficit at March 31, 2000 was $40.9 million or $3.39 per share. Historical net tangible book deficit per share is equal to the amount of our total tangible assets less total liabilities, divided by the number of shares of common stock outstanding as of March 31, 2000.

Our pro forma net tangible book value at March 31, 2000, was $25.3 million, or $0.81 per share of common stock. Pro forma net tangible book value per share is equal to the amount of our total pro forma tangible assets less total pro forma liabilities, divided by the pro forma number of shares of common stock outstanding as of March 31, 2000, after giving effect to the conversion of all outstanding shares of our convertible preferred stock into 18,593,672 shares of common stock and the May 2000 exercise by a stockholder of a warrant to purchase 460,000 shares of common stock.

Dilution in pro forma net tangible book value per share represents the difference between the amount per share paid by purchasers of shares of common stock in this offering and the pro forma net tangible book value per share of common stock immediately after the completion of this offering. After giving effect to our sale of 8,000,000 shares of common stock in this offering at an assumed initial public offering price of $12.00 per share, and after deducting underwriting discounts and commissions and estimated offering expenses payable by us, our adjusted pro forma net tangible book value at March 31, 2000 would have been $113.3 million, or $2.90 per share. This amount represents an immediate increase in pro forma net tangible book value to our existing stockholders of $2.09 per share and an immediate dilution to new investors of $9.10 per share. The following table illustrates this per share dilution:

Assumed initial public offering price per share		$12.00
Historical net tangible book deficit per share at March 31, 2000	$(3.39)	
Increase attributable to conversion of preferred stock and exercise of warrants	4.20	
Pro forma net tangible book value per share at March 31, 2000	.81	
Increase in pro forma net tangible book value per share attributable to this offering	2.09	
Pro forma net tangible book value per share after this offering		2.90
Dilution per share to new investors		$ 9.10

If the underwriters exercise their over-allotment option in full, our adjusted pro forma net tangible book value at March 31, 2000 would have been $123.3 million, or $3.08 per share, representing an immediate increase in pro forma net tangible book value to our existing stockholders of $2.27 per share and an immediate dilution to new investors of $8.92 per share.

The following table summarizes, on a pro forma basis at March 31, 2000, after giving effect to the pro forma adjustments described above, the differences between the number of shares of common stock purchased from us, the aggregate cash consideration paid to us and the average price per share paid by our existing stockholders and by new investors purchasing shares of common stock in this offering. The calculation below is based on an assumed initial public offering price of $12.00 per share, before deducting underwriting discounts and commissions and estimated offering expenses payable by us:

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE PER SHARE
	NUMBER	PERCENT	AMOUNT	PERCENT	
Existing stockholders.....	31,089,675	79.5%	$ 43,933,215	31.4%	$ 1.41
New investors.....	8,000,000	20.5	96,000,000	68.6	12.00
Total.....	39,089,675	100.0%	$139,933,215	100.0%	

This discussion and table assume no exercise of any stock options outstanding at March 31, 2000 and, except as referenced otherwise above, no exercise of any outstanding warrants. Assuming the warrant exercise referenced above, at March 31, 2000, there were warrants to purchase 460,000 shares of common stock with a weighted average exercise price of $4.93 per share, and options outstanding under our stock option plan to purchase a total of 3,756,838 shares of common stock with a weighted average exercise price of $0.46 per share. To the extent that any of these warrants or options are exercised, there will be further dilution to new investors.

SELECTED FINANCIAL DATA

You should read the selected financial data set forth below in conjunction with our financial statements and the notes thereto, "Management's Discussion and Analysis of Financial Condition and Results of Operations", and other financial information appearing elsewhere in this prospectus.

The statement of operations data set forth below for the years ended December 31, 1997, 1998 and 1999 and the balance sheet data as of December 31, 1998 and 1999 are derived from, and qualified by reference to, our audited financial statements appearing elsewhere in this prospectus. The statement of operations data for the years ended December 31, 1995 and 1996 and the balance sheet data as of December 31, 1995, 1996 and 1997 have been derived from audited financial statements not included in this prospectus. The statement of operations data for the three months ended March 31, 1999 and 2000 and the balance sheet data as of March 31, 2000 are derived from unaudited financial statements appearing elsewhere in this prospectus which, in the opinion of our management, reflect all normal recurring adjustments that we consider necessary for a fair presentation of such information in accordance with generally accepted accounting principles. Operating results for the three months ended March 31, 2000 are not necessarily indicative of the results that may be expected for the full fiscal year or future results.

	YEAR ENDED DECEMBER 31,					THREE MONTHS ENDED MARCH 31,	
	1995	1996	1997	1998	1999	1999	2000
	(IN THOUSANDS, EXCEPT PER SHARE DATA)						
Product revenue	$ 120	$ --	$ 137	$ 915	$ 1,047	$ 203	$ 182
Cost of goods sold	--	--	157	1,238	3,006	551	521
Product margin	$ 120	$ --	$ (20)	$ (323)	$ (1,959)	$ (348)	$ (339)
Development funding	--	--	--	--	5,000	3,000	--
Operating expenses:							
Research and development	430	968	2,598	4,045	4,441	957	1,463
Selling, general and administrative	179	483	1,264	1,926	3,972	470	1,098
Amortization of deferred stock compensation	--	--	--	--	1,631	9	1,280
Total operating expenses	$ 609	$ 1,451	$ 3,862	$ 5,971	$ 10,044	$ 1,436	$ 3,841
Operating income (loss)	$ (489)	$ (1,451)	$ (3,882)	$ (6,294)	$ (7,003)	$ 1,216	$ (4,181)
Interest income	25	109	175	339	439	86	372
Interest expense	--	--	(31)	(34)	(18)	(8)	(4)
Change in fair value of warrants with redemption rights	--	--	--	--	(3,614)	(1,272)	(1,042)
Other income	--	--	--	10	8	--	(2)
Net income (loss)	$ (464)	$ (1,342)	$ (3,738)	$ (5,979)	$ (10,188)	$ 22	$ (4,857)
Net loss to common stockholders	(517)	(1,635)	(4,564)	(8,767)	(46,275)	(980)	(12,088)
Net loss per share of common stock, basic and diluted	$ (0.05)	$ (0.16)	$ (0.45)	$ (0.84)	$ (4.34)	$ (0.09)	$ (1.08)
Shares used in computing net loss per share basic and diluted	9,965,583	10,037,430	10,211,001	10,423,906	10,658,321	10,524,094	11,239,966

BALANCE SHEET DATA:

	AS OF DECEMBER 31,					AS OF MARCH 31,
	1995	1996	1997	1998	1999	2000
Cash, cash equivalents and short-term investments	$419	$2,434	$4,340	$ 7,536	$26,265	$23,360
Working capital	384	2,470	4,565	8,008	26,394	23,661
Total assets	476	3,002	5,921	9,734	28,366	26,377
Long-term obligations, less current portion	--	--	170	55	--	--
Redeemable convertible preferred stock	918	4,960	11,786	24,575	54,235	61,466
Total stockholders' deficit	(535)	(2,167)	(6,742)	(15,524)	(30,338)	(40,902)

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

We design, manufacture and market power quality products that provide the consistent, reliable electric power required by today's digital economy. We are the first company to commercialize a flywheel energy storage system that provides a highly reliable, low-cost and non-toxic replacement for lead-acid batteries used in conventional power quality installations. Leveraging our expertise in this technology and in conjunction with Caterpillar, the leading maker of engine generators for the power reliability market, we have developed a battery-free power quality system, which is marketed under the Caterpillar brand name. Our products are sold for use in the facilities of companies in many different industries that all share a critical need for reliable, high quality power, such as Internet service providers, semiconductor manufacturers, telecommunications providers, pharmaceutical manufacturers, hospitals, electric utilities and broadcasters. As an extension of these existing product lines, we are developing a fully integrated continuous power system. The initial target market for this product is the rapidly growing telecommunications industry.

To date, we have primarily funded our operations through sales of shares of our preferred stock, which have resulted in gross proceeds of approximately $42.8 million, as well as $5.0 million in development funding received from Caterpillar in 1999. Since 1996, we have focused our efforts and financial resources primarily on the design and development of our CleanSource line of power quality products and on establishing effective OEM channels to market our products. As of March 31, 2000, we had generated an accumulated deficit of $30.8 million and expect to continue to sustain operating losses for the next several years.

Since our inception, a small number of customers have accounted for the majority of our annual sales. During 1999, our four largest customers accounted for 89% of our sales, with our largest customer, Caterpillar, accounting for 39%. In the first quarter of 2000, Caterpillar accounted for 99% of our revenue as we have shifted focus to our CleanSource UPS product. We expect to continue to be dependent on a few OEM customers, in particular Caterpillar, for the majority of our sales for the foreseeable future.

With the commercial release of our second generation product line, CleanSource UPS, in May 2000 under the Caterpillar brand name, and a growing market demand for power quality equipment, we believe the demand for our products will increase significantly. To prepare for this anticipated growth in demand and to position us for future growth, we have increased and expect to continue to increase the scale of our operations in the following ways:

- Expand our manufacturing facilities and add manufacturing personnel to address anticipated product demand;

- Increase our personnel levels in product development and engineering to accelerate time to market on new products and enhance existing product lines; and

- Add sales and marketing personnel to support our OEM customers.

We believe that, although these efforts will increase our operating expenses, they will also enable us to realize accelerated revenue growth.

In connection with the grant of stock options to our employees in 1999 and during the three months ended March 31, 2000, we recorded deferred stock compensation aggregating $13.0 million. Deferred stock compensation represents the difference between the fair value, determined subsequently by our board of directors, of the common stock underlying the options and the options' exercise price on the date of grant. We amortize deferred stock compensation to operating expense

over the vesting period, generally four years. Additionally, in April and May 2000 we recorded deferred stock compensation of $2.8 million. In 1999, we amortized $1.6 million of the deferred stock compensation to expense and during the three months ended March 31, 2000 we amortized an additional $1.3 million to expense. We currently expect to amortize the deferred stock compensation remaining at March 31, 2000 in the periods below (in millions):

April 1, 2000 to December 31, 2000	$ 4.4
January 1, 2001 to December 31, 2001	3.2
January 1, 2002 to December 31, 2002	1.7
January 1, 2003 to December 31, 2003	0.7
January 1, 2004 to December 31, 2004	0.1
	$10.1

COMPARISON OF 1999 TO 1998

PRODUCT REVENUE. Product revenue primarily consists of sales of our CleanSource power quality products. Sales increased $132,000, or 14%, to $1.05 million in 1999 from $915,000 in 1998. This increase was attributable to the continued acceptance of our first product, CleanSource DC, as well as the initial sales of our second product, CleanSource UPS, in the fourth quarter of 1999. The average selling price of our products increased in 1999 due to the introduction and the initial sales of our CleanSource UPS product, which carries a higher selling price than our CleanSource DC product.

COST OF GOODS SOLD. Cost of goods sold includes the cost of component parts of our product that are sourced from suppliers, personnel, equipment and other costs associated with our assembly and test operations, shipping costs, and the costs of manufacturing support functions such as logistics and quality assurance. In addition, a portion of our occupancy expenses as well as product warranty costs are allocated to costs of good sold. Cost of goods sold increased $1.8 million, or 143%, to $3.0 million in 1999 from $1.2 million in 1998. In anticipation of future demand for our products, we expanded our manufacturing capacity in 1999. As a result, the additional manufacturing overhead contributed to higher cost of goods sold in 1999. In addition, we expensed approximately $549,000 in 1999 associated with components that we determined to be in excess of our needs due to design changes made to our CleanSource DC product. We expect that as our production volumes increase over time, unit production costs will tend to decrease as we achieve greater economies of scale in production and in purchasing component parts.

DEVELOPMENT FUNDING. Development funding consists of funds received from Caterpillar to support the development of the CleanSource UPS product. In 1999, we received $5.0 million in development funding. We did not receive any development funding in 1998 or in 1997. We do not currently have any other development funding contracts.

RESEARCH AND DEVELOPMENT. Research and development expense primarily consists of compensation and related costs of employees engaged in research, development and engineering activities, as well as an allocated portion of our occupancy costs. Research and development expense increased $396,000, or 10%, to $4.4 million in 1999 from $4.0 million in 1998. The increase in research and development expense was primarily due to the increased product development of CleanSource UPS and other products. We believe that research and development expense will continue to increase significantly in 2000 and thereafter as we continue to develop new products and enhance existing product lines.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expense is primarily comprised of compensation and related costs for sales, marketing and administrative personnel, an

allocable portion of occupancy costs, other promotional and marketing expenses, professional fees and reserves for bad debt. Selling, general and administrative expense increased $2.0 million, or 106%, to $4.0 million in 1999 from $1.9 million in 1998. The increase in selling, general and administrative expense was principally due to a charge of $1.3 million related to warrants we issued to stockholders in conjunction with strategic alliance agreements we entered into with them relating to their use, evaluation and feedback of products they agreed to purchase and other business assistance. Additionally, we increased personnel in our sales organization in order to support our OEM channel partners and to address opportunities for sales of our CleanSource UPS product line. We believe that selling, general and administrative expense will increase in future periods as we add sales, marketing and administrative personnel to position us for future sales growth.

AMORTIZATION OF DEFERRED STOCK COMPENSATION. Deferred stock compensation reflects the difference between the exercise price of option grants to employees and the fair value determined subsequently by our board of directors of our common stock at the date of grant. We are amortizing deferred stock compensation as an operating expense over the vesting periods of the applicable options, which resulted in amortization expense of $1.6 million in 1999. No amortization of deferred stock compensation occurred in 1998 as, prior to 1999, we believe that all options were granted at exercise prices equal to the fair value of the underlying stock on the date of grant. We expect that this amortization expense will increase in 2000 due to the vesting of options that were granted in 1999 and 2000. However, we expect the amortization expense to decrease after 2000, as the options that were granted at exercise prices less than the fair value determined subsequently by our board of directors become fully vested.

OTHER EXPENSE. Other expense in 1999 includes a $3.6 million charge for the change in fair value of outstanding warrants with redemption rights. Because of the redemption feature, we reflect these warrants as a liability and record fair value changes in current period losses. In 1999, the fair value of the underlying common stock increased substantially, resulting in an increase in the warrant value and corresponding expense. Prior to 1999, the underlying common stock value approximated the value at the date of issuance of the warrants.

INCOME TAX EXPENSE. As of December 31, 1999, our accumulated net operating loss carryforward was $14.4 million. We anticipate that all of this loss carryforward amount will remain available for offset against any future tax liabilities that we may incur; however, because of uncertainty regarding our ability to use these carryforwards, we have established a valuation allowance for the full amount of our deferred tax assets.

COMPARISON OF 1998 TO 1997

PRODUCT REVENUE. Product revenue increased $778,000, or 565%, to $915,000 in 1998 from $137,000 in 1997. The increase was attributable to greater market acceptance of our first product, CleanSource DC. In 1998, we experienced increases in sales to new customers for this product as well as to existing customers.

COST OF GOODS SOLD. Cost of goods sold increased $1.1 million, or 687%, to $1.2 million in 1998 from $157,000 in 1997. The increase in cost of goods sold was primarily due to the expansion of our manufacturing infrastructure to support the increase in the 1998 sales volume of the CleanSource DC product.

RESEARCH AND DEVELOPMENT. Research and development expense increased $1.4 million, or 56%, to $4.0 million in 1998 from $2.6 million in 1997. The increase in research and development expense primarily was due to an increase in our engineering staff from 17 employees at December 31, 1997 to 29 employees at December 31, 1998, as well as increased product development expenses associated with our CleanSource DC product.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expense increased $661,000, or 52%, to $1.9 million in 1998 from $1.3 million in 1997. The increase in selling, general

and administrative expense was attributable to an increase in 1998 in the number of personnel within our sales, marketing and administrative departments to support an anticipated growth in sales volume.

Comparison of Three Months Ended March 31, 2000 to Three Months Ended March 31, 1999

Product Revenue. Product revenue decreased $21,000, or 10.4%, to $182,000 from $203,000 for the three months ended March 31, 2000 and 1999, respectively, due to the shift in focus from our CleanSource DC product, which comprised the majority of our first quarter 1999 sales, to CleanSource UPS beta units, which made up the majority of our revenue for the three months ended March 31, 2000. For the three months ended March 31, 2000, Caterpillar accounted for 99% of our sales. We expect to continue to be dependent on a few OEM customers, in particular Caterpillar, for the majority of our sales for the foreseeable future.

Cost of Goods Sold. Cost of goods sold decreased $30,000, or 5.4%, to $521,000 from $551,000 for the three months ended March 31, 2000 and 1999, respectively. This decrease is related to the decrease in product revenue.

Research and Development. Research and development increased $506,000, or 53%, to $1.5 million from $957,000 for the three months ended March 31, 2000 and 1999, respectively. This increase was mainly due to an increase in staffing to accelerate our product development efforts.

Other expense. Other expense in the three months ended March 31, 2000 includes a $1.0 million charge for the change in fair value of outstanding warrants with redemption rights as a result of an increase in the fair value of the underlying common stock.

Selling, general and administrative. Selling, general and administrative expenses increased $628,000, or 134%, to $1.1 million from $470,000 for the three months ended March 31, 2000 and 1999, respectively. This increase was due to increasing our sales force to support our OEM channel partners, as well as increasing our administrative staff in preparation for our anticipated sales growth.

Liquidity and Capital Resources

Our principal sources of liquidity as of March 31, 2000 consisted of $23.4 million of cash, cash equivalents and short-term investments, as well as our bank credit facility and an equipment financing line. Our bank credit facility consists of a revolving line of credit with borrowing availability equal to the lesser of $1 million or 80% of eligible accounts receivable. As of March 31, 2000, we had no amounts outstanding under this line of credit and a borrowing availability of $145,870. Borrowings outstanding under the credit line will bear interest at the bank's prime rate, which was 9.0% at March 31, 2000. The equipment financing line was originated in March 1997 and is comprised of seven separate schedules that are set to mature at various times between April 2001 and December 2001. The aggregate amount of equipment purchases that were financed under the equipment financing line was $400,000 as of March 31, 2000.

To date, we have primarily funded our operations through sales of shares of our preferred stock, which have resulted in gross proceeds of approximately $42.8 million, as well as $5.0 million in development funding received from Caterpillar in 1999. During 1999, cash used by operating activities was $2.6 million, which compares to $5.9 million and $3.9 million in 1998 and 1997. For the three months ended March 31, 2000, cash used by operating activities was $2.5 million. The cash usage in each of these periods was primarily attributable to our focus on the development of products and the expansion of our manufacturing operations and sales activities.

Capital expenditures were $437,000, $793,000 and $598,000 in 1997, 1998 and 1999. We made these expenditures to acquire engineering test equipment, to develop market demonstration

units, and to purchase manufacturing equipment for the building and test of production units, as well as for general computer equipment and software for administrative purposes. We expect to incur approximately $2.0 million in expenses in 2000 in connection with the buildout of additional office, engineering lab and manufacturing space. In addition, we expect to purchase approximately $2.0 million of capital equipment in 2000 for use in our research and development activities and to expand our manufacturing capacity.

We believe the proceeds of this offering, together with our existing cash balances, will be sufficient to meet our capital requirements through at least the next 24 months, although we might elect to seek additional funding prior to that time. Beyond the next 24 months, our capital requirements will depend on many factors, including the rate of sales growth, the market acceptance of our products, the rate of expansion of our sales and marketing activities, the rate of expansion of our manufacturing facilities, and the timing and extent of research and development projects. Although we are not a party to any agreement or letter of intent with respect to a potential acquisition, we may enter into acquisitions or strategic arrangements in the future which could also require us to seek additional equity or debt financing.

RECENT ACCOUNTING PRONOUNCEMENTS

In March 2000, the Financial Accounting Standards Board issued Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation", an interpretation of APB Opinion No. 25. Interpretation No. 44 has an effective date of July 1, 2000. We do not believe Interpretation No. 44 will affect our accounting for transactions involving stock-based compensation.

In December 1999, the Staff of the Securities and Exchange Commission released Staff Accounting Bulletin, or SAB, No. 101, entitled "Revenue Recognition in Financial Statements", which provides guidance on the recognition, presentation and disclosure of revenue in financial statements. In June 2000, the Staff delayed the effective date of SAB No. 101 until October 2000. The Staff has disclosed that it is preparing a questions and answers guide related to SAB No. 101. While we do not expect SAB No. 101 or the questions and answers guide to have a material impact on our financial statements, until the Staff issues the questions and answers guide we will not be fully able to evaluate their impact.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

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 allow and in terms of the credit quality of the investments we hold. Therefore, we have concluded that we do not have a material market risk exposure.

BUSINESS

Overview

We design, manufacture and market power quality products that provide the consistent, reliable electric power required by today's digital economy. We are the first company to commercialize a flywheel energy storage system that provides a highly reliable, low-cost and non-toxic replacement for lead-acid batteries used in conventional power quality installations. Leveraging our expertise in this technology and in conjunction with Caterpillar, the leading maker of engine generators for the power reliability market, we have developed a battery-free power quality system, which is marketed under the Caterpillar brand name. As an extension of these existing product lines, we are developing a fully integrated continuous power system. The initial target market for this product is the rapidly growing telecommunications industry.

Industry Background

Power Requirements of the New Economy

The worldwide demand for high quality electricity has been increasing rapidly in recent years, driven in large part by growth in the use of computers, the Internet and telecommunications products. Industry sources have estimated that the share of all U.S. electricity consumed by computer-based microprocessors is 13% and that within the next two decades up to 50% of the nation's electricity supply may be required to meet the direct and indirect needs of the Internet.

As the influence of sophisticated digital electronics expands across all industries, the need for very high levels of power reliability and quality also increases. Most industries now rely on these highly sensitive electronics to manage and control their manufacturing processes. However, despite this increasingly dramatic change in the mix of electricity demand, the mechanisms used to provide power have not changed. The power delivered over the electricity grid today is subject to power disturbances, such as voltage sags and surges, and power outages. These disturbances, while typically lasting less than two seconds, can have significant detrimental effects on the devices of the new economy.

[GRAPHIC]

[Description of Graphic: This graphic depicts sine waves representing both the types of problems with power supplied from the electric utility grid and the desired sine wave for "Reliable, Quality Electric Power". The first graphic on the far left is titled "Reliability Problem" and shows a steady sine wave that turns into a straight line. Above the straight line is the word "Outage" with an arrow pointing at the straight line. In the middle of the graphic under "Power Quality Problems" are two sine waves. The top sine wave has smaller peaks and valleys in the middle of the sine wave. Above the middle of the sine wave are the words "Voltage Sag" with an arrow pointing at the center of the sine wave. The bottom sine wave has larger peaks and valleys in the middle of the sine wave. Above the middle of the sine wave are the words "Voltage Surges" with an arrow pointing at the center of the sine wave. On the right side of the diagram is a smooth, continuous sine wave which is labeled "Reliable, Quality Electric Power".]

The power outages in a number of major cities during recent summers have highlighted the increasing likelihood of costly interruptions and the need to seek reliability protection. Power disturbances are a significant concern for everything from the computers used in modern commercial and industrial processes to telecommunications equipment. Leaving these devices unprotected from disturbances can have significant and negative impacts on the power user. A 1999 study by the Electric Power Research Institute estimated that electric power problems annually cost U.S. industry more than $30 billion in lost data, material and productivity. Even the loss of quality power for one second at a semiconductor manufacturing plant can result in the loss of millions of dollars. As the digital economy grows, avoiding network and equipment downtime due to power-related problems will become even more important.

Electric utilities are unable to provide high quality, uninterrupted power due in large part to the inherent limitations of the existing transmission and distribution system. The electric utility grid is naturally exposed to reliability and quality problems caused by severe weather, animals, accidents and other external events. While substantial upgrades and other investment could improve overall reliability, the absolute level of power quality required for these sophisticated electronic applications may still remain difficult to achieve.

Power Quality Systems: Uninterruptible Power Supplies and Continuous Power Systems

Currently, there are a variety of approaches that attempt to address the deficiencies of power delivered by the electric utility grid. Conventional power quality systems have been constructed from an array of devices, including batteries for short-term power disturbances, engine generators, commonly referred to as "gensets", for longer-term outages, and control electronics to bridge the two. A short-term (seconds to minutes) energy storage device with control electronics is referred to as an uninterruptible power supply, or UPS. A UPS coupled with a genset to protect against longer-term outages (minutes to hours or days) is referred to as a continuous power system, or CPS.

A UPS protects sensitive systems from sags, surges and other temporary interruptions in utility-supplied power. A UPS consists of solid-state switches and electronics that are connected to both the utility grid and a back-up power source, typically lead-acid batteries. The UPS electronics monitor the power from the grid. If the UPS determines that the power being supplied from the grid is unacceptable or that insufficient power is being supplied, it will draw power from the back-up power source to ensure uninterrupted, quality power. These systems typically provide 5 to 15 minutes of back-up power before the batteries are depleted.

A CPS provides back-up power indefinitely. As described above, if the UPS determines that there is a power quality or power reliability problem, it initially turns to the back-up power source. If, however, the disturbance lasts for an extended period (typically, more than 5 to 10 seconds), the CPS genset activates and begins to provide back-up power. Internet service providers, data processing centers, semiconductor plants, cellular phone sites and fiber nodes all use CPS to keep critical business equipment operating when electric utility power falters.

The following diagrams depict a conventional UPS and CPS:

[GRAPHIC]

[Description of grahpic: The graphic on the left depicts a "Conventional UPS System". From the left side of the graphic is an arrow pointed to the center of the graphic with the caption "Electric Power from Utility" beneath the arrow. The arrow points to a box in the center of the graphic with the caption "Uninterruptable Power Supply Electronics" inside the box. Beneath the box and connected to the box with a line is another box with the caption "Lead Acid Battery for short term power (seconds to minutes)" inside the box. From the center box is an arrow pointed to the right side of the graphic with the caption "Uninterruptible Power to Customer" beneath the arrow. Beneath this graphic is the following text "Electric power from the electric utility passes through the UPS to the customer. If this power is interrupted or is disturbed, the UPS immediately draws power from the battery to supply uninterrupted power to customer".
The graphic on the right depicts a "Conventional CPS System". From the left side of the graphic is an arrow pointed to the center of the graphic with the caption "Electric Power from Utility" beneath the arrow. The arrow points to a box in the center of the graphic with the caption "Uninterruptible Power Supply Electronics" inside the box. Above the box and connected to the center box with a line is an oval with the caption "Generator" inside the oval and the caption "long term power (minutes to days)" to the left of the oval. Beneath the center box and connected to the center box with a line is another box with the caption "Lead Acid Battery for short term power (seconds to minutes)" inside the box. From the center box is an arrow pointed to the right side of the graphic with the caption "Uninterruptible Power to customer" beneath the arrow. Beneath this graphic is the following text: "In a CPS configuration, if the power disturbance lasts longer than a few seconds, the standy generator is started to provide electric power for as long as required."]

Electric power from the electric utility passes through the UPS to the customer. If this power is interrupted or is disturbed, the UPS immediately draws power from the battery to supply uninterrupted power to the customer.

In a CPS configuration, if the power disturbance lasts longer than a few seconds, the standby generator is started to provide electric power for as long as required.

Limitations of Conventional UPS and CPS

Conventional UPS and CPS devices have evolved out of a makeshift combination of diesel engines, generators, automobile batteries and UPS electronics. We believe that this patchwork

approach to UPS and CPS has resulted in systems that are less efficient, less reliable and more expensive than they otherwise could be. The lead-acid batteries, which provide ride-through, or temporary, power for the UPS and CPS, are viewed as the weakest component of conventional power quality and reliability solutions. Lead-acid batteries have numerous problems, including:

RELIABILITY

- Relatively high failure rate--Batteries are prone to heat buildup and acid leaks that lead to battery failure.

- Limited life based on usage--When batteries are repeatedly used at close to their maximum power output, their power output capacity can rapidly decrease, reducing the batteries' effectiveness over time.

COST

- High maintenance--Batteries must be regularly inspected, generally every three months, to detect problems. Batteries also require periodic testing to determine their power output capacity, which degrades over time.

- Bulky--Generally, multiple batteries forming banks or strings must be used to support UPS functions. They also must be spaced apart to prevent uncontrolled heating.

- Frequent replacement required--Regardless of usage, batteries have a limited useful life and must be replaced every 2 to 6 years, depending upon the type of use, environment and other factors.

- Temperature sensitivity--Unless cooled by costly air conditioning systems, battery life will rapidly degrade.

ENVIRONMENTAL

- Toxicity--Batteries contain toxic materials such as lead and sulfuric acid.

- Disposal--State and federal environmental regulations governing battery disposal are rigorous and costly.

Beyond the specific problems associated with lead-acid batteries, existing UPS and CPS contain inefficiencies inherent in any system that was not designed as an integrated solution. Specifically, the major components of these systems do not come from a single reliable source. This lack of a single-source supplier makes installation, maintenance and failure analysis more difficult, costly and complex. Separate companies manufacture, market and service the genset, UPS electronics and batteries. The end user must assume the responsibility to integrate and monitor the system.

ACTIVE POWER'S PRODUCTS

Rather than adopt conventional approaches to power quality systems, we design new solutions specifically for the power quality market. As a result, we believe that we create products that are less expensive, more efficient and more reliable than other systems presently available.

CLEANSOURCE DC

CleanSource DC is the first commercially viable, non-chemical replacement for lead-acid batteries used for short-term power in power quality installations. As opposed to the chemical energy stored by batteries, our patented flywheel energy storage system stores kinetic energy by spinning constantly in a patented low-friction environment. When the UPS electronics detect a power disturbance, CleanSource DC draws upon the power stored as kinetic energy to generate back-up power. Our CleanSource flywheel energy storage system is compact, quiet and predictable.

CleanSource DC can run in conjunction with or can replace battery strings used in UPS and CPS systems and can replace the batteries now used with fuel cells and microturbines to meet peak power demands. This system is available in a variety of delivered power ratings up to 480 kW per flywheel system. We also can configure the units in parallel to achieve higher power. CleanSource DC has been designed for much longer service intervals and more extreme environments than typical lead-acid battery installations. Our first CleanSource DC unit was placed in service in March 1997. Our installed CleanSource DC units have accumulated over 235,000 hours of field operation.

CLEANSOURCE UPS

Building on the technological success of CleanSource DC, we created a battery-free UPS, CleanSource UPS, which is the primary focus of our current sales efforts. Historically, a UPS is created by coupling together two components--a string or strings of batteries and control electronics. CleanSource UPS integrates UPS electronics and our flywheel energy storage system into a single power quality solution. CleanSource UPS is contrasted with a conventional battery-based system in the illustration below.

[GRAPHIC]

[Description of graphic: This graphic depicts a comparison of a "Conventional Battery-Based UPS" and a "CleanSource UPS". The Traditional Battery-Based UPS is pictured on the left side of the graphic. The left portion of the Traditional Battery-Based UPS is labeled "battery cabinets" and the right side of the Traditional Battery-Based UPS is labeled "UPS electronics". Beneath the picture of the Traditional Battery-Based UPS is the following information: "240 KW UPS with minimum battery cabinet; Footprint - 37.5 sq. ft., Weight - 13,000 lbs., Electrical Efficiency - 92%". The CleanSource UPS is pictured on the right side of the graphic. Beneath the picture of the CleanSource UPS is the following information: "250 KW UPS with energy storage; Footprint - 10 sq. ft., Weight - 3,250 lbs., Electrical Efficiency - 98%".]

The CleanSource UPS design takes advantage of the many component similarities between CleanSource DC and standard UPS electronics. Each system requires power conversion electronics, fans for cooling, a frame for structural support, a user display and data reporting, and other overlapping functions. By combining these functions into a single system, as shown in the figure below, we can provide a highly reliable power quality solution while achieving significant cost savings.

[GRAPHIC]

[Description of graphic: This graphic depicts "CleanSource UPS System Efficiencies". The graphic is a ven diagram consisting of two circles which partially overlap in the middle of the graphic. The circle on the left side of the graphic is labeled "Energy Storage" at the bottom left. Inside the left circle on the left side of the circle are the words "flywheel puck". In the middle of the left circle is the caption "Flywheel Electronics". In the middle of the graphic where the circles overlap from top to bottom are the words "heat sinks & fans", "cabinet frame & skins" and "monitoring & display". Above the overlapping portion of the circles is the caption "System Efficiencies" with an arrow pointed toward the overlapping portion of the diagram. The circle on the right side of the graphic is labeled "UPS" at the bottom right. Inside the right circle on the right side of the circle are the words "bypass switch contactors". In the middle of the right circle is the caption "UPS Electronics".]

Due to its unique design, CleanSource UPS typically has a lower installed cost than a conventional battery-based UPS. Due to its high efficiency and battery-free energy storage design, we believe that the total cost of ownership of CleanSource UPS, which includes the purchase price, installation, maintenance and energy costs accumulated over a ten year period, is less than half of that of conventional systems. In conjunction with Caterpillar, we designed CleanSource UPS to be compatible with new and installed standby generators, extending their application to CPS. We are currently delivering CleanSource UPS units and have plans to introduce higher power, parallel systems by the end of 2000. Because of our product, Caterpillar is the only company selling, installing and servicing a complete CPS under a single brand name worldwide.

FUTURE PRODUCTS

FULLY INTEGRATED CONTINUOUS POWER SYSTEM. We are developing an advanced CPS for the distributed telecommunications market that combines short and long term energy storage and UPS functionality into one fully integrated system. We believe that benefits of this fully integrated CPS product will include increased reliability, lower cost and less maintenance relative to the piecemeal systems in use today. We anticipate commercial availability of our first CPS product in the fourth quarter of 2001.

DISTRIBUTED POWER TECHNOLOGY. Under an agreement with Caterpillar, the world's leading producer of distributed power systems, we are studying the potential benefits of a new type of electromechanical technology that can be used in distributed power applications.

OUR BUSINESS STRATEGY

Our goal is to become the leading supplier of power quality and reliability equipment. Key elements of our strategy include:

DESIGN, MANUFACTURE AND MARKET OPTIMAL SOLUTIONS FOR TARGETED MARKETS

We design products for specific markets. Our first product, CleanSource DC, put this principle into practice. We created a flywheel product to meet the specific needs of the UPS market. In so doing, we overcame the design constraints that had hampered preceding flywheel programs and to produce the first commercially viable alternative to lead-acid batteries. We intend to continue to identify market needs for the power industry and design products to address those specific needs.

LEVERAGE OUR CORE TECHNOLOGIES TO DEVELOP NEXT GENERATION PRODUCTS

We intend to continue to use our expertise in advanced electromechanical technologies combined with an integrated solutions approach to create innovative products that lower the cost and increase the quality of electric power. We are designing a fully integrated CPS with applications in the distributed telecommunications power quality and reliability market. Additionally, we have entered into an agreement with Caterpillar to study the feasibility of a new type of electromechanical technology for use in distributed power applications.

DISTRIBUTE AND MARKET OUR PRODUCTS THROUGH ESTABLISHED OEM CHANNELS

We believe that working with leading original equipment manufacturers, or OEMs, enables us to rapidly introduce our products into established customer and dealer networks and promote the adoption of new technologies. To date, our most important OEM relationship is with Caterpillar, a worldwide distributor of our CleanSource UPS products. Additionally, we have established distributor relationships with leading UPS OEMs Powerware and MGE UPS Systems for our CleanSource DC

product. We intend to continue to use development and distribution relationships for our future products to achieve rapid market penetration.

LEVERAGE OUR RELATIONSHIP WITH CATERPILLAR TO ACHIEVE RAPID MARKET PENETRATION

We believe that our distribution agreement with Caterpillar allows us to rapidly penetrate the power quality and reliability market through Caterpillar's worldwide network of over 200 dealers and over 1,500 branch outlets. A portion of Caterpillar's large installed base of over 250,000 gensets also provides a significant retrofit opportunity by converting installed standby systems to CPS with our CleanSource UPS. Our relationship with Caterpillar should enhance our credibility among the generally conservative customers within the power quality and reliability market. We will continue to examine additional ways to leverage our relationship with Caterpillar.

OUTSOURCE COMPONENTS TO RAPIDLY SCALE MANUFACTURING

We intend to continue to outsource all non-proprietary hardware and electronics by maintaining and building on multiple supplier relationships so that we can respond quickly to significant quantity increases. We intend to focus on the final assembly and testing of our products, decreasing production cycle times and increasing volume production capability.

AGGRESSIVELY PROTECT OUR INTELLECTUAL PROPERTY

We seek to identify and to protect aggressively our key intellectual property, primarily through the use of patents. We believe that a policy of actively protecting intellectual property is an important component of our strategy to serve as a leading innovator in power quality technology and will provide us with a long-term competitive advantage.

MARKET OPPORTUNITIES

The Electric Power Research Institute estimates that power disturbances cost U.S. businesses more than $30 billion each year. According to industry sources, in 1999 businesses spent in excess of $11.0 billion globally on power quality and reliability products in an attempt to reduce these losses. Our current products, CleanSource DC and CleanSource UPS, are targeted at the $5.5 billion market for UPS. We believe that our CleanSource products are superior alternatives to conventional UPS and CPS products and should be able to rapidly penetrate this growing segment of the power quality industry. With future products, we anticipate that we will be able to compete in most segments of this market.

With our current and future products we intend to focus on the following market opportunities:

INTERNET MARKET

A 1999 study conducted by the University of Texas and released by Cisco Systems, Inc. found that the U.S. Internet economy grew at an estimated average annual rate of 175% from 1995 to 1998. The June 2000 update to this study also projected that the Internet economy would grow to $850 billion in 2000, up 62% from 1999. To support this growth, internet service providers must construct new facilities to house the computers and communications systems required to provide around-the-clock service to their customers. To ensure continuous service, ISPs are adding power quality equipment to protect these systems.

TELECOMMUNICATIONS MARKET

To ensure uninterrupted service, wireless telecommunications providers must have continuous power at each cellular and PCS station. The market for back-up telecommunications power systems

represented approximately $4.0 billion of the $11.0 billion power quality market in 1999. Conventional CPS systems currently satisfy market demand using a patchwork of gensets, lead-acid batteries and UPS electronics. We are designing our next generation product, a fully integrated CPS, to service the specific needs of this market, although we expect broader market applications in the future. We believe that our fully integrated CPS will be well positioned to serve this market and will achieve rapid market penetration.

OTHER POWER QUALITY AND RELIABILITY MARKETS

INDUSTRIAL. An Electric Power Research Institute study on recurring U.S. power problems estimated that the average U.S. manufacturing facility experienced in excess of 20 power disturbances annually. Exacerbating this problem, manufacturing organizations are employing increasing levels of automation, especially process and machine control, communications and computerized optimization of material flow. Even brief power disturbances, which result in lost material, lost data and worker and plant down time, can be very expensive. Industries with the potential to suffer significant loss from power disturbances include semiconductor and pharmaceutical manufacturing, plastic and fiber extrusion, textiles, and precision machining.

COMMERCIAL FACILITIES. Many commercial facilities such as office buildings, hotels and university facilities now have a large number of computers or servers. Historically, these businesses and their personal computer networks have been unprotected from power disturbances or have only been spot-protected with a small PC UPS under each person's desk. A single CleanSource UPS system can protect as few as 200 PCs more cost effectively than many small PC UPS products.

RETROFIT MARKET. Caterpillar has the largest installed base of standby generators, or generators which are not coupled with a UPS, in the world. As even a short power outage can cause an extended shutdown of sensitive electronic equipment, many of the customers that rely on standby generators for long-term power outages can no longer afford the five to ten second outage while the generator starts and therefore need to add a UPS for short-term protection. While a lead-acid battery based UPS can be used to upgrade a standby generator into a CPS, Caterpillar sells our CleanSource UPS and does not offer a battery-based UPS. We believe that upgrading, or retrofitting, a portion of Caterpillar's approximately 250,000 installed gensets worldwide by adding our CleanSource UPS, thereby creating a CPS, represents a significant market opportunity.

DISTRIBUTED GENERATION

Fuel cells and microturbines, which allow users to bypass the electric utility grid by generating power locally, represent potential markets for our CleanSource products. These distributed generation technologies currently cannot respond effectively to rapid changes in electric power demands, or loads, due to their slow response capability. CleanSource DC can absorb sharp peaks in electrical demand, allowing a relatively expensive microturbine or fuel cell to be sized for the average power requirement of the customer. This combination provides a cost competitive alternative to sizing the fuel cell or microturbine to handle both peak and average electrical demands. In addition, CleanSource UPS can seamlessly transfer a customer load from utility power to fuel cell or microturbine standby power in the event of a utility outage.

OUR RELATIONSHIP WITH CATERPILLAR

We have established a strategic relationship with Caterpillar granting Caterpillar the world wide right to distribute CleanSource UPS. Caterpillar is a market leader in new genset sales and has the largest installed base of existing standby generators in the world. By offering a Caterpillar UPS with a standby genset, Caterpillar can transform a standby power system into a CPS. The combined solution reduces maintenance cost and increases reliability relative to traditional CPS products.

Moreover, because Caterpillar's product line now includes both a UPS and a genset, Caterpillar will be selling, installing and servicing a complete CPS under a single brand name. We believe that this total solution gives both Caterpillar and us a significant competitive advantage in the power quality market. Through Caterpillar's worldwide dealership and sales force network and its market reputation, we believe that we will be able to rapidly penetrate the market for our products.

We entered into a development agreement with Caterpillar in January 1999 for the creation and distribution of CleanSource UPS marketed under the Caterpillar brand name. Under the development agreement, Caterpillar provided $5.0 million in funding to support the development of CleanSource UPS. With Caterpillar, we jointly own intellectual property associated with the integration of UPS electronics with CleanSource DC, while we retained sole ownership of the underlying flywheel energy storage technology.

With the completion of our joint UPS development, we amended our distribution agreement with Caterpillar. The major provisions of the agreement are:

- Caterpillar has semi-exclusive worldwide rights to distribute CleanSource UPS under the Caterpillar brand name;
- As long as Caterpillar meets minimum annual sales requirements, we will not sell CleanSource UPS to specifically identified competitors of Caterpillar until January 1, 2005 or the termination of the distribution agreement; and
- We will provide Caterpillar the same warranty Caterpillar provides its customers procuring electric power generation products (one year from delivery).

Caterpillar may continue to distribute CleanSource UPS until January 1, 2005. At such time the agreement will continue for additional six month periods unless either party provides written notice to the other within ninety days of the end of the current period of its decision not to renew the agreement. The agreement may also be terminated by Caterpillar for our uncured material breach, if CleanSource UPS consistently and materially fails to meet our published specifications, if we substantially and continuously fail to meet agreed shipment dates for products ordered by Caterpillar. Finally, either party may terminate in the event of a change in control of the other.

Under another agreement with Caterpillar, we are also studying the potential benefits of a new type of electromechanical technology for use in distributed power applications.

SALES, MARKETING AND SUPPORT

SALES AND MARKETING

In the power quality industry, we believe that partnering with established companies with significant relationships and service capabilities enables us to promote the adoption of new technology that otherwise would take significantly longer for wide application. Our sales activity has focused principally on OEM adoption of our products through extensive OEM testing, product qualification and early product placement with select end users. We intend to continue to sell through OEMs to gain acceptance of our proprietary and innovative power technologies. We believe that focusing on product acceptance and support from OEMs provides the greatest opportunity for market penetration and sales growth with minimal resources. We are also expanding our international sales activities through our multinational OEM sales channels. We employ a small, geographically dispersed sales force to develop leads and educate our OEM customers in their sales efforts.

Our marketing efforts are geared toward developing and sustaining key relationships with OEMs, participating in tradeshows to promote and launch our products, and training for the salespeople within the OEM channels. We also work with OEM partners on promotional activities such as advertising development, direct mail and telemarketing strategies. We use our marketing resources to stimulate end user sales through trade press articles, participation in industry conferences and limited direct mail to specific power quality customers.

Service and Support

We are transitioning the primary service and maintenance of our products from our own service personnel to the OEMs who sell our products. We believe that this will reduce the need for a large end-user support organization by enabling our OEMs to provide installation, service and primary support to their customers. Our service personnel will remain as a back-up for difficult situations or where no trained personnel are immediately available and will support initial applications of the products. Our customer service and support organization also provides comprehensive training programs to our OEM customers.

Our Customers

Our primary customers are OEMs. To date, our most significant OEM is Caterpillar, which distributes CleanSource UPS under its brand name. We intend to continue to use selected development and distribution partnerships to develop and distribute our future products into selected markets and achieve rapid market penetration.

End use industries for our products include Internet service providers, semiconductor manufacturers, telecommunication providers, pharmaceutical manufacturers, hospitals, electric utilities and broadcasters.

During 1999, Caterpillar accounted for 39% of our total revenue and sales of our CleanSource DC product to our largest UPS OEM, Powerware, accounted for 21% of our revenue. Sales to Micron Technologies and Lee Technologies also accounted for 16% and for 13% of our 1999 revenue, respectively. No other customer accounted for more than 10% of our revenue during 1999. Due to Caterpillar's exclusive CleanSource UPS distribution rights, we anticipate that revenue from Caterpillar will comprise a majority of our revenue in 2000. In the first quarter of 2000, Caterpillar accounted for 99% of our revenue.

Technology

Flywheel Energy Storage System

Our patented flywheel energy storage system stores kinetic energy--energy produced by motion--by spinning a compact rotor constantly in a low-friction environment. When the user requires short-term back-up power--i.e. when the electric power used to spin the flywheel fluctuates or is lost--the wheel's inertia causes it to continue spinning. The resulting kinetic energy of the spinning flywheel generates electricity for short periods. We believe that relative to other energy storage alternatives, our system provides high quality, reliable power at the lowest cost.

Over the past 20 years, attempts at commercializing flywheel systems have been based on technology used in aerospace applications, such as satellite momentum control, that attempt to maximize the amount of stored energy with the absolute minimum system weight. Cost has been a secondary concern for such applications. As a result of these design goals, these flywheel designs require extremely high rotational speeds in excess of 50,000 rotations per minute. In order to achieve such high speeds, the flywheel must be made of expensive materials, such as composite carbon fiber. As a result, high-speed flywheel concepts require a number of expensive safety systems,

including extensive inertial containment and "active" magnetic bearing systems that use sophisticated computer controls to continuously monitor the position and balance of the flywheel.

Rather than rely on the flywheel concepts developed for other applications, we focused our development efforts on providing products that meet the specific needs of the power quality and reliability market. Users requiring back-up power products want products that can deliver high quality, reliable power at the lowest cost. As a result of these needs, we developed a flywheel system that operates at significantly lower speeds, under 8,000 rotations per minute. These speeds are comparable to those of automobile engines and industrial machinery. This lower flywheel speed has allowed us to develop a lower cost design by using an inexpensive bearing system and conventional steel in place of expensive composite materials.

The design of our flywheel system, which is displayed below, integrates the function of a motor (which utilizes electric current from the electric utility grid to provide the energy to rotate the flywheel), flywheel rotor (which spins constantly to maintain a ready source of kinetic energy) and generator (which converts the kinetic energy of the flywheel into electricity) into a single integrated system. This integration further reduces the cost of our product and increases its efficiency. The flywheel rotor is designed to spin in a near frictionless environment by the use of a low-cost, combination magnetic and mechanical bearing system. The friction in the spinning chamber is further reduced by the creation of a partial vacuum, which reduces the amount of air in the chamber that otherwise creates drag on the flywheel rotor. The flywheel rotor stores energy in the form of kinetic energy by constantly rotating within the vacuum container. As the flywheel rotor slows down when a user requires power, the rotor's magnetism is increased as it rotates past copper coils contained in the armature to generate constant output power. This enables the flywheel system to provide between ten to sixty seconds of electricity during power disturbances.

[GRAPHIC]

[Description of graphic: This graphic depicts "The CleanSource Flywheel Technology" and lists the patents we have obtained or filed for on the specific parts of the flywheel system. From the top of the left side of the flywheel to the bottom, we have listed the following patents: "Magnetic bearing integrated into field circuit, Patent# US5920138", "Constant voltage regulation, Patent# US5932935", "Smooth air-gap armature, Patent Pending", "High-power motor-generator, Patent# US5905321". From the top of the right side of the flywheel to the bottom, we have listed the following patents: "Ball bearing cartridge for easy replacement, Patent# US6029538", High intertia motor-generator rotor, Patent# US5929548" and "Slotless motor-generator stator, Patent# US5731654, Patent# 5969457".]

We have verified our flywheel design with both internal and external three-dimensional finite element analysis, as well as tests designed to determine the flywheel's safety at varying speeds. We test each flywheel rotor with stringent quality control methods. These tests have demonstrated a factor of safety consistent with common industrial machines such as large motors and generators.

THE CLEANSOURCE FAMILY OF PRODUCTS

Our unique flywheel energy storage system device is being used in our two currently offered products: CleanSource DC and CleanSource UPS. The CleanSource UPS design takes advantage of

the many component similarities between the CleanSource DC and a traditional UPS system. Both products require power conversion electronics, fans for cooling, a frame for structural support, telemetry, data reporting, a user display and other overlapping functions. By combining these functions into a single system, we achieved significant cost efficiencies.

The UPS electronics we use in our CleanSource UPS product are the latest in power semiconductor devices using highly reliable and efficient insulated gate bipolar transistors. This results in an efficient, highly responsive power conditioning system that can protect sensitive customer power requirements from even the briefest of electric power anomalies. Tightly integrating these power electronics with our flywheel energy storage system results in an efficient, compact and cost effective UPS system.

GENERATOR START ENHANCEMENT

To enhance the overall system reliability of CleanSource UPS, we have patented a method to draw power from the flywheel to supply 24 volts of starting power to a genset to augment or replace the typical starter battery, which is the cause of most generator start failures. When taking advantage of this flywheel-sourced starting power, the reliability of the entire CPS solution is significantly enhanced.

RESEARCH AND DEVELOPMENT

We believe that our research and development efforts are essential to our ability to successfully deliver innovative products that address the needs of our customers as the market for power quality products evolves. Our research and development team works closely with our marketing and sales team and OEMs to define product features and performance to address the specific needs. Our research and development expenses were $2.6 million, $4.0 million and $4.4 million in 1997, 1998 and 1999, respectively. We anticipate maintaining significant levels of research and development expenditures in the future. At May 31, 2000, our research and development efforts employed 53 engineers and technicians.

MANUFACTURING

We source all of our components from contract manufacturers to enhance our ability to scale our operations and minimize cost. This approach allows us to respond quickly to customer orders while maintaining high quality standards.

Our internal manufacturing process consists of assembly, functional testing and quality control of our products. We also test components, parts and subassemblies obtained from suppliers for quality control purposes.

We purchase all of our components on a purchase order basis and do not have written or long-term agreements with any of our suppliers. Although we use standard parts and components for our products where possible, we purchase a particular type of power module from Semikron International and a microprocessor from Motorola, both of whom are single source suppliers. If we were unable to obtain these components, we believe it would take approximately six months to develop a substitute power module and approximately four months to develop a substitute microprocessor. We have an oral agreement with the power module supplier to maintain at least three months inventory for us, and we maintain an additional three months of inventory. We maintain approximately three months of inventory of the Motorola microprocessor. We intend to seek long-term agreements with key suppliers to ensure the adequate supply of components.

We plan to substantially expand our manufacturing facilities and capacity in order to support projected volume demand for our products.

PROPRIETARY RIGHTS

We rely on a combination of patents and trademarks, as well as confidentiality agreements and other contractual restrictions with employees and third parties, to establish and protect our proprietary rights. We currently have filed 32 patents before the United States' Patent and Trademark Office, 21 of which have issued, nine of which are pending, three of which have been allowed, and two of which we abandoned. Additionally, we have made 25 filings under the Patent Cooperation Treaty, and before the European Patent Office and the Japanese Patent Office. Of those patents prosecuted before the United States' Patent and Trademark Office, 17 claim inventions related to our CleanSource product line, eight of which have issued. Six of these issued patents protect inventions related to a motor/generator for flywheel use, a central component of our CleanSource product. Our patent strategy is critical for preserving our rights in and to the intellectual property embodied in our CleanSource product line. As a manufactured, tangible device that is sold rather than licensed, the CleanSource product line does not qualify for copyright or trade secret protection. To enforce our ownership of such technology, we principally rely on the protection obtained through the patents we own, as well as state unfair competition laws. We intend to aggressively protect our patents, including by bringing legal actions if we deem it necessary.

We own the registered trademark CLEANSOURCE in the United States and have applied for a trademark on our logo. All other trademarks, service marks or trade names referred to in this prospectus are the property of their respective owners.

COMPETITION

The power quality and power reliability markets are intensely competitive. The principal bases of competition are system reliability, availability, cost, including initial cost and total cost of ownership, and OEM endorsement and brand recognition.

Our CleanSource DC product competes with makers of lead-acid batteries and groups that are developing their own battery-free technologies. Piller and International Computer Power are the only companies currently offering flywheel energy storage systems that directly compete with the CleanSource DC. The Piller flywheel is only available with Piller's proprietary UPS system. The CleanSource DC is the only flywheel system that is sold and serviced by the major UPS manufacturers--Powerware, Liebert and MGE UPS Systems. Examples of other technologies potentially competitive with CleanSource DC include high-speed composite flywheels, ultra capacitors and superconducting magnetic energy storage. To date, however, we believe that none of these technologies has achieved a sufficient presence in our market to be considered a competitor.

Our CleanSource UPS as distributed by Caterpillar competes with UPS manufacturers such as Powerware, Liebert and MGE UPS Systems, who also are CleanSource DC distributors. When sold in conjunction with a standby generator, the CleanSource UPS competes with battery-free systems from Piller, Hitec and EuroDiesel. We believe that the high efficiency, broad power range and compact footprint of the CleanSource UPS, coupled with Caterpillar's brand recognition and support, will allow us to compete successfully with these alternatives.

We expect our future CPS product to compete with manufacturers of CPS equipment for the telecommunications market, such as Alpha Technologies and the Lectro division of Invensys.

EMPLOYEES

At May 31, 2000, we had 125 employees, with 53 engaged in research and development; 38 in manufacturing; 12 in sales; 7 in marketing and customer support; and 15 in administration, information technology and finance. None of our employees is represented by a labor union. We have not experienced any work stoppages and consider our relations with our employees to be good.

FACILITIES

Our corporate headquarters facility, which houses our administrative, advanced development, engineering, information systems, marketing, sales and service and support groups, consists of approximately 23,500 square feet in Austin, Texas. We lease our corporate headquarters facility pursuant to a lease agreement that expires in March 2003. Our manufacturing facility of approximately 15,000 square feet is also located in Austin, Texas. The lease on this facility also expires in March 2003. The total monthly lease payments due under our leases for our facilities in Austin, Texas are approximately $35,000.

LEGAL PROCEEDINGS

We are not party to any legal proceedings.

EXECUTIVE OFFICERS, DIRECTORS AND KEY EMPLOYEES

The following table sets forth certain information concerning our executive officers and directors and certain of our key employees:

NAME	AGE	POSITION(S)
DIRECTORS AND EXECUTIVE OFFICERS:		
Eric L. Jones	65	Chairman of the Board of Directors
Joseph F. Pinkerton, III	36	President, Chief Executive Officer and Director
David S. Gino	42	Vice President of Finance, Chief Financial Officer and Secretary
James A. Balthazar	47	Vice President of Marketing
William E. Ott, II	44	Vice President of Sales and Service
Richard E. Anderson	35	Director (1)
Rodney S. Bond	55	Director (2)
Lindsay R. Jones	39	Director
Jan H. Lindelow	54	Director (1)(2)
Terrence L. Rock	54	Director (1)(2)
OTHER KEY EMPLOYEES:		
Mark Ascolese	49	Senior Vice President
Daniel R. Brent	53	Vice President of Manufacturing
David B. Clifton	52	Vice President of Advanced Development
William C. Kainer	48	Vice President of Business Development
Travis R. Williams	55	Vice President of Engineering

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(1)Member of the compensation committee
(2)Member of the audit committee

EXECUTIVE OFFICERS AND DIRECTORS

ERIC L. JONES has served as the Chairman of our Board of Directors since March 1995. Since April 1994, he has been a partner with SSM Venture Partners, L.P., an Austin, Texas-based venture capital firm. Mr. Jones is currently a director/chairman of several private companies including 360 Commerce and Motive Communications. He is also the past chairman of the board of directors of VTEL Corporation and Tivoli Systems. During a 25 year career at Texas Instruments, Mr. Jones held various positions, including as a corporate vice president and as president of TI's Data Systems Group. Mr. Jones holds a Ph.D. in mechanical engineering from the University of Texas at Austin.

JOSEPH F. PINKERTON, III, our founder, has served as our Chief Executive Officer, President and director since August 1992. From June 1989 to June 1992, Mr. Pinkerton was a principal with FRC, a private research and development company. Mr. Pinkerton holds numerous U.S. and foreign patents. Mr. Pinkerton holds a B.A. in physics from Albion College, in association with Columbia University.

DAVID S. GINO has served as our Chief Financial Officer, Vice President of Finance and Secretary since December 1999. From August 1995 to November 1999, Mr. Gino was the Chief Financial Officer and Executive Vice President of Finance of DuPont Photomasks, a public semiconductor component manufacturer. From October 1987 to August 1995, Mr. Gino held a

number of financial and business management positions with The DuPont Company. Mr. Gino holds a B.A. in economics from the University of California and an MBA from the University of Phoenix.

JAMES A. BALTHAZAR has served as our Vice President of Marketing since October 1996. From March 1984 to August 1996, Mr. Balthazar held various management positions, including Vice President of Marketing at Convex Computer Corporation, a public supercomputer manufacturer. Mr. Balthazar holds a B.S. from the University of Maryland, College Park and an M.S. in engineering from Cornell University.

WILLIAM E. OTT, II has served as our Vice President of Sales and Service since September 1997. From July 1996 to September 1997, Mr. Ott served as General Manager for Eastern United States, Canada and Latin America at US Data Corp, a public manufacturer of automation software. From August 1995 to July 1996, he was the Southeastern Sales Director for Pyramid Technology Corp., a public high performance UNIX server manufacturer, and from July 1994 to June 1995, he was the Southeastern United States Sales Manager for Sybase, Inc. Mr. Ott holds a B.S. in electrical engineering and an M.B.A. from the University of Missouri at Columbia.

RICHARD E. ANDERSON has served on our Board of Directors since 1992. In 1992, Mr. Anderson co-founded Hill Partners, Inc., a real estate development and investment company, where he currently serves as a partner. Mr. Anderson holds a B.A. in economics from Southern Methodist University.

RODNEY S. BOND has served on our Board of Directors since September 1994. Since May 1990, Mr. Bond has served in various capacities with VTEL Corporation, a public digital video communications company. He currently serves as the Vice President, Chief Strategic Officer and previously served as the Vice President, Chief Financial Officer of VTEL. Mr. Bond holds a B.S. in metalurgical engineering from the University of Illinois and an M.B.A. from Northwestern University.

LINDSAY R. JONES has served on our Board of Directors since December 1996. Ms. Jones is a Vice President of Advent International Corp., a private equity firm, which she joined in September 1990. Ms. Jones holds a B.A. in economics from Middlebury College.

JAN H. LINDELOW has served on our Board of Directors since February 1998. Since May 1997 to the present, Mr. Lindelow has served as Chairman and CEO of Tivoli Systems, Inc. From January 1995 to April 1997, he was a self-employed management consultant. From 1988 to June 1994, Mr. Lindelow worked in various management capacities at Asea Brown Boveri AG. Mr. Lindelow holds an M.S. in electrical engineering from the Royal Institute of Technology in Stockholm, Sweden.

TERRENCE L. ROCK has served on our Board of Directors since 1997. Since 1996, Mr. Rock has served as a partner with CenterPoint Venture Partners. From 1983 to 1996, Mr. Rock worked for Convex Computer Corporation holding various positions, including President and Vice President of Operations. Mr. Rock also serves on the board at several private companies. Mr. Rock holds a B.S. in mechanical engineering from South Dakota School of Mines and Technology.

OTHER KEY EMPLOYEES

MARK ASCOLESE has served as our Senior Vice President since March 2000. From 1985 to March 2000, Mr. Ascolese served as President, Global Accounts, as well as various other executive level positions at Invensys PLC's Powerware subsidiary. Mr. Ascolese holds a B.S. in commerce from the University of Louisville.

DANIEL R. BRENT has served as our Vice President of Manufacturing since July 1996. From June 1984 until July 1996, Mr. Brent held various manufacturing management positions, including manager

and director of technical support in the Austin, Texas and Fremont, California divisions of Tandem Computers. Mr. Brent holds a B.S. in chemistry from Wichita State University.

David B. Clifton has served as our Vice President of Advanced Development since 1997. From 1994 to 1997, Mr. Clifton served as our Vice President of Engineering. Prior to joining Active Power, Mr. Clifton was a founder and Vice President of Engineering at Asoma Instruments. Mr. Clifton attended Texas Tech University, Oklahoma University and the University of Texas at Austin.

William C. Kainer has served as our Vice President of Business Development since January 1999. From October 1997 to January 1999, Mr. Kainer served as our Vice President of Service. From January 1997 to October 1997, he served as Vice President of Sales for Haystack Labs, a private security software company. From November 1995 to September 1996, Mr. Kainer was the Vice President of Sales and Marketing of General Computer Systems, a private pharmaceutical software company. From July 1994 to October 1995, he was General Manager of the Americas at Convex Computer Corporation. Mr. Kainer holds a B.A. in history from the University of Houston.

Travis R. Williams has served as our Vice President of Engineering since October 1997. Prior to this, Mr. Williams held various positions, including the Manager of Development Engineering at the Wayne Division of Dresser Industries, Inc., a public manufacturer of retail petroleum marketing systems, from February 1988 to September 1997. Mr. Williams holds a B.S. in mechanical engineering from Texas A&M University and an M.S. in electrical engineering from the University of California at Los Angeles.

Our officers serve at the discretion of the board of directors. All of our current directors were elected pursuant to the Fourth Amended and Restated Voting Agreement dated November 23, 1999 by and between us and certain of our stockholders. The voting provisions of this agreement will automatically terminate upon the closing of this offering. There are no family relationships among any of our executive officers or directors.

Classified Board of Directors

Prior to the closing of this offering, we intend to file an amended certificate of incorporation pursuant to which our board of directors will be divided into three classes effective upon the closing of this offering. The members of each class will serve for a staggered, three-year term. Upon the expiration of the term of a class of directors, directors in that class will be elected for three-year terms at the annual meeting of stockholders in the year in which their term expires. The classes will be comprised as follows:

- Class I Directors. Richard E. Anderson, Rodney S. Bond and Lindsay R. Jones will be Class I Directors whose terms will expire at the 2001 annual meeting of stockholders;

- Class II Directors. Jan H. Lindelow and Terrence L. Rock will be Class II Directors whose terms will expire at the 2002 annual meeting of stockholders; and

- Class III Directors. Eric L. Jones and Joseph F. Pinkerton, III will be Class III Directors whose terms will expire at the 2003 annual meeting of stockholders.

Committees of the Board of Directors

Our board of directors has established an audit committee and a compensation committee.

Audit Committee. The audit committee reports to the board of directors with regard to the selection of our independent auditors, the scope of our annual audits, fees to be paid to the auditors, the performance of our independent auditors, compliance with our accounting and financial policies,

and management's procedures and policies relative to the adequacy of our internal accounting controls. The members of the audit committee are Messrs. Bond, Lindelow and Rock.

Compensation Committee. The compensation committee reviews and makes recommendations to the board regarding our compensation policies and all forms of compensation to be provided to our directors, executive officers and certain other employees. In addition, the compensation committee reviews bonus and stock compensation arrangements for all of our other employees. The compensation committee also administers our stock option and stock purchase plans. The members of the compensation committee are Messrs. Anderson, Lindelow and Rock.

Director Compensation

Each of our non-employee directors receives a fee of $5,000 per quarter for his or her service as a director. In addition, non-employee directors will receive stock option grants at periodic intervals under the automatic option grant program of our 2000 Stock Incentive Plan. Non-employee and employee directors will also be eligible to receive option grants under the discretionary option grant program of the 2000 plan. Under the automatic option grant program, each individual who first becomes a non-employee board member at any time after this offering will receive an option grant to purchase 25,000 shares of common stock on the date such individual joins the board. In addition, on the date of each annual stockholders meeting held after this offering, each non-employee board member who continues to serve as a non-employee board member will automatically be granted an option to purchase 7,500 shares of common stock, provided such individual has served on the board for at least six months.

In May 1996, we entered into a consulting services agreement with Eric L. Jones, the chairman of our board of directors. Mr. Jones receives a fee of $6,250 per month for providing business and strategic advisory consulting services to us. This agreement is terminable by either party with 30 days advance written notice.

Compensation Committee Interlocks and Insider Participation

Our board's compensation committee consists of Messrs. Anderson, Lindelow and Rock. To date, no member of our compensation committee has served as an officer or employee of Active Power. No member of the compensation committee serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our board of directors or its compensation committee.

Employment Agreements and Severance Arrangements

We have severance arrangements in place with the following employees:

- Joseph F. Pinkerton, III. Pursuant to a resolution by our board of directors, Mr. Pinkerton will receive six months of severance pay if he is terminated without cause, which would result in a severance payment of $105,000 based on Mr. Pinkerton's current salary. Additionally, if after six months of an inability to perform his duties due to a permanent disability Mr. Pinkerton is terminated, he will receive three months of severance pay, which would result in a severance payment of $52,500 based on Mr. Pinkerton's current salary.

- David S. Gino. Upon a change in corporate control that results in a significant reduction in his role and/or responsibility within 12 months of the change in corporate control, Mr. Gino will receive up to six months of severance pay, which would result in a severance payment of $100,000 based on Mr. Gino's current salary. Additionally, 75% of his then unvested options will accelerate and vest immediately.

Limitation of Liability and Indemnification

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

Executive Compensation

The following table provides the total compensation paid to our chief executive officer and the next highest paid executive officers whose compensation (salary and bonus) exceeded $100,000 in 1999.

Summary Compensation Table

	Annual Compensation			Long-Term Compensation
Name and Principal Position	Salary ($)	Bonus ($)	Other Annual Compensation ($)	Securities Underlying Options (#)
Joseph F. Pinkerton, III.... President and Chief Executive Officer	$157,308	$50,000	--	--
James A. Balthazar..... Vice President of Marketing	128,750	254	--	16,100
William E. Ott..... Vice President of Sales and Service	123,600	25,499	--	29,900

Option Grants in Last Fiscal Year

The following table provides information concerning individual grants of stock options made during 1999 to each of our executive officers named in the summary compensation table. We have never granted any stock appreciation rights.

The exercise prices represent our board's estimate of the fair market value of the common stock on the grant date. In establishing these prices, our board considered many factors, including the book value of our common stock, the price of the most recent sales of our preferred stock, the preferences given to our preferred stock and the lack of marketability of our common stock.

The amounts shown as potential realizable value represent hypothetical gains that could be achieved for the respective options if exercised at the end of the option term. These amounts represent certain assumed rates of appreciation in the value of our common stock. The 5% and 10% assumed annual rates of compounded stock price appreciation are mandated by rules of the Securities and Exchange Commission and do not represent our estimate or projection of the future price of our common stock. The potential realizable value is calculated based on the ten-year term of the option at its time of grant. It is calculated based on the assumption that our initial public offering price per share appreciates at the indicated annual rate compounded annually for the entire term of the option and that the option is exercised and sold on the last day of its term for the appreciated stock price. Actual gains, if any, on stock option exercises depend on the future performance of our common stock. The amounts reflected in the table may not necessarily be achieved.

We granted these options under our 1993 Stock Option Plan. Each option has a maximum term of 10 years, subject to earlier termination if the optionee's services are terminated. Except as otherwise noted, these options are immediately exercisable, but we have the right to repurchase, at the exercise price, any shares that have not vested at the time the optionee terminates employment

with us. The percentage of total options granted to our employees in the last fiscal year is based on options to purchase an aggregate of 1,357,000 shares of common stock granted in 1999. The following table sets forth information concerning the individual grants of stock options to each of our named executive officers in the year ended 1999.

	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE OF ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM	
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(#)(1)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN THE YEAR ENDED 1999(%)	EXERCISE PRICE PER SHARE	EXPIRATION DATE	5%($)	10%($)
Joseph F. Pinkerton, III..	--	--	--	--	--	--
James A. Balthazar(2).....	16,100	1.2%	$0.98	12/9/09	$298,924	$485,333
William E. Ott(3).....	29,900	2.2	0.98	12/9/09	555,145	901,333

OPTION GRANTS IN 1999

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(1)These options are fully exercisable, but if the employee leaves us before he has vested in his option shares, we have the right to repurchase, at the exercise price, any shares that have not vested.

(2)These options vested as to 6.25% on March 9, 2000 and 6.25% on June 9, 2000 and vest as to the remaining 87.5% in equal quarterly installments over the following 14 quarters.

(3)These options vested as to 6.25% on March 9, 2000 and 6.25% on June 9, 2000 and vest as to the remaining 87.5% in equal quarterly installments over the following 14 quarters.

FISCAL YEAR-END OPTION VALUES

The following table provides information about stock options held as of December 31, 1999 by each of our executive officers named in the Summary Compensation Table. Actual gains on exercise, if any, will depend on the value of our common stock on the date on which the shares are sold.

YEAR END 1999 OPTION VALUES

	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT DECEMBER 31, 1999(#)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 1999($)(1)	
	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Joseph F. Pinkerton, III...	--	--	--	--
James A. Balthazar (2).....	395,600	--	$4,359,512	--
William E. Ott (3).....	256,450	--	2,826,079	--

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(1)There was no public trading market for our common stock as of December 31, 1999. Accordingly, we have based the value of unexercised in-the-money options at December 31, 1999 on an assumed initial public offering price of $12.00 per share, less the applicable exercise price per share, multiplied by the number of shares underlying the options. Actual gains on exercise, if any, will depend on the value of our common stock on the date on which the shares are sold.

(2) As of December 31, 1999, Mr. Balthazar's options were exercisable as to all 395,600 shares, 266,656 of which were vested and 128,944 of which were unvested. If Mr. Balthazar leaves us before all of his option shares vest, we have the right to repurchase the unvested option shares at the exercise price paid per share.

(3) As of December 31, 1999, Mr. Ott's options were exercisable as to all 256,450 shares, 87,184 of which were vested and 169,266 of which were unvested. If Mr. Ott leaves us before all of his option shares vest, we have the right to repurchase the unvested option shares at the exercise price paid per share.

2000 STOCK INCENTIVE PLAN

INTRODUCTION. The 2000 Stock Incentive Plan is the successor program to our 1993 Stock Option Plan. The 2000 plan will become effective when it is approved by our board of directors. At that time, all outstanding options under the 1993 plan will be transferred to the 2000 plan, and no further option grants will be made under the 1993 plan. The transferred options will continue to be governed by their existing terms, unless our compensation committee decides to extend one or more features of the 2000 plan to those options. Except as otherwise noted below, the transferred options will have substantially the same terms as will be in effect for grants made under the discretionary option grant program of our 2000 plan.

SHARE RESERVE. Up to 9,016,000 shares of our common stock will be authorized for issuance under the 2000 plan. This share reserve consists of the number of shares carried over from the 1993 plan plus an additional increase of 2,760,000 shares. The share reserve under our 2000 plan will automatically increase on the first trading day in January of each calendar year, beginning with calendar year 2001, by an amount equal to two percent (2%) of the total number of shares of our common stock outstanding on the last trading day of December in the prior calendar year, but in no event will this annual increase exceed 1,150,000 shares. In addition, no participant in the 2000 plan may be granted stock options, separately exercisable stock appreciation rights or direct stock issuances for more than 1,150,000 shares of common stock in total in any calendar year.

PROGRAMS. Our 2000 plan has three separate programs:

- the discretionary option grant program, under which eligible individuals may be granted options to purchase shares of our common stock at an exercise price less than, equal to or greater than the fair market value of those shares on the grant date;

- the stock issuance program, under which eligible individuals may be issued shares of common stock directly, upon the attainment of performance milestones, the completion of a specified period of service or as a bonus for past services; and

- the automatic option grant program, under which option grants will automatically be made at periodic intervals to eligible non-employee board members to purchase shares of common stock at an exercise price equal to the fair market value of those shares on the grant date.

ELIGIBILITY. The individuals eligible to participate in our 2000 plan include our officers and other employees, our non-employee board members and any consultants or other independent advisors we hire.

ADMINISTRATION. The discretionary option grant and stock issuance programs will be administered by our compensation committee. This committee will determine which eligible individuals are to receive option grants or stock issuances under those programs, the time or times when the grants or issuances are to be made, the number of shares subject to each grant or issuance, the status of any granted option as either an incentive stock option or a nonstatutory stock option under the federal tax laws, the vesting schedule to be in effect for the option grant or stock issuance and the maximum term for which any granted option is to remain outstanding.

PLAN FEATURES. Our 2000 plan includes the following features:

- The exercise price for any options granted under the plan may be paid in cash, in shares of our common stock valued at the fair market value on the exercise date or with a promissory note. The option may also be exercised through a same-day sale program through an independent brokerage firm without any cash outlay by the optionee.

- The compensation committee has the authority to cancel outstanding options under the discretionary option grant program, including any transferred options from our 1993 plan, in return for the grant of new options for the same or different number of option shares with an exercise price per share based upon the fair market value of our common stock on the new grant date.

- Stock appreciation rights may be issued to selected optionees under the discretionary option grant program. These rights will provide the holders with the election to surrender their outstanding options for a payment from us equal to the fair market value of the shares subject to the surrendered options less the exercise price payable for these shares. We may make the payments in cash or in shares of our common stock. None of the options under the 1993 plan have any stock appreciation rights.

CHANGE IN CONTROL. The 2000 plan includes the following change in control provisions which may result in the accelerated vesting of outstanding option grants and stock issuances:

- In the event that we are acquired by merger or asset sale or board-approved sale by the stockholders of more than 50% of our outstanding voting stock, each outstanding option under the discretionary option grant program which is not to be assumed by the successor corporation or otherwise continued in effect will immediately become exercisable for all the option shares, and all outstanding unvested shares will immediately vest, except to the extent our repurchase rights with respect to those shares are to be assigned to the successor corporation or otherwise continued in effect.

- The compensation committee will have complete discretion to grant one or more options which will become exercisable for all the option shares in the event those options are assumed in the acquisition but the optionee's service with us or the acquiring entity is subsequently involuntarily terminated. The vesting of any outstanding shares under our 2000 plan may be accelerated upon similar terms and conditions.

- The compensation committee may grant options and structure repurchase rights so that the shares subject to those options or repurchase rights will immediately vest in connection with a hostile takeover effected through a successful tender offer for more than 50% of our outstanding voting stock or a change in the majority of our board through one or more contested elections. Such accelerated vesting may occur either at the time of such transaction or upon the subsequent termination of the optionee's services.

- The options currently outstanding under our 1993 plan will immediately vest in the event we are acquired by merger or asset sale, unless those options are assumed by the acquiring entity and our repurchase rights with respect to any unvested shares subject to those options are assigned to such entity. If the options are so assumed by the acquiring entity and our repurchase rights are so assigned to such entity, then no accelerated vesting will occur at the time of the acquisition but, at the discretion of our board of directors at the time of the option grant or any time when the option is outstanding, the options will accelerate and vest in full upon an involuntary termination of the optionee's employment within a period no later than 18 months following the acquisition.

AUTOMATIC OPTION GRANT PROGRAM. Each individual who first becomes a non-employee board member at any time after the effective date of this offering will receive an option grant to purchase 25,000 shares of common stock on the date such individual joins the board. In addition, on the date of each annual stockholders meeting held after the effective date of this offering, each non-employee board member who is to continue to serve as a non-employee board member, including each of our current non-employee board members, will automatically be granted an option to purchase 7,500 shares of common stock, provided such individual has served on the board for at least six months.

Each automatic grant will have an exercise price per share equal to the fair market value per share of our common stock on the grant date and will have a term of 10 years, subject to earlier termination following the optionee's cessation of board service. The option will be immediately exercisable for all of the option shares; however, we may repurchase, at the exercise price paid per share, any shares purchased under the option which are not vested at the time of the optionee's cessation of board service. The shares subject to each initial 25,000-share automatic option grant will vest in a series of three successive annual installments upon the optionee's completion of each year

of board service over the three-year period measured from the grant date. The shares subject to each annual 7,500 share automatic grant will vest upon the optionee's completion of one year of service measured from the grant date. However, the shares will immediately vest in full upon certain changes in control or ownership or upon the optionee's death or disability while then serving as a board member.

The board may amend or modify the 2000 plan at any time, subject to any required stockholder approval. The 2000 plan will terminate no later than , 2010.

CHANGE IN CONTROL ARRANGEMENTS UNDER 1993 STOCK OPTION PLAN

If we are acquired in a stockholder-approved transaction, whether by merger or asset sale, then all of the outstanding options granted under our 1993 plan, including those held by our executive officers, will accelerate in full, unless those options are assumed by the successor company and our repurchase rights with respect to unvested option shares are assigned to that company.

In addition, at the discretion of our board of directors, at the time of the option grant or at any time when the option remains outstanding, if an optionee who is deemed to be a key employee by our board of directors is terminated other than for cause within a period not to exceed 18 months after the acquisition, that key employee's options will accelerate and become fully vested, and such options may be exercised at any time prior to the earlier of the expiration date of the option or the earlier termination of the option.

EMPLOYEE STOCK PURCHASE PLAN

INTRODUCTION. Our Employee Stock Purchase Plan, once adopted by our board of directors and approved by our stockholders, will become effective immediately upon the signing of the underwriting agreement for this offering. The plan is designed to allow our eligible employees to purchase shares of common stock, at semi-annual intervals, with their accumulated payroll deductions.

SHARE RESERVE. 1,150,000 shares of our common stock initially have been reserved for issuance. The reserve will automatically increase on the first trading day of January in each calendar year, beginning in calendar year 2001, by an amount equal to one-half of one percent (0.5%) of the total number of outstanding shares of our common stock on the last trading day of December in the prior calendar year. In no event will any such annual increase exceed 345,000 shares.

OFFERING PERIODS. The plan has a series of successive offering periods, each with a maximum duration of 24 months. The initial offering period begins on the date of the signing of the underwriting agreement for this offering and ends on the last business day in July 2002. The next offering period will start on the first business day in August 2002, and subsequent offering periods will be set by our compensation committee.

ELIGIBLE EMPLOYEES. Individuals scheduled to work more than 20 hours per week for more than five calendar months per year may join an offering period on its start date or any semi-annual entry date within that period. Semi-annual entry dates will occur on the first business day of February and August each year. Individuals who become eligible employees after the start date of an offering period may join the plan on any subsequent semi-annual entry date within that offering period.

PAYROLL DEDUCTIONS. A participant may contribute up to 15% of his or her base salary through payroll deductions, and the accumulated deductions will be applied to the purchase of shares on each semi-annual purchase date. The purchase price per share will be equal to 85% of the fair market value per share on the participant's entry date into the offering period or, if lower, 85% of the

fair market value per share on the semi-annual purchase date. Semi-annual purchase dates will occur on the last business day of January and July each year. However, a participant may not purchase more than 5,750 shares on any one semi-annual purchase date, and no more than 287,500 shares may be purchased in total by all participants on any one semi-annual purchase date. Our compensation committee will have the authority to change these limitations for any subsequent offering period.

RESET FEATURE. If the fair market value per share of our common stock on any purchase date is less than the fair market value per share on the start date of the two-year offering period, then that offering period will automatically terminate, and a new two-year offering period will begin on the next business day. All participants in the terminated offering will be transferred to the new offering period.

CHANGE IN CONTROL. Should we be acquired by merger or sale of substantially all of our assets or more than 50% of our voting securities, then all outstanding purchase rights will automatically be exercised immediately prior to the effective date of the acquisition. The purchase price will be equal to 85% of the market value per share on the participant's entry date into the offering period in which an acquisition occurs or, if lower, 85% of the fair market value per share immediately prior to the acquisition.

TERMINATION AND AMENDMENT OF PLAN. The plan will terminate no later than the last business day of July 2010. The board may at any time amend, suspend or discontinue the plan. However, certain amendments may require stockholder approval.

RELATED TRANSACTIONS

PRIVATE PLACEMENTS OF EQUITY

5% STOCKHOLDERS, DIRECTORS AND EXECUTIVE OFFICERS. Since our inception in August 1992, we have raised capital primarily through the sale of our preferred stock, including the following sales to holders of more than 5% of our outstanding common stock and to directors and executive officers.

- In August 1992, we sold 100,000 shares of our non-voting 1992 preferred stock at a price of $0.50 per share to Richard E. Anderson. Concurrently with this financing, Mr. Anderson became a director. The 1992 preferred stock is redeemable at such time as our board of directors determines that we have available funds in excess of our anticipated needs and is not convertible into common stock. Our board of directors may determine to redeem the 1992 preferred stock upon the consummation of this offering. As a result, Mr. Anderson would receive $50,000 in proceeds.

- In March 1995, we sold an aggregate of 569,406 shares of our Series A preferred stock at a price of $1.52 per share, of which 263,158 shares were sold to SSM Venture Partners. We also issued to SSM a warrant to purchase 460,000 shares of common stock at an exercise price of $0.07 per share, which they exercised in May 2000. Concurrently with the closing of the financing, SSM Venture Partners became a 5% stockholder and Eric L. Jones became the chairman of our board of directors. SSM exercised this warrant in May 2000. Although the number of shares of Series A preferred stock outstanding will not be affected by the 2.3-for-1 split of our common stock, as a result of this stock split, each share of Series A preferred stock will automatically adjust and become convertible into 2.3 shares of our common stock. Accordingly, the 569,406 shares of Series A preferred stock will automatically convert into approximately 1,309,634 shares of our common stock upon the consummation of this offering, and the effective purchase price per share of common stock to be received upon such conversion will be $0.66.

- In May 1996, we sold an aggregate of 1,847,292 shares of our Series B preferred stock at a price of $2.03 per share to funds affiliated with Advent International, funds affiliated with Austin Ventures and SSM Venture Partners. Concurrently with the closing of the financing, investment funds affiliated with Advent International Corp. and investment funds affiliated with Austin Ventures became 5% stockholders.

  In connection with our Series C preferred stock financing in July 1997, the terms of the Series B preferred stock were modified to provide that the Series B preferred stock would be convertible into common stock at a rate of approximately 1.19:1. In addition to this adjustment, although the number of shares of Series B preferred stock outstanding will not be affected by the 2.3-for-1 split of our common stock, as a result of this stock split, each share of Series B preferred stock will automatically adjust and become convertible into approximately 2.74 shares of our common stock. Accordingly, the 1,847,292 shares of Series B preferred stock will automatically convert into approximately 5,058,650 shares of our common stock upon the consummation of this offering, and the effective purchase price per share of common stock to be received upon such conversion will be $0.74.

- In July 1997, we sold an aggregate of 1,726,620 shares of our Series C preferred stock at a price of $3.475 per share to funds affiliated with Austin Ventures, CenterPoint Venture Fund, funds affiliated with Advent International Corp. and SSM Venture Partners. Concurrently with the closing of the financing, CenterPoint Venture Fund I, became a 5% stockholder and Terrence L. Rock became a director. Although the number of shares of Series C preferred stock outstanding will not be affected by the 2.3-for-1 split of our common stock, as a result of this stock split, each share of Series C preferred stock will automatically adjust and become convertible into 2.3 shares of our common stock. Accordingly, the 1,726,620 shares of Series C preferred stock will automatically convert

into approximately 3,971,226 shares of our common stock upon the consummation of this offering, and the effective purchase price per share of common stock to be received upon such conversion will be $1.51.

- In June 1998, we sold an aggregate of 1,652,894 shares of our Series D preferred stock at a price of $6.05 per share, of which 1,454,552 shares were sold to our 5% stockholders, directors and executive officers, including: Rho Management Trust I, CenterPoint Venture Fund I, SSM Venture Partners, funds affiliated with Austin Ventures, funds affiliated with Advent International Corp. and Jan H. Lindelow. Concurrently with the closing of the financing, Rho Management Trust I became a 5% stockholder. Although the number of shares of Series D preferred stock outstanding will not be affected by the 2.3-for-1 split of our common stock, as a result of this stock split, each share of Series D preferred stock will automatically adjust and become convertible into 2.3 shares of our common stock. Accordingly, the 1,652,894 shares of Series D preferred stock will automatically convert into approximately 3,801,656 shares of our common stock upon the consummation of this offering, and the effective purchase price per share of common stock to be received upon such conversion will be $2.63.

- In November 1999, we sold an aggregate of 1,935,872 shares of our Series E preferred stock at a price of $11.34 per share, of which 948,466 shares were sold to our 5% stockholders, directors and executive officers, including: Rho Management Trust I, funds affiliated with SSM Venture Partners, funds affiliated with Austin Ventures, CenterPoint Venture Fund II, L.P., funds affiliated with Advent International Corp., our director Richard E. Anderson and his brother Charles A. Anderson, and Eric L. Jones. Although the number of shares of Series E preferred stock outstanding will not be affected by the 2.3-for-1 split of our common stock, as a result of this stock split, each share of Series E preferred stock will automatically adjust and become convertible into 2.3 shares of our common stock. Accordingly, the 1,935,872 shares of Series E preferred stock will automatically convert into approximately 4,452,506 shares of our common stock upon the consummation of this offering, and the effective purchase price per share of common stock to be received upon such conversion will be $4.93.

The following table summarizes the shares of our convertible preferred stock purchased by our 5% stockholders, directors and executive officers since our inception and the aggregate number of shares of common stock into which those shares of preferred stock will be converted upon the consummation of this offering:

INVESTOR	SERIES A PREFERRED STOCK	SERIES B PREFERRED STOCK	SERIES C PREFERRED STOCK	SERIES D PREFERRED STOCK	SERIES E PREFERRED STOCK	AGGREGATE NUMBER OF SHARES OF COMMON STOCK ISSUABLE UPON CONVERSION OF PREFERRED STOCK
SSM Venture Partners....	263,158	615,764	287,770	117,356	246,916	3,791,177
Advent International....	--	615,764	287,770	57,520	17,636	2,520,945
Austin Ventures.....	--	615,764	575,540	99,174	176,366	3,643,701
CenterPoint Venture Partners.....	--	--	575,540	330,578	176,366	2,489,713
Rho Management Trust I..	--	--	--	809,924	264,550	2,471,290
Richard E. Anderson (1).....	--	--	--	--	49,312	113,418
Eric L. Jones (2).....	--	--	--	--	17,320	39,836
Jan H. Lindelow.....	--	--	--	40,000	--	92,000

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(1)Includes shares purchased by Mr. Anderson's brother.
(2)Excludes shares purchased by funds affiliated with SSM Venture Partners, with which Mr. Jones is affiliated.

Other Transactions

Consulting Agreement with Eric L. Jones. In May 1996, we entered into a consulting services agreement with Eric Jones, the chairman of our board of directors. In exchange for providing business and strategic advisory consulting services to us, Mr. Jones receives a fee of $6,250 per month. This agreement is terminable by either party with 30 days advance written notice.

Registration Rights. For more information on registration rights we have granted to our 5% stockholders, other stockholders and some of our directors, please see "Description of Capital Stock--Registration Rights".

Stock Options and Change in Control Arrangements. For more information regarding the grant of stock options and the change in control arrangements which may be available to directors and executive officers, please see "Management--Director Compensation", "--Employment Agreements, and Severance Arrangements" and "--Executive Compensation".

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

We believe that each of the foregoing transactions were entered into on terms which are no less favorable to us than could be obtained from unaffiliated third parties.

PRINCIPAL AND SELLING STOCKHOLDERS

This table sets forth information regarding the beneficial ownership of our common stock as of May 31, 2000, as adjusted to reflect the sale of common stock in this offering for:

- each person known by us to own beneficially more than 5% of our common stock;
- each executive officer named in the summary compensation table on page 43;
- each of our directors; and
- all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and includes voting and investment power with respect to the securities. Except as indicated in the notes following the table, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. The number of shares of common stock used to calculate the percentage ownership of each listed person includes the shares of common stock underlying options or warrants held by such persons that are exercisable within 60 days of this offering. The percentage of beneficial ownership before the offering is based on 31,584,560 shares, consisting of 12,990,888 shares of common stock outstanding as of May 31, 2000, and 18,593,672 shares issuable upon the conversion of the convertible preferred stock. Percentage of beneficial ownership after the offering is based on 39,584,560 shares, including the 8,000,000 shares to be sold in this offering.

Active Power and our founder and chief executive officer, Joseph F. Pinkerton, III, may sell shares in connection with the exercise of the underwriters' over-allotment option. Active Power may sell up to 900,000 shares and Mr. Pinkerton may sell up to 300,000 shares. To the extent the underwriters' over-allotment option is exercised for less than 1,200,000 shares, the shares to be sold will be allocated pro rata between Active Power and Mr. Pinkerton. The post-offering ownership percentages in the table do not take into account any exercise of the underwriters' over-allotment option.

Unless otherwise indicated in the notes below the table, the address for each person set forth below is c/o Active Power, Inc., 11525 Stonehollow Drive, Suite 110, Austin, Texas 78758.

		PERCENTAGE OF COMMON STOCK BENEFICIALLY OWNED (%)	
NAME	SHARES OF COMMON STOCK BENEFICIALLY OWNED (#)	BEFORE THE OFFERING	AFTER THE OFFERING
EXECUTIVE OFFICERS AND DIRECTORS:			
Eric L. Jones	4,521,013	14.3%	11.4%
Joseph F. Pinkerton, III	6,794,159	21.5	17.2
James A. Balthazar	395,600	1.3	1.0
William E. Ott, II	348,450	1.1	*
Richard E. Anderson	384,132	1.2	*
Rodney S. Bond	89,125	*	*
Lindsay R. Jones	2,520,945	8.0	6.4
Jan H. Lindelow	138,000	*	*
Terrence L. Rock	2,489,713	7.9	6.3
All directors and executive officers as a group (10 persons)	17,936,686	56.8	45.3
OTHER 5% STOCKHOLDERS:			
Funds affiliated with Austin Ventures	3,643,701	11.5	9.2
Funds affiliated with Advent International Corp.	2,520,945	8.0	6.4
Funds affiliated with CenterPoint Venture Partners	2,489,713	7.9	6.3
Funds affiliated with SSM Venture Partners	4,251,177	13.5	10.7
Rho Management Trust I	2,471,290	7.8	6.2

* Indicates beneficial ownership of less than 1% of the total outstanding common stock.

. Eric L. Jones. 4,251,177 shares indicated as owned by Mr. Jones are included because of his association with funds affiliated with SSM Venture Partners. Mr. Jones is a shareholder of SSM Corporation, the general partner of SSM I, L.P., the general partner of (a) SSM Venture Partners, L.P., (b) SSM Partners II, L.P. and (c) SSM Venture Associates, L.P. Mr. Jones disclaims beneficial ownership of the shares held by SSM Venture Partners, L.P., SSM Venture Partners II, L.P. and SSM Venture Associates, L.P., except to the extent of his interest in SSM Corporation. Mr. Jones has a small limited partnership interest in CenterPoint Venture Fund II, L.P., but disclaims beneficial ownership of any Active Power shares held by CenterPoint Venture Partners except to the extent of his pecuniary interest in this fund, which is indeterminate at this time. Mr. Jones' address is c/o SSM Corporation, 110 Wild Basin Rd., Suite 280, Austin, Texas 78734.

. Joseph F. Pinkerton, III. Includes 690,000 shares held by Mr. Pinkerton's minor children. Mr. Pinkerton disclaims beneficial ownership of these shares.

. James A. Balthazar. These shares include options to purchase 73,600 shares of common stock that are immediately exercisable. 40,250 shares of common stock are currently unvested and are subject to our right to repurchase them if Mr. Balthazar's services are terminated prior to vesting.

. William E. Ott, II. These shares include options to purchase 164,450 shares of common stock that are immediately exercisable.

. Richard E. Anderson. 92,000 shares indicated as owned by Mr. Anderson are included because of his association with Rita Investments. Mr. Anderson also holds 100,000 shares, or 23.8%, of our non-voting 1992 preferred stock, which is not convertible into shares of our common stock. These shares of 1992 preferred stock are not included in the foregoing table. Mr. Anderson's address is c/o Hill Partners, 2800 Industrial Terrace, Austin, Texas 78758.

. Rodney S. Bond. These shares include options to purchase 28,750 shares of common stock that are immediately exercisable. Mr. Bond's address is c/o VTEL Corporation, 108 Wild Basin Road, Austin, Texas 78746.

. Lindsay R. Jones. All shares indicated as owned by Ms. Jones are included because of her association with funds affiliated with Advent International Corp. Ms. Jones is a Vice President of Advent International Corporation, the general partner of (a) Advent International Investors II Limited Partnership, (b) Advent International Limited Partnership, the general partner of Envirotech Investment Fund I Limited Partnership and (c) Advent International Partnership, the general partner of Adwest Limited Partnership. Ms. Jones disclaims beneficial ownership of the shares held by Advent International Investors II Limited Partnership, Envirotech Investment Fund I Limited Partnership and Adwest Limited Partnership. Ms. Jones' address is c/o Advent International Corporation, 75 State Street, 29th Floor, Boston Massachusetts 02109.

. Jan H. Lindelow. These shares include options to purchase 46,000 shares of common stock that are immediately exercisable. Mr. Lindelow's address is c/o Tivoli Systems, 9442 Capital of Texas Highway North, Austin, Texas 78759.

. Terrence L. Rock. All shares indicated as owned by Mr. Rock are included because of his association with funds affiliated with CenterPoint Venture Partners. Mr. Rock is (a) a limited partner of CenterPoint Venture Partners, L.P. and CenterPoint Venture Fund II, L.P., (b) a limited partner of Paluck Associates, L.P., the general partner of CenterPoint Venture Partners, L.P., and (c) a general partner of CenterPoint Associates II, L.P., the general partner of CenterPoint Venture Fund II, L.P. Mr. Rock disclaims beneficial ownership of the shares held by CenterPoint Venture Partners, L.P. and CenterPoint Venture Fund II, L.P., except to the extent of his pecuniary interest in these funds. Mr. Rock's address is c/o CenterPoint Venture Partners, 13455 Noel Road, Suite 1670, Two Galleria Tower, Dallas, Texas 75240.

. ALL DIRECTORS AND EXECUTIVE OFFICERS AS A GROUP. Includes 255,549 shares owned by David S. Gino, our chief financial officer, who is not named in the summary compensation table because he joined us in December 1999 and therefore did not have in excess of $100,000 in annual compensation. 226,798 shares of common stock are currently unvested and are subject to our right to repurchase them if Mr. Gino's services are terminated prior to vesting. Also please see the other notes with respect to our executive officers and directors above.

. FUNDS AFFILIATED WITH AUSTIN VENTURES. Includes:

 . 1,176,149 shares held by Austin Ventures IV-A, L.P.; and

 . 2,467,552 shares held by Austin Ventures IV-B, L.P.

These funds may be deemed to beneficially own each other's shares because the general partners of each partnership are affiliated. Each partnership, however, disclaims beneficial ownership of the other's shares, and each general partner of the funds or the general partners of the funds disclaims beneficial ownership of the shares held by the partnership except to the extent of his pecuniary interest. The address of the investment funds affiliated with Austin Ventures is 114 West Seventh Street, Suite 1300, Austin, Texas 78701.

. FUNDS AFFILIATED WITH ADVENT INTERNATIONAL CORP. Includes:

 . 2,016,762 shares held by Envirotech Investment Fund I Limited Partnership;

 . 494,107 shares held by Adwest Limited Partnership; and

 . 10,076 shares held by Advent International Investors II Limited Partnership.

Each of these partnerships is managed by Advent International Corporation. Advent International Corporation exercises sole voting and investment power with respect to all shares held by these funds. The address of the investment funds affiliated with Advent International Corporation is 75 State Street, Boston, Massachusetts 02109.

. FUNDS AFFILIATED WITH CENTERPOINT VENTURE PARTNERS. Includes:

 . 2,084,071 shares held by CenterPoint Venture Partners, L.P. and

 . 405,642 shares held by CenterPoint Venture Fund II, L.P.

These funds may be deemed to beneficially own each other's shares because the general partners of each partnership are affiliated. Each partnership, however, disclaims beneficial ownership of the other's shares, and each general partner of the funds or the general partners of the funds disclaims beneficial ownership of the shares held by the partnerships except to the extent of his pecuniary interest. The address of the investment funds affiliated with CenterPoint Venture Partners is 13455 Noel Road, Suite 1670, Two Galleria Tower, Dallas, Texas 75240.

. FUNDS AFFILIATED WITH SSM VENTURE PARTNERS. Includes:

 . 3,845,531 shares held by SSM Venture Partners, L.P.;

 . 339,360 shares held by SSM Venture Partners II, L.P.; and

 . 66,286 shares held by SSM Venture Associates, L.P.

These funds may be deemed to beneficially own each other's shares because they are controlled by affiliated entities. Each partnership, however, disclaims beneficial ownership of the others' shares. The address of the investment funds affiliated with SSM Ventures Partners is 845 Crossover Lane, Suite 140, Memphis, Tennessee 38117.

. RHO MANAGEMENT TRUST I's address is 888 7th Avenue, Suite 4500, New York, New York 10106.

DESCRIPTION OF CAPITAL STOCK

Upon completion of this offering, our authorized capital stock will consist of 400,000,000 shares of common stock, par value $0.001 per share, and 25,420,000 shares of preferred stock, par value $0.001 per share. The rights and preferences of the authorized preferred stock may be designated from time to time by our board of directors. The following summary is qualified by reference to our certificate of incorporation and our bylaws, forms of which have been filed as exhibits to the registration statement of which this prospectus is a part.

COMMON STOCK

As of May 31, 2000, there were 12,990,888 shares of common stock outstanding that were held of record by 128 stockholders. Holders of our common stock are entitled to one vote per share on all matters to be voted upon by the stockholders. The holders of common stock are not entitled to cumulate voting rights with respect to the election of directors, and as a result, minority stockholders will not be able to elect directors on the basis of their votes alone. Subject to limitations under Delaware law and preferences that may apply to any outstanding shares of preferred stock, holders of common stock are entitled to receive ratably such dividends or other distribution, if any, as may be declared by our board of directors out of funds legally available therefor. In the event of our liquidation, dissolution or winding up, holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to the liquidation preference of any outstanding preferred stock. The common stock has no preemptive, conversion or other rights to subscribe for additional securities of Active Power. There are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are, and all shares of common stock to be outstanding upon completion of the offering will be, validly issued, fully paid and nonassessable. The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future.

PREFERRED STOCK

As of May 31, 2000, there were 7,732,084 shares of convertible preferred stock and 420,000 shares of 1992 preferred stock outstanding. Upon the closing of a public offering in which we receive proceeds of at least $20 million and at an offering price of at least $7.40 per share, each share of our convertible preferred stock, other than our Series B preferred stock, will automatically convert into 2.3 shares of common stock. Our 1,847,292 shares of Series B preferred stock will convert into approximately 5,058,650 shares of common stock which results in a ratio of approximately 2.74 shares of common stock per share of Series B preferred stock. The 420,000 shares of 1992 preferred stock outstanding are not convertible into our common stock and is redeemable at a price of $0.50 per share at such time as our board of directors determines that we have available funds in excess of anticipated needs. Our board of directors will determine whether to redeem the 1992 preferred stock following this offering. Upon the completion of this offering, our board of directors will have the authority, without further action by the stockholders, to issue up to 25,000,000 shares of preferred stock in one or more series, to fix the rights, preferences, privileges and restrictions of the authorized preferred stock and to issue shares of each such series. The issuance of preferred stock could have the effect of restricting dividends on the common stock, diluting the voting power for the common stock, impairing the liquidation rights of the common stock or delaying or preventing our change in control without further action by the stockholders. At present, we have no plans to issue any shares of preferred stock.

REGISTRATION RIGHTS

According to the terms of an investors' rights agreement between us, the holders of our preferred stock (other than the 1992 preferred stock), and certain members of our management who may be designated by the board of directors from time to time, including our chief executive officer,

Joseph F. Pinkerton, III, beginning 180 days after the closing of this offering, some of our stockholders, who will hold in the aggregate 19,053,672 shares of common stock, may require us to file a registration statement under the Securities Act of 1933 with respect to the resale of their shares. To demand such registration, stockholders' holding an aggregate of at least a majority of these shares that are then outstanding for the first demand registration, and stockholders holding an aggregate of at least 25% of these shares that are then outstanding for the second demand registration, must request that the registration statement register the resale of at least 20% of these shares that are then outstanding. We are not required to effect more than two demand registrations.

Additionally, the holders of 28,651,799 shares of common stock, including the 19,053,672 shares of common stock discussed in the previous paragraph and including our chief executive officer Joseph F. Pinkerton, III, will have piggyback registration rights with respect to future registration of our shares of common stock under the Securities Act. If we propose to register any shares of common stock under the Securities Act, the holders of shares having piggyback registration rights are entitled to receive notice of such registration and are entitled to include their shares in the registration.

At any time after we become eligible to file a registration statement on Form S-3 under the Securities Act, holders of demand registration rights may require us to file up to six registration statements on Form S-3 with respect to their shares of common stock, resulting in an aggregate offering of at least $500,000 on each registration statement on Form S-3. We are not required to file more than one registration statement on Form S-3 in any six month period.

These registration rights are subject to conditions and limitations, including the right of the underwriters of an offering to limit the number of shares of common stock to be included in the registration. We are generally required to bear all of the expenses of all registrations under the investors' rights agreement, except underwriting discounts and commissions. The investors' rights agreement also contains our commitment to indemnify the holders of registration rights for losses they incur in connection with registrations under the agreement. Registration of any of the shares of common stock held by security holders with registration rights would result in those shares becoming freely tradeable without restriction under the Securities Act.

ANTI-TAKEOVER EFFECTS

Provisions of Delaware law, our certificate of incorporation, our bylaws and certain contracts to which we are a party could have the effect of delaying or preventing a third party from acquiring us, even if the acquisition would benefit our stockholders. The provisions of Delaware law and in our certificate of incorporation and bylaws are intended to enhance the likelihood of continuity and stability in the composition of our board of directors and in the policies formulated by the board of directors and to discourage certain types of transactions that may involve an actual or threatened change of control of Active Power. These provisions are designed to reduce our vulnerability to an unsolicited proposal for a takeover that does not contemplate the acquisition of all of our outstanding shares, or an unsolicited proposal for the restructuring or sale of all or part of Active Power.

DELAWARE ANTI-TAKEOVER STATUTE. We are subject to the provisions of Section 203 of the Delaware General Corporation Law, an anti-takeover law. Subject to certain exceptions, the statute prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless:

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

- upon consummation of the transaction which resulted in the stockholder's becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of

the corporation outstanding at the time the transaction commenced, excluding, for purposes of determining the number of shares outstanding, those shares owned (1) by persons who are directors and also officers and (2) by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or

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

For purposes of Section 203, a "business combination" includes a merger, asset sale or other transaction resulting in a financial benefit to the interested stockholder, and an "interested stockholder" is a person who, together with affiliates and associates, owns, or within three years prior to the date of determination whether the person is an "interested stockholder", did own, 15% or more of the corporation's voting stock.

In addition, provisions of our certificate of incorporation and bylaws may also have an anti-takeover effect. These provisions may delay, defer or prevent a tender offer or takeover attempt of our company that a stockholder might consider in his or her best interest, including attempts that might result in a premium over the market price for the shares held by our stockholders. The following summarizes these provisions.

Classified board of directors. Our certificate of incorporation provides that, effective immediately upon the closing of this offering, our board of directors will be divided into three classes of directors, as nearly equal in size as is practicable, serving staggered three-year terms. As a result, approximately one-third of the board of directors will be elected each year. These provisions, when coupled with the provisions of our certificate of incorporation and bylaws authorizing our board of directors to fill vacant directorships or increase the size of our board, may deter a stockholder from removing incumbent directors and simultaneously gaining control of the board of directors.

Stockholder action; special meeting of stockholders. Our certificate of incorporation eliminates the ability of stockholders to act by written consent. Our bylaws provide that special meetings of our stockholders may be called only by a majority of our board of directors.

Advance notice requirements for stockholder proposals and director nominations. Our bylaws provide that stockholders seeking to bring business before an annual meeting of stockholders, or to nominate candidates for election as directors at an annual meeting of stockholders, must provide us with timely written notice of their proposal. To be timely, a stockholder's notice must be delivered to or mailed and received at our principal executive offices not less than 120 days before the first anniversary of the date we released the notice of annual meeting to stockholders in connection with the previous year's annual meeting. If, however, no meeting was held in the prior year or the date of the annual meeting has been changed by more than 30 days from the date contemplated in the notice of annual meeting, notice by the stockholder, in order to be timely, must be received a reasonable time before we release the notice of annual meeting to stockholders. Our bylaws also specify certain requirements as to the form and content of a stockholder's notice. These provisions may make it more difficult for stockholders to bring matters before an annual meeting of stockholders or to make nominations for directors at an annual meeting of stockholders.

Authorized but unissued shares. Our authorized but unissued shares of common stock and preferred stock are available for our board to issue without stockholder approval. We may use these additional shares for a variety of corporate purposes, including future public offerings to raise

additional capital, corporate acquisitions and employee benefit plans. The existence of our authorized but unissued shares of common stock and preferred stock could render it more difficult or discourage an attempt to obtain control of our company by means of a proxy context, tender offer, merger or other transaction.

Supermajority vote provisions. The Delaware General Corporation Law provides generally that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation's certificate of incorporation or bylaws, unless a corporation's certificate of incorporation or bylaws, as the case may be, requires a greater percentage. Our certificate of incorporation imposes supermajority vote requirements (two-thirds) in connection with the amendment of certain provisions of our certificate of incorporation, including the provisions relating to the classified board of directors and action by written consent of stockholders.

Indemnification. Our certificate of incorporation and bylaws require us to indemnify our directors and officers to the fullest extent permitted by Delaware law. In addition, our charter limits the personal liability of our board members for breaches by the directors of their fiduciary duties to the fullest extent permitted under Delaware law.

Caterpillar Termination Right. Caterpillar, our most significant customer, has a right to terminate its CleanSource UPS distribution agreement with us in the event we are acquired or undergo a change in control.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is EquiServe Trust Company and its address is 150 Royall Street, Canton, MA 02021.

Nasdaq National Market Listing

We have applied to have our common stock listed for quotation on the Nasdaq National Market under the trading symbol "ACPW".

SHARES ELIGIBLE FOR FUTURE SALE

If our stockholders sell substantial amounts of our common stock in the public market following this offering, the prevailing market price of our common stock could decline. Furthermore, because we do not expect that any of these shares will be available for sale for at least 90 days following this offering as a result of the contractual and legal restrictions on resale described below, sales of substantial amounts of our common stock in the public market after these restrictions lapse could adversely affect the prevailing market price of the common stock and our ability to raise equity capital in the future.

Upon the closing of this offering, we will have outstanding an aggregate of 39,584,560 shares of our common stock, based upon the number of shares outstanding as of May 31, 2000 and assuming no exercise of the underwriters' over-allotment option and no exercise of outstanding options and warrants. Of these shares, all shares sold in this offering will be freely tradeable without restriction or further registration under the Securities Act unless they are purchased by our "affiliates", as that term is defined in Rule 144 under the Securities Act. Our outstanding shares will be eligible for sale in the public market as follows:

NUMBER OF SHARES	DATE
8,000,000	After the date of this prospectus, freely tradeable shares sold in this offering.
5,341,026	After 90 days from the date of this prospectus, 20% of the shares subject to lock-up agreements with the underwriters will be released if the conditions described below under "--Lock-up Agreements" are satisfied and will be eligible for sale in the public market under Rule 144 (subject, in some cases, to volume limitations), Rule 144(k) or Rule 701.
5,354,510	After 120 days from the date of this prospectus, an additional 20% of the shares subject to lock-up agreements with the underwriters will be released if the conditions described below under "--Lock-up Agreements" are satisfied and will be eligible for sale in the public market under Rule 144 (subject, in some cases, to volume limitations), Rule 144(k) or Rule 701.
20,566,989	After 180 days from the date of this prospectus, the lock-up agreements are released and these shares are eligible for sale in the public market under Rule 144 (subject, in some cases, to volume limitations), Rule 144(k) or Rule 701.
322,035	After 180 days from the date of this prospectus, subject to vesting requirements and the requirements of Rule 144 (subject, in some cases, to volume limitations), Rule 144(k) or Rule 701.

LOCK-UP AGREEMENTS. All of our directors and officers and all of our stockholders and option holders have signed or are otherwise subject to lock-up agreements under which they have agreed not to transfer or dispose of, directly or indirectly, any shares of our common stock or any securities convertible into or exercisable or exchangeable for shares of our common stock for 180 days after the date of this prospectus. However, if the last reported sale price of our common stock is greater

than two times the initial public offering price per share for a specified period of time ending on the 90th day after the date of this prospectus, then 20% of the shares, and shares underlying options, held by each stockholder or option holder on the date of this prospectus shall be released from the 180-day restriction, subject to delays as a result of the timing of our earnings release and compliance with insider trading policies. In addition, if the last reported sale price of our common stock is greater than two times the initial public offering price per share for a specified period of time ending on the 120th day after the date of this prospectus, then an additional 20% of the shares, and shares underlying options, held by each stockholder or option holder on the date of this prospectus shall be released from the 180-day restriction, subject to delays as a result of the timing of our earnings release and compliance with insider trading policies. Transfers or dispositions can be made sooner with the prior written consent of Goldman, Sachs & Co. or, if the transferee agrees to sign an identical lock-up agreement and other conditions are met: (a) if the transfer is a bona fide gift, (b) if the transfer is to a trust for the benefit of the stockholder or option holder, or (c) if the transfer is to certain other affiliates of the stockholder or option holder. Goldman, Sachs & Co. may, in its sole discretion, at any time and without prior notice, release all or any portion of the shares subject to the lock-up agreements.

Rule 144. In general, under Rule 144 as currently in effect, beginning 90 days after the date of this prospectus, a person who has beneficially owned shares of our common stock for at least one year, including the holding period of certain prior owners other than affiliates, is entitled to sell within any three-month period a number of shares that does not exceed the greater of (a) 1% of the number of shares of our common stock then outstanding, which will equal approximately 395,845 shares immediately after the offering, or (b) the average weekly trading volume of our common stock on the Nasdaq National Market during the four calendar weeks preceding the filing of a notice on Form 144 with respect to that sale. Sales under Rule 144 are also subject to certain manner-of-sale provisions, notice requirements and the availability of current public information about us.

Rule 144(k). Under Rule 144(k), a person who is not deemed to have been one of our affiliates at any time during the three months preceding a sale and who has beneficially owned shares for at least two years, including the holding period of certain prior owners other than affiliates, is entitled to sell those shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144. Therefore, unless otherwise restricted, Rule 144(k) shares may be sold immediately upon the closing of this offering.

Rule 701. In general, under Rule 701 of the Securities Act as currently in effect, each of our directors, officers, employees, consultants or advisors who purchased shares from us before the date of this prospectus in connection with a compensatory stock plan or other written compensatory agreement is eligible to resell such shares 90 days after the effective date of this offering in reliance on Rule 144, but without compliance with certain restrictions, including the holding period, contained in Rule 144.

Registration Rights. After this offering, the holders of 28,651,799 shares of our common stock will be entitled to certain rights with respect to the registration of their shares under the Securities Act. See "Description of Capital Stock-Registration Rights". After any sale of shares pursuant to a registration statement, such shares will be freely tradable without restriction under the Securities Act. These sales could cause the market price of our common stock to decline.

Stock Plans. As of May 31, 2000, options to purchase 3,505,745 shares of common stock were outstanding under our 1993 plan. After this offering, we intend to file a registration statement on Form S-8 under the Securities Act of 1933 covering shares of common stock reserved for issuance under our 2000 stock incentive plan and our employee stock purchase plan. Based on the number of options outstanding and shares reserved for issuance under our 2000 plan and our employee stock purchase plan, the Form S-8 registration statement would cover 10,166,000 shares. The Form S-8

registration statement will become effective immediately upon filing, whereupon, subject to the satisfaction of applicable exercisability periods, Rule 144 limitations applicable to affiliates and the lock-up agreements with the underwriters referred to above, shares of common stock to be issued upon exercise of outstanding options granted pursuant to our 2000 stock incentive plan and shares of common stock issued pursuant to our employee stock purchase plan (to the extent that such shares were not held by affiliates) will be available for immediate resale in the public market.

UNDERWRITING

Active Power, the selling stockholder and the underwriters named below have entered into an underwriting agreement with respect to the shares being offered. Subject to certain conditions, each underwriter has severally agreed to purchase the number of shares indicated in the following table. Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. Incorporated and CIBC World Markets Corp. are the representatives of the underwriters.

Underwriters	Number of Shares
Goldman, Sachs & Co.	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Morgan Stanley & Co. Incorporated	
CIBC World Markets Corp.	
Total	

Under the terms and conditions of the underwriting agreement, the underwriters are committed to take and pay for all of the shares offered hereby, if any are taken.

If the underwriters sell more shares than the total number set forth in the table above, the underwriters have an option to buy up to an additional 900,000 shares from Active Power and up to an additional 300,000 shares from the selling stockholder to cover such sales. They may exercise that option for 30 days. If any shares are purchased pursuant to this option, the underwriters will severally purchase shares in approximately the same proportion as set forth in the table above.

The following table shows the per share and total underwriting discounts and commissions to be paid to the underwriters by Active Power and by the selling stockholder. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase 900,000 additional shares from Active Power and 300,000 additional shares from the selling stockholder.

Paid by Active Power	No Exercise	Full Exercise
Per Share	$	$
Total	$	$

Paid by the Selling Stockholder	No Exercise	Full Exercise
Per Share	--	$
Total	--	$

Shares sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to $ per share from the initial public offering price. Any such securities dealers may resell any shares purchased from the underwriters to certain other brokers or dealers at a discount of up to $ per share from the initial public offering price. If all the shares are not sold at the initial public offering price, the representatives may change the offering price and the other selling terms.

Active Power, its officers, directors, stockholders and option holders have agreed with the underwriters not to dispose of or hedge any of their common stock or securities convertible into or exchangeable for shares of common stock during the period from the date of this prospectus continuing through the date 180 days after the date of this prospectus, except with the prior written consent of Goldman Sachs & Co. on behalf of the representatives; provided, however, that this

restriction shall terminate as to 20% of the shares held by officers, directors, stockholders and option holders after 90 days and an additional 20% of the shares held by officers, directors, stockholders and option holders after 120 days after the prospectus, subject to delays as a result of the timing of Active Power's earnings releases and compliance with insider trading policies, in the event that, as of such dates, the reported last sale price of common stock on the Nasdaq National Market is greater than twice the initial public offering price specified in this prospectus for a certain period of time ending on such dates. Further, the restrictions do not apply to shares of common stock purchased on the open market by stockholders or optionholders who are not subject to the reporting requirements of Section 16 of the Securities Exchange Act of 1934. This agreement does not apply to any existing employee benefit plans. See "Shares Eligible for Future Sale" for a discussion of certain transfer restrictions.

Prior to this offering, there has been no public market for the shares. The initial public offering price will be negotiated among Active Power and the representatives. Among the factors to be considered in determining the initial public offering price of the shares, in addition to prevailing market conditions, will be Active Power's historical performance, estimates of the business potential and earnings prospects of Active Power, an assessment of Active Power's management and the consideration of the above factors in relation to market valuation of companies in related businesses.

Active Power intends to apply to have its common stock approved for quotation on the Nasdaq National Market under the symbol "ACPW".

In connection with the offering, the underwriters may purchase and sell shares of common stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. "Covered" short sales are sales made in an amount not greater than the underwriters' option to purchase additional shares from Active Power and the selling stockholder in the offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. "Naked" short sales are any sales in excess of such option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for or purchases of common stock made by the underwriters in the open market prior to the completion of the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or retarding a decline in the market price of Active Power's stock, and together with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of the common stock. As a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time. These transactions may be effected on the Nasdaq National Market, in the over-the-counter market or otherwise.

A prospectus in electronic format may be made available on the Internet websites maintained by one or more underwriters or securities dealers. The representatives of the underwriters may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders.

Internet distribution will be allocated by the representatives to underwriters that they may make Internet distributions on the same basis as other allocations. In addition, shares may be sold by the underwriters to securities dealers who resell shares to online brokerage account holders.

At the request of Active Power, the underwriters are reserving up to 400,000 shares of common stock for sale at the initial public offering price to certain employees and strategic partners of Active Power through a directed share program. The number of shares of common stock available for sale to the general public in the public offering will be reduced to the extent these persons purchase these reserved shares. Any shares not so purchased will be offered by the underwriters to the general public on the same basis as the other shares offered hereby.

The underwriters do not expect sales to discretionary accounts to exceed five percent of the total number of shares offered.

Active Power estimates that its share of the total expenses of the offering, excluding underwriting discounts and commissions, will be approximately $1,161,534.

Active Power and the selling stockholder have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

LEGAL MATTERS

The validity of the common stock offered hereby will be passed upon for us by Brobeck, Phleger & Harrison LLP, Austin, Texas. Certain legal matters in connection with this offering will be passed upon for the underwriters by Vinson & Elkins L.L.P., Austin, Texas.

EXPERTS

Ernst & Young LLP, independent auditors, have audited our financial statements at December 31, 1998 and 1999 and for the three years in the period ended December 31, 1999, as set forth in their report. We have included our financial statements in the prospectus and elsewhere in the registration statement in reliance on Ernst & Young LLP's report, given on their authority as experts in accounting and auditing.

WHERE YOU CAN FIND ADDITIONAL INFORMATION ABOUT ACTIVE POWER

We have filed with the Securities and Exchange Commission a registration statement on Form S-1, including exhibits, schedules and amendments, under the Securities Act of 1933 with respect to the shares of common stock to be sold in this offering. This prospectus does not contain all the information included in the registration statement. For further information about us and the shares of our common stock to be sold in this offering, please refer to this registration statement. Complete exhibits have been filed with our registration statement on Form S-1.

You may read and copy any contract, agreement or other document referred to in this prospectus and any portion of our registration statement or any other information from our filings at the Securities and Exchange Commission's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the Securities and Exchange Commission. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information about the public reference rooms. Our filings with the Securities and Exchange Commission, including our registration statement, are also available to you on the Securities and Exchange Commission's Website, http://www.sec.gov.

As a result of this offering, we will become subject to the information and reporting requirements of the Securities Exchange Act of 1934 and will file and furnish to our stockholders annual reports containing financial statements audited by our independent auditors, make available to our stockholders quarterly reports containing unaudited financial data for the first three quarters of each fiscal year, proxy statements and other information filed with the Securities and Exchange Commission.

You may read and copy any reports, statements or other information on file at the public reference rooms or at the Securities and Exchange Commission's Website referenced above. You can also request copies of these documents, for a copying fee, by writing to the Commission.

ACTIVE POWER, INC.

FINANCIAL STATEMENTS

Years ended December 31, 1998 and 1999
and three months ended March 31, 1999 and 2000 (unaudited and pro forma)

Contents

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Active Power, Inc.

We have audited the accompanying balance sheets of Active Power, Inc. (the Company) as of December 31, 1998 and 1999, and the related statements of operations, stockholders' deficit and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Active Power, Inc. at December 31, 1998 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Austin, Texas

February 26, 2000, except for the first paragraph of
Note 12, as to which the date is

March 31, 2000 and the second paragraph

of Note 12 as to which the date is July , 2000

The foregoing report is in the form that will be signed upon Board of Directors' approval of the stock split described in Note 12 to the financial statements.

/s/ Ernst & Young LLP

Austin, Texas

June 29, 2000

ACTIVE POWER, INC.

BALANCE SHEETS

	DECEMBER 31		MARCH 31	PRO FORMA MARCH 31
	1998	1999	2000	2000
			(UNAUDITED)	(UNAUDITED)
ASSETS				
Current assets:				
Cash and cash equivalents	$ 2,800,145	$ 24,856,497	$ 18,605,977	$ 18,635,977
Short-term investments	4,735,815	1,408,822	4,754,002	4,754,002
Accounts receivable, net of allowance for doubtful accounts of $5,040 and $25,976	219,186	37,758	196,029	196,029
Inventories, net	807,273	933,692	1,231,321	1,231,321
Prepaid expenses and other	16,184	5,331	30,895	30,895
Total current assets	8,578,603	27,242,100	24,818,224	24,848,224
Property and equipment, net	1,155,829	1,123,723	1,559,137	1,559,137
Total assets	$ 9,734,432	$ 28,365,823	$ 26,377,361	$ 26,407,361
LIABILITIES AND STOCKHOLDERS' DEFICIT				
Current liabilities:				
Accounts payable	$ 252,888	$ 195,680	$ 659,632	$ 659,632
Accrued expenses	203,091	597,002	497,501	497,501
Current portion of notes payable	114,203	55,324	--	--
Total current liabilities	570,182	848,006	1,157,133	1,157,133
Note payable, net of current portion	55,324	--	--	--
Other non-current liabilities	57,593	6,843	--	--
Warrants with redemption rights	--	3,614,000	4,656,000	--
Total liabilities	683,099	4,468,849	5,813,133	1,157,133
Redeemable convertible preferred stock, 6,216,212 shares issued and outstanding in 1998, 8,152,082 shares issued and outstanding in 1999 and 2000 (25,420,000 shares authorized, no shares outstanding on an unaudited pro forma basis)	24,574,843	54,234,509	61,466,066	--
Stockholders' deficit:				
1992 Preferred Stock--$.001 par value, $.50 redemption value: 420,000 shares designated, issued and outstanding; $210,000 liquidation value	420	420	420	420
Common Stock--$.001 par value; 30,000,000 shares authorized; 10,698,611, 11,486,292 and 12,072,838 shares issued and outstanding in 1998, 1999 and 2000, respectively (60,000,000 shares authorized, 31,126,510 shares outstanding on a pro forma basis, unaudited)	10,699	11,486	12,073	31,127
Treasury stock, at cost; 36,841 shares	(2,403)	(2,403)	(2,403)	(2,403)
Deferred stock compensation	--	(5,430,199)	(10,081,057)	(10,081,057)
Additional paid-in capital	--	803,731	--	66,133,012
Accumulated deficit	(15,532,226)	(25,720,570)	(30,830,871)	(30,830,871)

Total stockholders' (deficit) equity....	(15,523,510)	(30,337,535)	$(40,901,838)	$ 25,250,228
Total liabilities and stockholders' deficit.....	$ 9,734,432	$ 28,365,823	$ 26,377,361	$ 26,407,361

See accompanying notes.

ACTIVE POWER, INC.

STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31			THREE MONTHS ENDED MARCH 31	
	1997	1998	1999	1999	2000
				(UNAUDITED)	
Product revenue.....	$ 137,590	$ 915,318	$ 1,046,811	$ 202,951	$ 181,836
Cost of goods sold (excludes deferred stock compensation amortization of $195,591 for the year ended December 31, 1999 and $112,880 for the three months ended March 31, 2000).....	157,363	1,238,456	3,006,174	550,846	521,055
Product margin.....	(19,773)	(323,138)	(1,959,363)	(347,895)	(339,219)
Development funding.....	--	--	5,000,000	3,000,000	--
Operating expenses:					
Research and development (excludes deferred stock compensation amortization of $909,605 for the year ended December 31, 1999 and $1,217 and $261,060 for the three months ended March 31, 2000)..	2,597,520	4,045,103	4,440,983	957,411	1,462,927
Selling, general and administrative (excludes deferred stock compensation amortization of $525,872 for the year ended December 31, 1999 and $7,790 and $906,696 for the three months ended March 31, 2000)..	1,264,277	1,925,288	3,971,503	469,998	1,097,758
Amortization of deferred stock compensation.....	--	--	1,631,068	9,007	1,280,636
Total operating expenses.....	3,861,797	5,970,391	10,043,554	1,436,416	3,841,321
Operating income (loss).....	(3,881,570)	(6,293,529)	(7,002,917)	1,215,689	(4,180,540)
Interest income.....	174,969	338,753	438,964	86,223	372,011
Interest expense.....	(31,817)	(33,892)	(17,947)	(7,940)	(4,372)
Change in fair value of warrants with redemption rights.....	--	--	(3,614,000)	(1,272,000)	(1,042,000)
Other income.....	--	9,890	7,556	--	(1,701)
Net income (loss).....	$(3,738,418)	$(5,978,778)	$(10,188,344)	$ 21,972	$ (4,856,602)
Dividends on preferred stock--all in arrears..	(573,076)	(1,283,213)	(1,820,421)	(412,310)	(849,033)
Accretion of redeemable convertible preferred stock to redemption amounts.....	(252,707)	(1,505,400)	(5,886,480)	(590,062)	(6,382,524)
Beneficial conversion feature on preferred stock issuance.....	--	--	(28,379,854)	--	--
Net loss to common stockholders.....	$(4,564,201)	$(8,767,391)	$(46,275,099)	$ (980,400)	$(12,088,159)
Net income (loss) per share, basic and diluted.....	$ (.45)	$ (.84)	$ (4.34)	$ (.09)	$ (1.08)
Shares used in computing net loss per share, basic and diluted.....	10,211,001	10,423,906	10,658,321	10,524,094	11,239,966
Pro forma loss per share, basic and diluted, assuming conversion of convertible preferred stock to common stock (unaudited).....			$ (1.83)		$ (.41)
Shares used in computing pro forma loss per share, basic and					

diluted, assuming conversion of convertible preferred stock to common stock (unaudited).....	25,243,288	29,833,638

See accompanying notes.

ACTIVE POWER, INC.

STATEMENTS OF STOCKHOLDERS' DEFICIT

	1992 PREFERRED STOCK		COMMON STOCK		TREASURY STOCK					
	NUMBER OF SHARES	PAR VALUE	NUMBER OF SHARES	PAR VALUE	NUMBER OF SHARES	AT COST	DEFERRED STOCK COMPENSATION	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' (DEFICIT) EQUITY
BALANCE AT DECEMBER 31, 1996.....	420,000	$420	10,345,676	$10,346	36,841	$(2,403)	$ --	$ 716,669	$ (2,892,273)	$ (2,167,241)
Exercise of stock options...	--	--	230,575	231	--	--	--	18,819	--	19,050
Preferred stock issuance costs..	--	--	--	--	--	--	--	(30,000)	--	(30,000)
Accretion of redeemable convertible preferred stock to redemption amount.....	--	--	--	--	--	--	--	(252,706)	--	(252,706)
Cumulative dividends on redeemable convertible preferred stock.....	--	--	--	--	--	--	--	(452,782)	(120,294)	(573,076)
Net loss.....	--	--	--	--	--	--	--	--	(3,738,418)	(3,738,418)
BALANCE AT DECEMBER 31, 1997.....	420,000	420	10,576,251	10,577	36,841	(2,403)	--	--	(6,750,985)	(6,742,391)
Exercise of stock options...	--	--	122,360	122	--	--	--	11,150	--	11,272
Preferred stock issuance costs..	--	--	--	--	--	--	--	(11,150)	(13,850)	(25,000)
Accretion of redeemable convertible preferred stock to redemption amount.....	--	--	--	--	--	--	--	--	(1,505,400)	(1,505,400)
Cumulative dividends on redeemable convertible preferred stock.....	--	--	--	--	--	--	--	--	(1,283,213)	(1,283,213)
Net loss.....	--	--	--	--	--	--	--	--	(5,978,778)	(5,978,778)
BALANCE AT DECEMBER 31, 1998.....	420,000	420	10,698,611	10,699	36,841	(2,403)	--	--	(15,532,226)	(15,523,510)
Exercise of stock options...	--	--	787,681	787	--	--	--	135,545	--	136,332
Warrants issued for services....	--	--	--	--	--	--	--	1,380,000	--	1,380,000
Preferred stock issuance costs..	--	--	--	--	--	--	--	(66,180)	--	(66,180)
Deferred stock compensation....	--	--	--	--	--	--	(7,061,267)	7,061,267	--	--
Amortization of deferred stock compensation....	--		--	--	--	--	1,631,068	--	--	1,631,068
Accretion of redeemable convertible preferred stock to redemption amount.....	--	--	--	--	--	--	--	(5,886,480)	--	(5,886,480)
Cumulative dividends on redeemable convertible preferred stock.....	--	--	--	--	--	--	--	(1,820,421)	--	(1,820,421)
Net loss.....	--	--	--	--	--	--	--	--	(10,188,344)	(10,188,344)
BALANCE AT DECEMBER 31, 1999..... (UNAUDITED)	420,000	420	11,486,292	11,486	36,841	(2,403)	(5,430,199)	803,731	(25,720,570)	(30,337,535)
Exercise of stock options...	--	--	586,546	587	--	--	--	242,633	--	243,220
Deferred stock compensation....	--	--	--	--	--	--	(5,931,494)	5,931,494	--	--
Amortization of										

deferred stock compensation....	--	--	--	--	--	--	1,280,636	--	--	1,280,636
Accretion of redeemable convertible preferred stock to redemption amount.....	--	--	--	--	--	--	--	(6,382,524)	--	(6,382,524)
Cumulative dividends on redeemable convertible preferred stock.....	--	--	--	--	--	--	--	(595,334)	(253,699)	(849,033)
Net loss.....	--	--	--	--	--	--	--	--	(4,856,602)	(4,856,602)
BALANCE AT MARCH 31, 2000.....	420,000	$420	12,072,838	$12,073	36,841	$(2,403)	$(10,081,057)	$ --	$(30,830,871)	$(40,901,838)
Pro forma at March 31, 2000..	420,000	$420	31,126,510	$31,127	36,841	$(2,403)	$(10,081,057)	$66,133,012	$(30,830,871)	$ 25,250,228

ACTIVE POWER, INC.

STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31			THREE MONTHS ENDED MARCH 31	
	1997	1998	1999	1999	2000
				(UNAUDITED)	
OPERATING ACTIVITIES					
Net loss	$(3,738,418)	$(5,978,778)	$(10,188,344)	$ 21,972	$(4,856,602)
Adjustment to reconcile net loss to cash used in operating activities:					
Depreciation expense	111,877	342,476	629,288	137,802	153,942
Loss on disposal of assets	--	--	903	--	--
Warrants issued for services	--	--	1,380,000	--	--
Amortization of deferred stock compensation	--	--	1,631,068	9,007	1,280,636
Changes in fair value of warrants with redemption rights	--	--	3,614,000	1,272,000	1,042,000
Changes in operating assets and liabilities:					
Accounts receivable, net	(26,600)	(192,586)	181,428	(2,485,853)	(158,271)
Inventories, net	(658,283)	18,204	(126,419)	137,183	(297,629)
Prepaid expenses and other assets	(2,727)	7,149	10,853	16,184	(25,564)
Accounts payable	353,878	(252,665)	(57,208)	(36,752)	463,952
Accrued expenses	46,172	156,919	393,911	(31,601)	(99,501)
Other non-current liabilities	--	--	(50,750)	(12,687)	(6,843)
Net cash used in operating activities	(3,914,101)	(5,899,281)	(2,581,270)	(972,745)	(2,503,880)
INVESTING ACTIVITIES					
Net maturity (purchase) of short-term investments	(2,341,468)	(965,471)	3,326,993	2,945,135	(3,345,180)
Purchases of property and equipment	(436,580)	(792,580)	(598,085)	(52,132)	(589,356)
Net cash provided by (used in) investing activities	(2,778,048)	(1,758,051)	2,728,908	2,893,003	(3,934,536)
FINANCING ACTIVITIES					
Proceeds from issuance of notes payable	350,000	--	--	--	--
Payments on notes payable	(82,215)	(98,258)	(114,203)	(36,176)	(55,324)
Proceeds from issuance of Common Stock	19,050	11,272	136,332	4,637	243,220
Proceeds from issuance of Convertible Preferred Stock, net of issuance costs	5,970,004	9,975,008	21,886,585	--	--
Net cash provided by (used in) financing activities	6,256,839	9,888,022	21,908,714	(31,539)	187,896
Increase (decrease) in cash and cash equivalents	(435,310)	2,230,690	22,056,352	1,888,719	(6,250,520)
Cash and cash equivalents, beginning of period	1,004,765	569,455	2,800,145	2,800,145	24,856,497
Cash and cash equivalents, end of period	$ 569,455	$ 2,800,145	$ 24,856,497	$4,688,864	$18,605,977
Supplemental disclosure of cash flow information:					
Interest paid	$ 31,817	$ 32,653	$ 17,947	$ 7,940	$ 4,372

See accompanying notes.

1. ORGANIZATION

Active Power, Inc. was founded in 1992 for the purpose of developing and commercializing advances in the field of electromechanics. Since inception, Active Power has devoted its efforts principally to research and development and marketing of flywheel-based power-quality and storage products that provide consistent, reliable electric power required by today's digital economy. These efforts have included pursuing patent protection for intellectual property, successful production of initial prototypes and limited production volumes, development of manufacturing processes, raising capital and pursuing markets for Active Power's products.

2. SIGNIFICANT ACCOUNTING POLICIES

UNAUDITED INTERIM INFORMATION AND PRO FORMA INFORMATION

The financial information as of March 31, 2000 and for the three month periods ended March 31, 1999 and 2000 is unaudited, but reflects all adjustments, consisting of normal recurring accruals which are, in the opinion of management, necessary to fairly present such information in accordance with generally accepted accounting principles.

Active Power's historical capital structure is not indicative of its prospective structure due to the automatic conversion of all shares of redeemable convertible preferred stock into common stock concurrent with the closing of the anticipated initial public offering of its common stock and the May 2000 exercise by a stockholder of 460,000 warrants with redemption rights. Accordingly, Active Power has presented pro forma stockholders' equity as if all outstanding shares of redeemable convertible preferred stock had converted into common stock and the warrants with redemption rights had been exercised as of March 31, 2000. Additionally, Active Power has presented pro forma basic and diluted loss per share assuming the conversion of all outstanding shares of redeemable convertible preferred stock into common stock from their respective dates of issuance.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

REVENUE RECOGNITION

Active Power generally recognizes revenue at the date a unit is shipped. Active Power recognizes revenue related to units shipped for evaluation by the customer at the point of customer acceptance of the unit.

CASH EQUIVALENTS

Active Power considers liquid investments with a maturity of three months or less when purchased to be cash equivalents.

SHORT-TERM INVESTMENTS

Short-term investments consist of debt securities with readily determinable fair values. Active Power accounts for highly liquid investments with maturities greater than three months but less than one year at date of acquisition as short-term investments. Active Power classifies short-term investments as held-to-maturity (due primarily to the limited time to maturity) and accordingly reports them at adjusted cost basis, which approximates fair value, using the specific identification method for securities sold.

INVENTORIES

Active Power states inventories at the lower of cost or replacement cost, with cost being determined on a standard cost basis which does not differ materially from actual cost.

Inventories, before reserves, consist of the following:

	DECEMBER 31,		MARCH 31,
	1998	1999	2000
Raw materials	$ 662,436	$1,287,031	$1,704,088
Work in process	197,607	135,324	16,075
Finished goods	26,381	295,315	295,315
Evaluation units	183,323	27,771	27,771
	$1,069,747	$1,745,441	$2,043,249

The following table summarizes the changes in inventory reserves:

Balance at December 31, 1996	$ --
Additions charged to costs and expenses	198,475
Write-off of inventory	--
Balance at December 31, 1997	198,475
Additions charged to costs and expenses	105,000
Write-off of inventory	41,001
Balance at December 31, 1998	262,474
Additions charged to costs and expenses	549,275
Write-off of inventory	--
Balance at December 31, 1999	$811,749

PROPERTY AND EQUIPMENT

Active Power carries property and equipment at cost, less accumulated depreciation. Active Power depreciates property and equipment using the straight-line method over the estimated useful lives of the assets (generally three to seven years).

PATENT APPLICATION COSTS

Active Power has not capitalized patent appreciation fees and related costs because of uncertainties regarding net realizable value of the technology represented by the existing patent applications and ultimate recoverability. All patent costs have been expensed through December 31, 1999.

ACCOUNTING FOR STOCK-BASED COMPENSATION

As allowed by the Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, Active Power accounts for its stock compensation arrangements with employees under the provisions of the Accounting Principles Board's Opinion No. 25, Accounting for Stock Issued to Employees. Deferred stock-based compensation is amortized over the vesting period using a method which attributes a pro rata portion of each stage of vesting to each of the cumulative years in which an employee would have to work to earn that vesting stage. This method results in higher amortization amounts in the first year of the vesting period and declining amortization amounts in each year thereafter.

Income Taxes

Active Power accounts for income taxes in accordance with the FASB's Statement No. 109, Accounting for Income Taxes. Statement No. 109 prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Segment Reporting

Active Power's chief operating decision maker allocates resources and assesses the performance of its power management product development and sales activities as one segment.

Concentration of Credit Risk

Financial instruments which potentially subject Active Power to concentrations of credit risk consist of short-term investments and trade receivables. Active Power's short-term investments are placed with high credit quality financial institutions and issuers. Active Power performs limited credit evaluations of its customers' financial condition and generally does not require collateral. Active Power estimates an allowance for doubtful accounts based on factors related to the credit risk of each customer. Credit losses have not been significant to date.

The following table summarizes the changes in the allowance for doubtful accounts receivable:

Balance at December 31, 1996	$ --
Additions charged to costs and expenses	463
Write-off of uncollectible accounts	--
Balance at December 31, 1997	463
Additions charged to costs and expenses	4,577
Write-off of uncollectible accounts	--
Balance at December 31, 1998	5,040
Additions charged to costs and expenses	20,936
Write-off of uncollectible accounts	--
Balance at December 31, 1999	$25,976

The following customers accounted for a significant percentage of Active Power's total revenue as follows (customer H is a stockholder):

Customer	1997	1998	1999
A	--	17%	39%
B	--	--	21%
C	--	--	16%
D	23%	--	13%
E	--	24%	--
F	36%	20%	--
G	23%	--	--
H	18%	--	--

ADVERTISING COSTS

Active Power expenses advertising costs as incurred. These expenses were not material in 1997, 1998 or 1999.

NET LOSS PER SHARE

Active Power computes loss per share in accordance with the FASB's Statement No. 128, Earnings Per Share, and SEC Staff Accounting Bulletin No. 98 ("SAB 98"). Under Statement No. 128 and SAB 98, basic loss per share is computed by dividing net loss by the weighted average number of shares outstanding. Diluted loss per share is computed by dividing net loss by the weighted average number of common shares and dilutive common share equivalents outstanding. Except for the three months ended March 31, 2000, Active Power's calculation of diluted loss per share excludes shares of common stock issuable upon exercise of warrants and employee stock options because inclusion would be antidilutive.

Under SAB 98, all options, warrants or other potentially dilutive instruments issued for nominal consideration prior to the anticipated effective date of an initial public offering are required to be included in the calculation of basic and diluted loss per share as if they were outstanding for all periods presented. Active Power has not issued any such securities for nominal consideration.

The following table sets forth the computation of basic and diluted net loss per share:

	YEAR ENDED DECEMBER 31			THREE MONTHS ENDED MARCH 31,
	1997	1998	1999	2000
Net loss to common stockholders	$(4,564,201)	$(8,767,391)	$(46,275,099)	(12,088,159)
Basic and diluted:				
Weighted-average shares of common stock outstanding	10,433,094	10,625,570	10,808,017	11,584,810
Weighted-average shares of common stock subject to repurchase	(222,093)	(201,664)	(149,696)	(344,844)
Shares used in computing basic and diluted net loss per share	10,211,001	10,423,906	10,658,321	11,239,966
Basic and diluted net loss per share	$ (.45)	$ (.84)	$ (4.34)	$ (1.08)
Pro forma (unaudited):				
Shares used above			10,658,321	11,239,966
Pro forma adjustment to reflect assumed conversion of convertible preferred stock			14,584,967	18,593,672
Shares used in computing pro forma basic and diluted net loss per share			25,243,288	29,833,638
Pro forma basic and diluted net loss per share			$ (1.83)	$ (.41)

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	1998	1999
Equipment	$1,036,883	$ 1,391,233
Demonstration units	107,321	107,321
Computers and purchased software	319,131	424,525
Furniture and fixtures	63,037	63,037
Leasehold improvements	179,825	316,541
	1,706,197	2,302,657
Accumulated depreciation	(550,368)	(1,178,934)
	$1,155,829	$ 1,123,723

4. STOCKHOLDERS' EQUITY AND REDEEMABLE PREFERRED STOCKS

At December 31, 1999, Active Power has authorized 10,420,000 shares of $.001 par value preferred stock as follows (shares designated are the same as shares issued except for Series E for which 2,730,954 are designated):

	SHARES ISSUED	CARRYING VALUE	LIQUIDATION VALUE	CONVERTIBLE TO NUMBER OF COMMON SHARES	CUMULATIVE DIVIDENDS IN ARREARS
1992 Preferred Stock	420,000	$ 2,100	$ 210,000	--	$ --
Series A	569,406	2,099,396	1,194,955	1,309,634	329,457
Series B	1,847,292	7,582,452	4,246,072	5,058,650	1,096,438
Series C	1,726,620	9,201,127	7,163,841	3,971,226	1,163,836
Series D	1,652,894	12,129,507	11,233,982	3,801,656	1,233,974
Series E	1,935,870	23,227,027	22,123,945	4,452,506	171,180
	8,152,082	$54,241,609	$46,172,795	18,593,672	$3,994,885

1992 PREFERRED STOCK

Holders of the 1992 Preferred Stock are not entitled to dividends. The 1992 Preferred Stock shall be redeemed by Active Power at such time as the Board of Directors determines, in its sole discretion, that Active Power has available funds in excess of anticipated needs. No dividends may be declared or paid on Common Stock so long as any shares of 1992 Preferred Stock are issued and outstanding. The redemption price of the 1992 Preferred Stock is $.50 per share. Subject to the rights of the Series A, Series B, Series C, Series D and Series E Convertible Preferred Stock, in the event of involuntary liquidation, holders of the 1992 Preferred Stock shall be entitled to receive $.50 per share, before any distribution of assets is made to holders of Common Stock.

REDEEMABLE CONVERTIBLE PREFERRED STOCK

The Series A, Series B, Series C, Series D, and Series E Redeemable Convertible Preferred Stock is convertible into Common Stock at the option of the holder at any time based upon the conversion price defined in the related Preferred Stock agreements. Each share of Convertible

Preferred Stock shall automatically be converted into shares of Common Stock in the event of a public offering whose offering price and whose gross proceeds equals or exceeds $7.40 per share and $20.0 million.

REDEMPTION RIGHTS

Beginning in August 2002, the holders of the Series A, Series B, Series C, Series D and Series E Convertible Preferred Stock, upon proper election by the holders and notification to Active Power, may require Active Power to redeem such preferred stock in the following amounts:

REDEMPTION PERIOD	NUMBER OF SHARES
60 days after the date of the Redemption Notice (the "First Mandatory Redemption Date")	One-third of the shares outstanding
First anniversary of the First Mandatory Redemption Date	One-half of the shares outstanding
Second anniversary of the First Mandatory Redemption Date	All remaining shares outstanding

Upon redemption, the holders of the Series A, Series B, Series C, Series D and Series E Convertible Preferred Stock shall be entitled to receive the greater of (i) the fair market value of the shares or (ii) $0.66, $0.88, $1.51, $2.63 and $4.93, respectively, plus any accrued or declared but unpaid dividends as of the redemption date. The redemption price shall be adjusted for all redemptions of shares made subsequent to the initial Redemption Date to include accrued interest at the prime rate published in The Wall Street Journal. The carrying value of redeemable convertible preferred stock is accreted to the estimated fair value using the interest method to the redemption date. The accretion is reflected as a charge to loss to common stockholders.

In the event of voluntary or involuntary liquidation of Active Power, the holders of the Series A, Series B, Series C, Series D and Series E Convertible Preferred Stock shall be entitled to receive, prior and in preference to any distributions of any of the assets of Active Power to the holders of the 1992 Preferred Stock and Common Stock, an amount for each share of $0.66, $0.88, $1.51, $2.63, and $4.93, respectively, plus accrued or declared but unpaid dividends.

BENEFICIAL CONVERSION FEATURE

The Series E Convertible Preferred Stock issuance price (after giving effect to the 2.3-for-1 Common Stock split ratio discussed in Note 12) was lower than the value determined subsequently by the board of directors. Active Power recorded this difference as a beneficial conversion feature, increasing net loss to common stockholders.

VOTING RIGHTS AND DIVIDENDS

The holders of Series A, Series B, Series C, Series D and Series E Convertible Preferred Stock are entitled to voting rights equal to Common Stock and shall accrue annual cumulative cash dividends of $0.053, $0.071, $0.121, $0.210 and $0.394 per share, respectively, payable prior and in preference to any dividends on Common Stock out of funds legally available. Cumulative dividends with respect to the Series A, Series B, Series C, Series D and Series E Preferred Stock shall cease to be payable if the Series A, Series B, Series C, Series D and Series E Convertible Preferred Stock are converted to Common Stock prior to August 2002 in connection with Active Power's sale of shares of Common Stock in a firm commitment underwritten initial public offering or upon approval of a sufficient number of Series A, Series B, Series C, Series D and Series E Convertible Preferred stockholders as determined in Active Power's Certificate of Incorporation.

Changes in redeemable stocks are as follows:

	NUMBER OF SHARES	CARRYING VALUE
Balance at December 31, 1996	2,416,698	$ 4,960,436
Stock issued for cash	1,726,620	6,000,004
Accretion of redeemable convertible preferred stock to redemption amount	--	252,706
Cumulative dividends	--	573,076
Balance at December 31, 1997	4,143,318	11,786,222
Stock issued for cash	1,652,894	10,000,008
Accretion of redeemable convertible preferred stock to redemption amount	--	1,505,400
Cumulative dividends	--	1,283,213
Balance at December 31, 1998	5,796,212	24,574,843
Stock issued for cash	1,935,870	21,952,765
Accretion of redeemable convertible preferred stock to redemption amount	--	5,886,480
Cumulative dividends	--	1,820,421
Balance at December 31, 1999	7,732,082	$54,234,509

WARRANTS

In March 1995, Active Power issued a warrant to purchase 460,000 shares of Common Stock with an exercise price of $0.07 per share. The warrant is exercisable from the date of issuance until the earlier of the consummation of a public offering of Common Stock or March 2002. In the event the holders of the Series A Convertible Preferred Stock have elected to require Active Power to redeem the outstanding Series A Convertible Preferred Stock, then the holders of Common Stock purchased under this warrant may require Active Power to repurchase such Common Stock at the greater of the exercise price plus any declared and unpaid dividends or the fair market value of the Common Stock at the Redemption Date. Because of this redemption provision, Active Power has classified these warrants as a liability at their estimated fair value and recorded the changes in fair value of $3.6 million against income in 1999. Active Power estimated the fair value of the warrants using the Black-Scholes pricing model with the following assumptions: expected volatility of 50%; expected life of 1 year, expected dividend yield of 0%, and risk-free rate of 6%.

In November 1999, Active Power issued warrants to purchase 460,000 shares of Common Stock to two purchasers of the Series E Preferred Stock in conjunction with the placement of preferred stock and strategic alliance agreements with those stockholders. The warrants have exercise prices of $4.93 per share. The warrants were fully vested, non-forfeitable and exercisable upon issuance and expire in November 2006. Active Power estimated the fair value of the warrants using the Black-Scholes pricing model with the following assumptions: expected volatility of 50%, expected life of 1 year, expected dividend yield of 0%, and risk-free rate of 6%. Active Power expensed the estimated fair value of these warrants of approximately $1.3 million in 1999.

At December 31, 1998 and 1999, 460,000 and 920,000 warrants to purchase shares of common stock were outstanding and exercisable, respectively.

The exercise prices of the warrants is to be adjusted only for capital restructures and stock splits, and not for subsequent sales of Common Stock. The weighted average exercise price of warrants outstanding at December 31, 1999 was $2.50. The weighted average fair value of warrants granted during the year ended December 31, 1999 was $3.00.

STOCK OPTION AGREEMENTS

Active Power has reserved approximately 5,796,000 shares of its Common Stock for issuance under its 1993 Stock Option Plan. The options are immediately exercisable upon grant and vest over periods ranging from immediate to four years. Active Power has repurchase rights for unvested shares purchased by optionees. At December 31, 1998 and 1999, 158,728 and 232,083 shares, respectively, that were purchased by optionees remained unvested and subject to repurchase.

A summary of Common Stock option activity during the years ended December 31, 1997, 1998 and 1999 is as follows:

	NUMBER OF SHARES	RANGE OF EXERCISE PRICES	WEIGHTED-AVERAGE EXERCISE PRICES
Outstanding at December 31, 1996	1,209,800	$.07 - $1.85	$ .14
Granted	1,546,175	.09 - .15	.14
Exercised	(230,575)	.07 - .09	.08
Canceled	--	--	--
Outstanding at December 31, 1997	2,525,400	.07 - 1.85	.14
Granted	745,200	.15 - .26	.21
Exercised	(122,360)	.07 - .26	.09
Canceled	(59,800)	.09 - .15	.15
Outstanding at December 31, 1998	3,088,440	.07 - 1.85	.17
Granted	1,359,300	.39 - .98	.61
Exercised	(787,681)	.07 - .78	.17
Canceled	(95,138)	.09 - 1.85	.27
Outstanding at December 31, 1999	3,564,921	$.07 - 1.85	$ .33

At December 31, 1999, 796,523 shares were available for future grants.

The following is a summary of options outstanding and exercisable as of December 31, 1999:

RANGE OF EXERCISE PRICES	NUMBER	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)	WEIGHTED AVERAGE EXERCISE PRICE
$1.74 - $1.85	32,200	3.9	$1.79
$ .07 - $ .09	908,500	6.5	.08
$ .15 - $ .39	1,789,321	8.4	.23
$ .52 - $ .98	834,900	9.9	.74
	3,564,921	8.2	$ .33

Stock options vested as of December 31, 1998 and 1999 were 1,635,107 and 2,741,292, respectively.

Of the stock options granted to employees during the year ended December 31, 1999, 1,358,150 had exercise prices below the fair value determined subsequently by the board of directors of the underlying shares of Common Stock on the date of grant. As a result, Active Power recorded unearned stock compensation of $7,061,267 of which $1,631,068 was amortized to non-cash compensation during the year ended December 31, 1999. The remaining unearned compensation will be recognized as non-cash compensation over the remaining vesting period of the options of approximately 3 years.

Pro forma information regarding net loss is required by Statement No. 123, and has been determined as if Active Power had accounted for its employee stock options under the fair value method of Statement No. 123. The fair value for these options was estimated at the date of grant using a minimum value option pricing model with the following assumptions.

	YEAR ENDED DECEMBER 31		
	1997	1998	1999
Risk-free interest rate	6.5%	6.5%	6.5%
Weighted-average expected life of the options	7 years	7 years	7 years
Dividend rate	0%	0%	0%
Assumed volatility	0%	0%	0%
Weighted average fair value of options granted:			
Exercise price equal to fair value of stock on date of grant	$ .06	$ .06	$ --
Exercise price less than fair value of stock on date of grant	$ --	$ --	$ 5.42

For purposes of pro forma disclosure, the estimated fair value of the options is amortized to expense over the options' vesting period. Active Power's pro forma information under Statement No. 123 follows:

	YEAR ENDED DECEMBER 31		
	1997	1998	1999
Pro forma stock-based compensation expense	$ 15,977	$ 35,726	$ 1,712,263
Pro forma net loss	$(3,754,395)	$(6,014,504)	$(10,269,539)
Pro forma net loss to common stockholders	$(4,580,178)	$(8,803,117)	$(46,356,294)
Pro forma basic and diluted loss per share	$ (.45)	$ (.84)	$ (4.35)

Option valuation models incorporate highly subjective assumptions. Because changes in the subjective assumptions can materially affect the fair value estimate, the existing models do not necessarily provide a reliable single measure of the fair value of Active Power's employee stock options. Because the determination of fair value of all employee stock options granted after such time as Active Power becomes a public entity will include an expected volatility factor and because, for pro forma disclosure purposes, the estimated fair value of Active Power's employee stock options is treated as if amortized to expense over the options' vesting period, the effects of applying Statement No. 123 for pro forma disclosures are not necessarily indicative of future amounts.

Common stock reserved at December 31, 1999 consists of the following:

For conversion of Convertible Preferred Stock	19,617,367
For exercise of Common Stock Warrants	920,000
For issuance under the 1993 Stock Option Plan	5,796,000

5. INCOME TAXES

At December 31, 1999, Active Power has net operating loss carryforwards of approximately $14,432,000 for federal tax reporting purposes and research and development credit carryforwards of approximately $391,000. The net operating loss and research and development credit carryforwards begin to expire in 2007. Utilization of the net operating losses and credits may be subject to a substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986. The annual limitation may result in the expiration of net operating losses and credits before utilization.

Significant components of Active Power's deferred tax liabilities and assets as of December 31 are as follows:

	1998	1999
Deferred tax liabilities:		
Capital expenses	$ 35,000	$ --
Deferred tax assets:		
Capital expenses	--	71,000
Deferred compensation	19,000	491,000
Reserves and allowances	128,000	461,000
Put warrants	--	1,337,000
Net operating loss and tax credit carryforwards	4,787,000	5,730,000
Other	3,000	34,000
Total deferred tax assets	4,937,000	8,124,000
Valuation allowance for net deferred tax assets	(4,902,000)	(8,124,000)
Net deferred taxes	$ --	$ --

Active Power has established a valuation allowance equal to the net deferred tax assets because of uncertainties regarding its ability to generate sufficient taxable income during the carryforward period to utilize the net operating loss carryforwards.

Active Power's benefit for income taxes differs from the expected benefit amount computed by applying the statutory federal income tax rate of 34% to loss before taxes due to the following:

	YEAR ENDED DECEMBER 31		
	1997	1998	1999
Federal statutory rate	(34.0)%	(34.0)%	(34.0)%
Non-cash compensation expense	--	--	3.1
State taxes, net of federal benefit	(3.0)	(3.0)	(2.5)
Permanent items and other	(1.3)	(1.8)	(.6)
Change in valuation allowance	38.3	38.8	34.1
	0.0%	0.0%	0.0%

6. NOTE PAYABLE

On March 21, 1997, Active Power entered into a $350,000 note payable agreement with a financial institution. This note bears interest at 15.132%, is secured by furniture and equipment and is payable in monthly installments of principal and interest of $11,013 maturing March 1, 2000 with a final payment of $35,000.

7. COMMITMENTS

Active Power leases its office facility under an operating lease agreement. The office space and manufacturing facilities lease is noncancelable and obligates Active Power to pay taxes and maintenance costs. In addition Active Power leases certain equipment under a noncancelable lease.

Future minimum payments under these leases at December 31, 1999 are as follows:

2000	$ 341,393
2001	380,817
2002	392,777
2003	98,194
Total future minimum lease payments	$1,213,181

Rent expense for the years ended December 31, 1997, 1998, and 1999 was $147,324, $276,637, and $353,502, respectively.

Active Power entered into a consulting services agreement with the Chairman of the board of directors. In accordance with the consulting agreement, the Chairman receives $6,250 in consulting fees monthly. During 1997, 1998 and 1999, Active Power paid $75,000 in fees per year under this agreement.

8. EMPLOYEE BENEFIT PLAN

In 1996, Active Power established a 401(k) Plan that covers substantially all full-time employees. Company contributions to the plan are determined at the discretion of the Board of Directors and vest ratably over five years of service starting after the first year of employment. Active Power did not contribute to this plan in 1997, 1998, and 1999.

9. LINE OF CREDIT

On August 3, 1999, Active Power entered into a line of credit agreement with a financial institution in the amount of $1,000,000. There are no amounts outstanding under this line of credit at December 31, 1999. The line of credit bears interest at the lender's prime rate and matures on August 2, 2000. The line of credit is secured by Active Power's tangible property.

10. DEVELOPMENT FUNDING

During January 1999, Active Power entered into a contract development agreement with a third party. In accordance with the agreement, the third party provided funding to allow Active Power to accelerate development of its products in a certain market application in exchange for the third party obtaining exclusive marketing rights for the product in that application. The exclusive marketing

rights are subject to the third party meeting specified minimum orders of the product. The two companies share ownership of the resulting intellectual property. Active Power completed the contract in 1999 and collected the full $5,000,000 development funding specified in the contract, which it recognized as it achieved the product performance milestones specified in the agreement. Active Power does not separately account for efforts spent by its engineers on research and development by the various project. Because this project involved development of Active Power's product already contemplated by management and for which Active Power co-owns the resulting intellectual property, all of the costs associated with this contract are classified in research and development expense.

11. GEOGRAPHIC INFORMATION

Revenues for the year ended December 31 were as follows:

	1997	1998	1999
United States	$137,590	$867,775	$6,014,411
Foreign countries	--	47,543	32,400
Total	$137,590	$915,318	$6,046,811

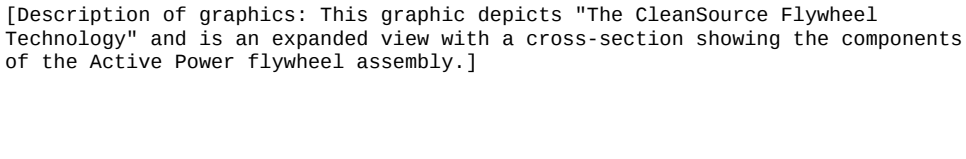
Revenues from foreign countries above represent shipments to customers located primarily in Europe. Active Power has no property, plant or equipment located outside the United States.

12. SUBSEQUENT EVENTS

During the three months ended March 31, 2000, Active Power granted 723,120 stock options to employees with exercise prices below the fair value determined subsequently by the board of directors of the underlying shares and, accordingly, recorded $5,931,494 additional unearned stock compensation which will be recognized as non-cash compensation over the options' vesting period of four years.

In March 2000, Active Power reincorporated in Delaware. In conjunction with the reincorporation, all of the $0.01 par value shares held by the common and preferred stockholders were automatically converted into two $0.001 par value shares of the corresponding common or preferred stock of the Delaware corporation. In July 2000, Active Power effected a 2.3-for-1 common stock split in the form of a dividend of 1.3 shares of common stock for each share of common stock outstanding. All share and per share amounts in the financial statements and accompanying notes have been restated to reflect the reincorporation and stock split as if they had taken place at the inception of Active Power.

[INSIDE BACK COVER]


[Description of graphics: This graphic depicts "The CleanSource Flywheel Technology" and is an expanded view with a cross-section showing the components of the Active Power flywheel assembly.]

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

TABLE OF CONTENTS

Through and including , 2000 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.

8,000,000 Shares
Active Power, Inc.
Common Stock

[ACTIVE POWER LOGO]

Goldman, Sachs & Co.
Merrill Lynch & Co.
Morgan Stanley Dean Witter
CIBC World Markets

Representatives of the Underwriters

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution.

The following table sets forth the costs and expenses, other than the underwriting discount, payable by us in connection with the sale of common stock being registered. All amounts are estimates except the SEC registration fee and the NASD filing fee. No portion of the costs and expenses is being borne by the selling stockholder.

SEC registration fee	$ 31,574
NASD fee	12,460
Nasdaq National Market listing fee	90,000
Printing and engraving expenses	250,000
Legal fees and expenses	500,000
Accounting fees and expenses	250,000
Blue sky fees and expenses	2,500
Transfer agent fees	10,000
Miscellaneous	15,000
Total	$1,161,534

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* To be filed by amendment.

Item 14. Indemnification of Directors and Officers.

Section 145 of the Delaware General Corporation Law (the "DGCL") provides, in effect, that any person made a party to any action by reason of the fact that he is or was our director, officer, employee or agent may and, in certain cases, must be indemnified by us against, in the case of a non-derivative action, judgments, fines, amounts paid in settlement and reasonable expenses (including attorneys' fees) incurred by him as a result of such action, and in the case of a derivative action, against reasonable expenses (including attorneys' fees), if in either type of action he acted in good faith and in a manner he reasonably believed to be in or not opposed to our best interests. This indemnification does not apply, in a derivative action, to matters as to which it is adjudged that the director, officer, employee or agent is liable to us, unless upon court order it is determined that, despite such adjudication of liability but in view of all the circumstances of the case, he is fairly and reasonably entitled to indemnity for expenses, and, in a non-derivative action, to any criminal proceeding in which such person had reasonable cause to believe his conduct was unlawful.

Article V of our Amended and Restated Certificate of Incorporation provides that no director shall be liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director to the fullest extent permitted by the DGCL.

Reference is made to Section 8 of the underwriting agreement, the form of which is filed as Exhibit 1.1 hereto, pursuant to which the underwriters have agreed to indemnify our officers and directors against certain liabilities under the Securities Act.

We have entered into Indemnification Agreements with each director, a form of which is filed as Exhibit 10.1 to this Registration Statement. Pursuant to such agreements, we will be obligated, to the extent permitted by applicable law, to indemnify such directors against all expenses, judgments, fines and penalties incurred in connection with the defense or settlement of any actions brought against them by reason of the fact that they were our directors or assumed certain responsibilities at the direction of us. We also intend to purchase additional directors and officers liability insurance in order to limit our exposure to liability for indemnification of directors and officers.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

Since April 1, 1997, we have issued unregistered securities to a number of people as described below. None of these transactions involved any underwriters, underwriting discounts or commissions, or any public offering, and we believe that each transaction was exempt from the registration requirements of the Securities Act in reliance on Section 4(2) thereof, Regulation D promulgated thereunder or Rule 701 in accordance with compensatory benefit plans and contracts relating to compensation as provided under Rule 701. The recipients of securities in each transaction represented their intention to acquire the securities for investment purposes only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were affixed to the share certificates and instruments issued in the transactions. All recipients had adequate access, through their relationship with us, to information about us. The following common stock share amounts, the weighted average exercise price and the exercise price per share of the shares of common stock issued under our 1993 Stock Option Plan, as amended, are adjusted to reflect the exchange of each share of common stock and preferred stock issued by our predecessor Texas corporation for two shares of a similar series of common stock or preferred stock in the successor Delaware corporation. In addition, although the number of shares of preferred stock will not be affected by our 2.3-for-1 common stock split to be effected prior to the date of this offering, as a result of this stock split each share of our Series C, Series D and Series E preferred stock will automatically adjust and become convertible into 2.3 shares of our common stock upon the consummation of this offering.

1. In July 1997, we issued 1,726,620 shares of Series C Convertible Preferred Stock for $3.475 per share, for an aggregate purchase price of $6,000,004.50. The following stockholders purchased our Series C Convertible Preferred Stock: CenterPoint Venture Partners, L.P.; funds affiliated with Advent International Corporation; SSM Venture Partners, L.P.; and funds affiliated with Austin Ventures.

2. In June 1998, we issued 1,652,894 shares of Series D Convertible Preferred Stock for $6.05 per share, for an aggregate purchase price of $10,000,008.70. The following stockholders purchased our Series D Convertible Preferred Stock: Rho Management Trust I; CenterPoint Venture Partners, L.P.; funds affiliated with Advent International Corporation; SSM Venture Partners, L.P.; funds affiliated with Austin Ventures; Sevin Rosen Management Company; and several accredited investors.

3. In November 1999, we issued 1,935,872 shares of Series E Convertible Preferred Stock for $11.34 per share, for an aggregate purchase price of $21,952,765. The following stockholders purchased our Series E Convertible Preferred Stock: Stephens-Active Power, LLC; ECT Merchant Investments Corp.; Rho Management Trust I; CenterPoint Venture Fund II, L.P.; funds affiliated with SSM Venture Partners; funds affiliated with Austin Ventures; funds affiliated with Advent International Corporation; and a number of accredited investors.

4. In November 1999, in connection with the sale of Series E preferred stock, we issued warrants to purchase an aggregate of 460,000 shares of Common Stock at an exercise price of $4.93 per share to Enron North America Corp. and Stephens Group, Inc.

5. Through May 31, 2000, we have issued and sold 2,502,195 shares of our Common Stock to directors, employees and consultants upon the exercise of options granted under our 1993 Stock Option Plan at a weighted average exercise price of $0.23.

6. In May 2000, we issued 460,000 shares of our common stock at an exercise price of $0.07 per share to SSM Venture Partners upon the exercise of a warrant issued to SSM Venture Partners in 1995.

7. From time to time during the past three years, we have granted options to purchase common stock to employees, directors and consultants. The following table sets forth information regarding these grants.

	NUMBER OF SHARES	EXERCISE PRICE PER SHARE
September 17, 1997 to April 30, 1998	1,561,700	$0.15
June 11, 1998 to December 10, 1998	418,600	0.26
March 1, 1999 to June 17, 1999	499,100	0.39
September 9, 1999	204,700	0.52
November 11, 1999	552,000	0.78
December 9, 1999 to February 29, 2000	785,220	0.98
March 9, 2000	138,000	1.30
April 13, 2000	250,700	3.91
May 11, 2000	29,900	6.52

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(A) EXHIBITS.

1.1	Form of Underwriting Agreement
3.1	Form of Amended and Restated Certificate of Incorporation
3.2*	Form of Amended and Restated Bylaws
4.1	Specimen certificate for shares of Common Stock
4.2*	Warrant to Purchase Common Stock issued to Enron North America Corp.
4.3*	Warrant to Purchase Common Stock issued to Stephens Group, Inc.
5.1	Opinion of Brobeck, Phleger & Harrison LLP
10.1*	Form of Indemnity Agreement
10.2	Active Power, Inc. 2000 Stock Incentive Plan
10.3	Active Power, Inc. 2000 Employee Stock Purchase Plan
10.4*	Second Amended and Restated Investors' Rights Agreement by and between Active Power, Inc. and certain of its stockholders
10.5*	Consulting Services Agreement by and between Active Power and Eric L. Jones
10.6+*	Phase II Development and Phase III Feasibility Agreement by and between Active Power, Inc. and Caterpillar Inc.
10.7*	Credit Terms and Conditions by and between Active Power, Inc. and Imperial Bank
10.8*	Security and Loan Agreement by and between Active Power, Inc. and Imperial Bank
10.9*	Lease Agreement by and between Active Power, Inc. and Braker Phase III, Ltd.
10.10*	First Amendment to Lease Agreement by and between Active Power, Inc. and Braker Phase III, Ltd.
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10.13* Fourth Amendment to Lease Agreement by and between Active Power, Inc. and Metropolitan Life Insurance Company

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10.15* Sublease Agreement by and between Active Power, Inc. and Video Associates Laboratories, Inc.

10.16* Employee offer letter (including severance arrangements) from Active Power, Inc. to David S. Gino

23.1 Consent of Ernst & Young LLP

23.2 Consent of Brobeck, Phleger & Harrison LLP (Reference is made to Exhibit 5.1)

24.1* Power of Attorney (see page II-5)

27.1* Financial Data Schedule

- --------

+ Application has been made to the Commission to seek confidential treatment of certain provisions of this exhibit. Omitted material for which confidential treatment has been requested has been filed separately with the Commission.

* Previously filed.

Item 17. Undertakings.

The undersigned registrant hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreements, certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

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

We hereby undertake that:

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

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

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, we have duly caused this registration statement to be signed on our behalf by the undersigned, thereunto duly authorized, in the city of Austin, state of Texas, on June 30, 2000.

ACTIVE POWER, INC.

By: /s/ Joseph F. Pinkerton, III
Joseph F. Pinkerton, III
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

Name	Title	Date
/s/ Joseph F. Pinkerton, III Joseph F. Pinkerton, III	President, Chief Executive Officer and Director (Principal Executive Officer)	June 30, 2000
/s/ David S. Gino David S. Gino	Chief Financial Officer (Principal Financial and Accounting Officer)	June 30, 2000
* Eric L. Jones	Chairman of the Board	June 30, 2000
* Richard E. Anderson	Director	June 30, 2000
* Rodney S. Bond	Director	June 30, 2000
* Lindsay R. Jones	Director	June 30, 2000
* Jan H. Lindelow	Director	June 30, 2000
* Terrence L. Rock	Director	June 30, 2000

*By: /s/ David S. Gino
David S. Gino
Attorney-in-Fact

INDEX TO EXHIBITS

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* Previously filed.

EXHIBIT 1.1

Active Power, Inc.

Common Stock, par value $0.001 per share

Underwriting Agreement

_____, 2000

Goldman, Sachs & Co.,
Merrill Lynch, Pierce, Fenner & Smith Incorporated,
Morgan Stanley & Co. Incorporated, and
CIBC World Markets Corp.
As representatives of the several Underwriters
named in Schedule I hereto,
c/o Goldman, Sachs & Co.,
85 Broad Street,
New York, New York 10004

Ladies and Gentlemen:

Active Power, Inc., a Delaware corporation (the "Company"), proposes, subject to the terms and conditions stated herein, to issue and sell to the Underwriters named in Schedule I hereto (the "Underwriters") an aggregate of 8,000,000 shares and, at the election of the Underwriters, up to 900,000 additional shares of Common Stock, par value $0.001 per share ("Stock"), of the Company and the stockholder of the Company named in Schedule II hereto (the "Selling Stockholder") proposes, subject to the terms and conditions stated herein, to sell to the Underwriters, at the election of the Underwriters, up to 300,000 additional shares of Stock. The aggregate of 8,000,000 shares to be sold by the Company is herein called the "Firm Shares" and the aggregate of 1,200,000 additional shares to be sold by the Company and the Selling Stockholder is herein called the "Optional Shares". The Firm Shares and the Optional Shares that the Underwriters elect to purchase pursuant to Section 2 hereof are herein collectively called the "Shares".

1. (a) The Company represents and warrants to, and agrees with, each of the Underwriters that:

(i) A registration statement on Form S-1 (File No. 333-____) (the "Initial Registration Statement") in respect of the Shares has been filed with the Securities and Exchange Commission (the "Commission"); the Initial Registration Statement and any post-effective amendment thereto, each in the form heretofore delivered to you, and, excluding exhibits thereto, to you for each of the other Underwriters, have been declared effective by the Commission in such form; other than a registration statement, if any, increasing the size of the offering (a "Rule 462(b) Registration Statement"), filed pursuant to Rule 462(b) under the Securities Act of 1933, as amended (the "Act"), which became effective upon filing, no other document with respect to the Initial Registration

Statement has heretofore been filed with the Commission; and no stop order suspending the effectiveness of the Initial Registration Statement, any post-effective amendment thereto or the Rule 462(b) Registration Statement, if any, has been issued and no proceeding for that purpose has been initiated or threatened by the Commission (any preliminary prospectus included in the Initial Registration Statement or filed with the Commission pursuant to Rule 424(a) of the rules and regulations of the Commission under the Act is hereinafter called a "Preliminary Prospectus"; the various parts of the Initial Registration Statement and the Rule 462(b) Registration Statement, if any, including all exhibits thereto and including the information contained in the form of final prospectus filed with the Commission pursuant to Rule 424(b) under the Act in accordance with Section 5(a) hereof and deemed by virtue of Rule 430A under the Act to be part of the Initial Registration Statement at the time it was declared effective, each as amended at the time such part of the Initial Registration Statement became effective or such part of the Rule 462(b) Registration Statement, if any, became or hereafter becomes effective, are hereinafter collectively called the "Registration Statement"; and such final prospectus, in the form first filed pursuant to Rule 424(b) under the Act, is hereinafter called the "Prospectus";

(ii) No order preventing or suspending the use of any Preliminary Prospectus has been issued by the Commission, and each Preliminary Prospectus, at the time of filing thereof, conformed in all material respects to the requirements of the Act and the rules and regulations of the Commission thereunder, and did not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through Goldman, Sachs & Co. expressly for use therein;

(iii) The Registration Statement conforms, and the Prospectus and any further amendments or supplements to the Registration Statement or the Prospectus will conform, in all material respects to the requirements of the Act and the rules and regulations of the Commission thereunder and do not and will not, as of the applicable effective date as to the Registration Statement and any amendment thereto, and as of the applicable filing date as to the Prospectus and any amendment or supplement thereto, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; provided, however, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through Goldman, Sachs & Co. expressly for use therein;

(iv) The Company has not sustained since the date of the latest audited financial statements included in the Prospectus any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Prospectus; and, since the respective dates as of which information is given in the Registration Statement and the Prospectus, there has not been any change in the capital stock (other than the issuance of capital stock upon the exercise of options described in the Registration Statement and the Prospectus) or long-term debt of the Company or any material adverse change, or any development involving a prospective material adverse change, in or affecting the general affairs, management, financial position, stockholders' equity or results of operations of the Company, otherwise than as set forth or contemplated in the Prospectus;

(v) The Company has good and marketable title to all personal property owned by it, free and clear of all liens, encumbrances and defects except such as are described in the Prospectus or such as do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by the Company; and any real property and buildings held under lease by the Company are held by it under valid, subsisting and enforceable leases with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property and buildings by the Company; the Company does not own any real property;

(vi) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware, with corporate power and authority to own its properties and conduct its business as described in the Prospectus, and has been duly qualified as a foreign corporation for the transaction of business and is in good standing under the laws of each other jurisdiction in which it owns or leases properties or conducts any business so as to require such qualification, or is subject to no material liability or disability by reason of the failure to be so qualified in any such jurisdiction;

(vii) The Company has an authorized capitalization as set forth in the Prospectus, and all of the issued shares of capital stock of the Company have been duly and validly authorized and issued, are fully paid and non-assessable and conform to the description of the Stock contained in the Prospectus; the Company does not own or control, directly or indirectly, any shares of capital stock of any other corporation or any interest in any partnership, joint venture, limited liability company or other business enterprise;

(viii) The unissued Shares to be issued and sold by the Company to the Underwriters hereunder have been duly and validly authorized and, when issued and delivered against payment therefor as provided herein, will be duly and validly issued and fully paid and non-assessable, free from all preemptive or similar rights, and will conform to the description of the Stock contained in the Prospectus;

(ix) The issue and sale of the Shares to be sold by the Company and the compliance by the Company with all of the provisions of this Agreement and the consummation of the transactions herein contemplated will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, (a) any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company is a party or by which the Company is bound or to which any of the property or assets of the Company is subject; (b) the Certificate of Incorporation or By-laws of the Company; or (c) any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of its properties, except in the case of clause (a), for such breaches or violations as would not either individually or in the aggregate have a material adverse effect on the condition, business, properties or results of operations of the Company ("Material Adverse Effect"); and no consent, approval, authorization, order, registration or qualification of or with any such court or governmental agency or body is required for the issue and sale of the Shares or the consummation by the Company of the transactions contemplated by this Agreement, except the registration under the Act of the Shares, registration of the Common Stock under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and such consents, approvals, authorizations, registrations or qualifications as may be required under state securities or Blue Sky laws in connection with the purchase and distribution of the Shares by the Underwriters;

(x) The Company is not (a) in violation of its Certificate of Incorporation or By-laws or (b) in default in the performance or observance of any obligation, agreement, covenant or condition contained in any indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument to which it is a party or by which it or any of its properties may be bound, except in the case of clause (b), for such defaults as would not, either individually or in the aggregate, have a Material Adverse Effect;

(xi) The statements set forth in the Prospectus under the caption "Description of Capital Stock"; insofar as they purport to constitute a summary of the terms of the Stock, and under the caption "Underwriting" (other than paragraphs five, nine, ten, eleven and fourteen under such caption), insofar as they purport to describe the provisions of the laws and documents referred to therein, are accurate, complete and fair;

(xii) Other than as set forth in the Prospectus, there are no legal or governmental proceedings pending to which the Company is a party or of which any property of the Company is the subject which, if determined adversely to the Company, would individually or in the aggregate have a material adverse effect on the current or future financial position, stockholders' equity or results of operations of the Company; and, to the best of the Company's knowledge, no such proceedings are threatened or contemplated by governmental authorities or threatened by others;

(xiii) The Company is not and, after giving effect to the offering and sale of the Shares, will not be an "investment company", as such term is defined in the Investment Company Act of 1940, as amended (the "Investment Company Act");

(xiv) Neither the Company nor any of its affiliates does business with the government of Cuba or with any person or affiliate located in Cuba within the meaning of Section 517.075, Florida Statutes;

(xv) Ernst & Young LLP, who have certified certain financial statements of the Company, are independent public accountants as required by the Act and the rules and regulations of the Commission thereunder;

(xvi) The Company owns or possesses, or can acquire on reasonable terms, all patents, patent rights, licenses, inventions, copyrights, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures), trademarks, service marks and trade names currently employed by it in connection with its business as described in the Prospectus and proposed to be employed by it in connection with its High Inertia Turbine product, other than those which if not so owned or possessed would not have a material adverse effect on the condition, financial or otherwise, or on the earnings, business or operations of the Company; and the Company has not received any notice of infringement of or conflict with asserted rights of others with respect to any patent, patent rights, licenses, inventions, copyrights, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures), trademarks, service marks and trade names currently employed by it in connection with its business as described in the Prospectus which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would result in any material adverse change in the condition, financial or otherwise, or in the earnings, business or operations of the Company;

(xvii) The Company maintains insurance against such losses and risks and in such amounts as are customary in the business in which it is engaged; the Company has not within the last five

years been refused any insurance coverage sought or applied for; and the Company does not have any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not materially and adversely affect the condition, financial or otherwise, or the earnings, business or operations of the Company;

(xviii) The Company possesses all certificates, authorizations and permits issued by the appropriate federal, state or foreign regulatory authorities necessary to conduct its business as described in the Prospectus, except for certificates, authorizations and permits which, if not obtained, would not, individually or in the aggregate, have a material adverse effect on the ability of the Company to conduct its business as described in the Prospectus; and the Company has not received any notice of proceedings relating to the revocation or modification of any such certificate, authorization or permit which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would result in a material adverse change in the condition, financial or otherwise, or in the earnings, business or operations of the Company, except as described in or contemplated by the Prospectus;

(xix) The Company (a) is in compliance with any and all applicable federal, state and local laws and regulations relating to the protection of human health and safety, or the use, disposal, release, generation, storage or transportation of hazardous or toxic substances or relating to the protection or restoration of the environment or human exposure to hazardous or toxic substances ("Environmental Laws"), (b) has received all permits, licenses or other approvals required of them under applicable Environmental Laws to conduct its business as described in the Prospectus and (c) is in compliance with all terms and conditions of any such permit, license or approval, except where such noncompliance with Environmental Laws, failure to receive required permits, licenses or other approvals or failure to comply with the terms and conditions of such permits, licenses or approvals would not, singly or in the aggregate, have a material adverse effect on the Company;

(xx) There are no costs or liabilities associated with Environmental Laws (including, without limitation, any capital or operating expenditures required for clean-up, closure of properties or compliance with Environmental Laws or any permit, license or approval, any related constraints on operating activities and any potential liabilities to third parties) which would, singly or in the aggregate, have a material adverse effect on the Company; and

(xxi) The Company maintains a system of internal accounting controls sufficient to provide reasonable assurances that (a) transactions are executed in accordance with management's general or specific authorizations, (b) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets, (c) access to assets is permitted only in accordance with management's general or specific authorization and (d) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(b) The Selling Stockholder represents and warrants to, and agrees with, each of the Underwriters and the Company that:

(i) All consents, approvals, authorizations and orders necessary for the execution and delivery by such Selling Stockholder of this Agreement and the Power of Attorney and the Custody Agreement hereinafter referred to, and for the sale and delivery of the Shares to be sold by such Selling

Stockholder hereunder, have been obtained; and such Selling Stockholder has full right, power and authority to enter into this Agreement, the Power-of-Attorney and the Custody Agreement and to sell, assign, transfer and deliver the Shares to be sold by such Selling Stockholder hereunder;

(ii) The sale of the Shares to be sold by such Selling Stockholder hereunder and the compliance by such Selling Stockholder with all of the provisions of this Agreement, the Power of Attorney and the Custody Agreement and the consummation of the transactions herein and therein contemplated will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which such Selling Stockholder is a party or by which such Selling Stockholder is bound or to which any of the property or assets of such Selling Stockholder is subject, nor will such action result in any violation of the provisions of any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over such Selling Stockholder or the property of such Selling Stockholder;

(iii) Such Selling Stockholder has, and immediately prior to such Time of Delivery, such Selling Stockholder will have, good and valid title to the Shares to be sold by such Selling Stockholder hereunder, free and clear of all liens, encumbrances, equities or claims; and, upon delivery of such Shares and payment therefor pursuant hereto, good and valid title to such Shares, free and clear of all liens, encumbrances, equities or claims, will pass to the several Underwriters;

(iv) Such Selling Stockholder will execute and deliver an agreement substantially to the effect that, during the period beginning from the date hereof and continuing to and including the date 180 days after the date of the Prospectus, not to offer, sell, contract to sell or otherwise dispose of, except as provided therein, any securities of the Company that are substantially similar to the Shares, including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, Stock or any such substantially similar securities (other than pursuant to employee stock option plans existing on, or upon the conversion or exchange of convertible or exchangeable securities outstanding as of, the date of this Agreement), without your prior written consent, and in form and substance satisfactory to you;

(v) Such Selling Stockholder has not taken and will not take, directly or indirectly, any action which is designed to or which has constituted or which might reasonably be expected to cause or result in stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Shares;

(vi) To the extent that any statements or omissions made in the Registration Statement, any Preliminary Prospectus, the Prospectus or any amendment or supplement thereto are made in reliance upon and in conformity with written information furnished to the Company by such Selling Stockholder expressly for use therein, such Preliminary Prospectus and the Registration Statement did, and the Prospectus and any further amendments or supplements to the Registration Statement and the Prospectus, when they become effective or are filed with the Commission, as the case may be, will conform in all material respects to the requirements of the Act and the rules and regulations of the Commission thereunder and will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading;

(vii) In order to document the Underwriters' compliance with the reporting and withholding provisions of the Tax Equity and Fiscal Responsibility Act of 1982 with respect to the transactions herein contemplated, such Selling Stockholder will deliver to you prior to or at the Time of Delivery (as hereinafter defined) of the Optional Shares to be sold by the Selling Stockholder a properly completed and executed United States Treasury Department Form W-9 (or other applicable form or statement specified by Treasury Department regulations in lieu thereof);

(viii) Certificates in negotiable form representing all of the Shares to be sold by such Selling Stockholder hereunder have been placed in custody under a Custody Agreement, in the form heretofore furnished to you (the "Custody Agreement"), duly executed and delivered by such Selling Stockholder to the Company, as custodian (the "Custodian"), and such Selling Stockholder has duly executed and delivered a Power of Attorney, in the form heretofore furnished to you (the "Power of Attorney"), appointing the persons indicated in Schedule II hereto, and each of them, as such Selling Stockholder's attorneys-in-fact (the "Attorneys-in-Fact") with authority to execute and deliver this Agreement on behalf of such Selling Stockholder, to determine the purchase price to be paid by the Underwriters to the Selling Stockholders as provided in Section 2 hereof, to authorize the delivery of the Shares to be sold by such Selling Stockholder hereunder and otherwise to act on behalf of such Selling Stockholder in connection with the transactions contemplated by this Agreement and the Custody Agreement; and

(ix) The Shares represented by the certificates held in custody for such Selling Stockholder under the Custody Agreement are subject to the interests of the Underwriters hereunder; the arrangements made by such Selling Stockholder for such custody, and the appointment by such Selling Stockholder of the Attorneys-in-Fact by the Power of Attorney, are to that extent irrevocable; the obligations of the Selling Stockholder hereunder shall not be terminated by operation of law, whether by the death or incapacity of the Selling Stockholder or by the occurrence of any other event; if the Selling Stockholder should die or become incapacitated, or if any other such event should occur, before the delivery of the Shares hereunder, certificates representing the Shares shall be delivered by or on behalf of the Selling Stockholder in accordance with the terms and conditions of this Agreement and of the Custody Agreement; and actions taken by the Attorneys-in-Fact pursuant to the Power of Attorney shall be as valid as if such death, incapacity or other event had not occurred, regardless of whether or not the Custodian, the Attorneys-in-Fact, or any of them, shall have received notice of such death, incapacity or other event.

2. Subject to the terms and conditions herein set forth, (a) the Company agrees to issue and sell to each of the Underwriters, and each of the Underwriters agrees, severally and not jointly, to purchase from the Company, at a purchase price per share of $_____, the number of Firm Shares set forth opposite the name of such Underwriter in Schedule I hereto and (b) in the event and to the extent that the Underwriters shall exercise the election to purchase Optional Shares as provided below, the Company and the Selling Stockholder agree, severally and not jointly, to sell to each of the Underwriters, and each of the Underwriters agrees, severally and not jointly, to purchase from the Company and the Selling Stockholder, at the purchase price per share set forth in clause (a) of this Section 2, that portion of the number of Optional Shares as to which such election shall have been exercised (to be adjusted by you so as to eliminate fractional shares) determined by multiplying such number of Optional Shares by a fraction, the numerator of which is the maximum

number of Optional Shares which such Underwriter is entitled to purchase as set forth opposite the name of such Underwriter in Schedule I hereto and the denominator of which is the maximum number of Optional Shares that all of the Underwriters are entitled to purchase hereunder.

The Company and the Selling Stockholder hereby grant, severally and not jointly, to the Underwriters the right to purchase at their election up to 1,200,000 Optional Shares, at the purchase price per share set forth in the paragraph above, for the sole purpose of covering sales of shares in excess of the number of Firm Shares. Any such election to purchase Optional Shares shall be made in proportion to the maximum number of Optional Shares to be sold by the Company and the Selling Stockholder as set forth in Schedule II hereto. Any such election to purchase Optional Shares may be exercised only by written notice from you to the Company and the Attorneys-in-Fact, given within a period of 30 calendar days after the date of this Agreement, setting forth the aggregate number of Optional Shares to be purchased and the date on which such Optional Shares are to be delivered, as determined by you but in no event earlier than the First Time of Delivery (as defined in Section 4 hereof) or, unless you and the Company and the Attorneys-in-Fact otherwise agree in writing, earlier than two or later than ten business days after the date of such notice.

3. Upon the authorization by you of the release of the Firm Shares, the several Underwriters propose to offer the Firm Shares for sale upon the terms and conditions set forth in the Prospectus.

4. (a) The Shares to be purchased by each Underwriter hereunder, in definitive form, and in such authorized denominations and registered in such names as Goldman, Sachs & Co. may request upon at least forty-eight hours' prior notice to the Company and the Selling Stockholder shall be delivered by or on behalf of the Company and the Selling Stockholder to Goldman, Sachs & Co., through the facilities of the Depository Trust Company ("DTC"), for the account of such Underwriter, against payment by or on behalf of such Underwriter of the purchase price therefor by wire transfer of Federal (same-day) funds to the account specified by the Company and the Selling Stockholder to Goldman, Sachs & Co. at least forty-eight hours in advance. The Company will cause the certificates representing the Shares to be made available for checking and packaging at least twenty-four hours prior to the Time of Delivery (as defined below) with respect thereto at the office of DTC or its designated custodian (the "Designated Office"). The time and date of such delivery and payment shall be, with respect to the Firm Shares, 9:30 a.m., New York City time, on _____, 2000 or such other time and date as Goldman, Sachs & Co. and the Company may agree upon in writing, and, with respect to the Optional Shares, 9:30 a.m., New York time, on the date specified by Goldman, Sachs & Co. in the written notice given by Goldman, Sachs & Co. of the Underwriters' election to purchase such Optional Shares, or such other time and date as Goldman, Sachs & Co., the Company and the Selling Stockholder may agree upon in writing. Such time and date for delivery of the Firm Shares is herein called the "First Time of Delivery", such time and date for delivery of the Optional Shares, if not the First Time of Delivery, is herein called the "Second Time of Delivery", and each such time and date for delivery is herein called a "Time of Delivery".

(b) The documents to be delivered at each Time of Delivery by or on behalf of the parties hereto pursuant to Section 7 hereof, including the cross receipt for the Shares and any additional documents requested by the Underwriters pursuant to Section 7(l) hereof, will be delivered at the offices of Vinson & Elkins L.L.P., 600 Congress Avenue, Suite 2700, Austin, Texas 78701 (the "Closing Location"), and the Shares will be delivered at the Designated

Office, all at such Time of Delivery. A meeting will be held at the Closing Location at .....p.m., Austin, Texas time, on the New York Business Day next preceding such Time of Delivery, at which meeting the final drafts of the documents to be delivered pursuant to the preceding sentence will be available for review by the parties hereto. For the purposes of this Section 4, "New York Business Day" shall mean each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in New York are generally authorized or obligated by law or executive order to close.

5. The Company agrees with each of the Underwriters:

(a) To prepare the Prospectus in a form approved by you and to file such Prospectus pursuant to Rule 424(b) under the Act not later than the Commission's close of business on the second business day following the execution and delivery of this Agreement, or, if applicable, such earlier time as may be required by Rule 430A(a)(3) under the Act; to make no further amendment or any supplement to the Registration Statement or Prospectus which shall be disapproved by you promptly after reasonable notice thereof; to advise you, promptly after it receives notice thereof, of the time when any amendment to the Registration Statement has been filed or becomes effective or any supplement to the Prospectus or any amended Prospectus has been filed and to furnish you with copies thereof; to advise you, promptly after it receives notice thereof, of the issuance by the Commission of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or prospectus, of the suspension of the qualification of the Shares for offering or sale in any jurisdiction, of the initiation or threatening of any proceeding for any such purpose, or of any request by the Commission for the amending or supplementing of the Registration Statement or Prospectus or for additional information; and, in the event of the issuance of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or prospectus or suspending any such qualification, promptly to use its best efforts to obtain the withdrawal of such order;

(b) Promptly from time to time to take such action as you may reasonably request to qualify the Shares for offering and sale under the securities laws of such jurisdictions as you may request and to comply with such laws so as to permit the continuance of sales and dealings therein in such jurisdictions for as long as may be necessary to complete the distribution of the Shares, provided that in connection therewith the Company shall not be required to qualify as a foreign corporation or to file a general consent to service of process in any jurisdiction;

(c) Prior to 10:00 A.M., New York City time, on the New York Business Day next succeeding the date of this Agreement and from time to time, to furnish the Underwriters with copies of the Prospectus in New York City in such quantities as you may reasonably request, and, if the delivery of a prospectus is required at any time prior to the expiration of nine months after the time of issue of the Prospectus in connection with the offering or sale of the Shares and if at such time any event shall have occurred as a result of which the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made when such Prospectus is delivered, not misleading, or, if for any other reason it shall be necessary during such period to amend or supplement the Prospectus in order to comply with the Act, to notify you and upon your request to prepare and furnish without charge to each Underwriter and to any dealer in

securities as many copies as you may from time to time reasonably request of an amended Prospectus or a supplement to the Prospectus which will correct such statement or omission or effect such compliance, and in case any Underwriter is required to deliver a prospectus in connection with sales of any of the Shares at any time nine months or more after the time of issue of the Prospectus, upon your request but at the expense of such Underwriter, to prepare and deliver to such Underwriter as many copies as you may request of an amended or supplemented Prospectus complying with Section 10(a)(3) of the Act;

(d) To make generally available to its securityholders as soon as practicable, but in any event not later than eighteen months after the effective date of the Registration Statement (as defined in Rule 158(c) under the Act), an earnings statement of the Company and its subsidiaries, if any, (which need not be audited) complying with Section 11(a) of the Act and the rules and regulations thereunder (including, at the option of the Company, Rule 158);

(e) During the period beginning from the date hereof and continuing to and including the date 180 days after the date of the Prospectus, not to offer, sell, contract to sell or otherwise dispose of, except as provided hereunder any securities of the Company that are substantially similar to the Shares, including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, Stock or any such substantially similar securities (other than pursuant to employee stock option plans existing on, or upon the conversion or exchange of convertible or exchangeable securities outstanding as of, the date of this Agreement), without your prior written consent;

(f) To furnish to its stockholders as soon as practicable after the end of each fiscal year an annual report (including a balance sheet and statements of income, stockholders' equity and cash flows of the Company and its consolidated subsidiaries certified by independent public accountants) and, as soon as practicable after the end of each of the first three quarters of each fiscal year (beginning with the fiscal quarter ending after the effective date of the Registration Statement), to make available to its stockholders consolidated summary financial information of the Company and its subsidiaries, if any, for such quarter in reasonable detail;

(g) During a period of five years from the effective date of the Registration Statement, to furnish to you copies of all reports or other communications (financial or other) furnished to stockholders, and to deliver to you (i) as soon as they are available, copies of any reports and financial statements furnished to or filed with the Commission or any national securities exchange on which any class of securities of the Company is listed; and (ii) such additional information concerning the business and financial condition of the Company as you may from time to time reasonably request (such financial statements to be on a consolidated basis to the extent the accounts of the Company and its subsidiaries, if any, are consolidated in reports furnished to its stockholders generally or to the Commission);

(h) To use the net proceeds received by it from the sale of the Shares pursuant to this Agreement in the manner specified in the Prospectus under the caption "Use of Proceeds";

(i) To use its best efforts to list for quotation the Shares on the National Association of Securities Dealers Automated Quotation's ("NASDAQ") National Market System ("NMS");

(j) To file with the Commission such information on Form 10-Q or Form 10-K as may be required by Rule 463 under the Act; and

(k) If the Company elects to rely upon Rule 462(b), the Company shall file a Rule 462(b) Registration Statement with the Commission in compliance with Rule 462(b) by 10:00 P.M., Washington, D.C. time, on the date of this Agreement, and the Company shall at the time of filing either pay to the Commission the filing fee for the Rule 462(b) Registration Statement or give irrevocable instructions for the payment of such fee pursuant to Rule 111(b) under the Act.

6. The Company and the Selling Stockholder covenant and agree with the several Underwriters that (a) the Company will pay or cause to be paid the following: (i) the fees, disbursements and expenses of the Company's counsel (and of the Selling Stockholder's counsel, if such counsel is the same counsel as the Company's counsel) and accountants in connection with the registration of the Shares under the Act and all other expenses in connection with the preparation, printing and filing of the Registration Statement, any Preliminary Prospectus and the Prospectus and amendments and supplements thereto and the mailing and delivering of copies thereof to the Underwriters and dealers; (ii) the cost of printing or producing any Agreement among Underwriters, this Agreement, the Blue Sky Memorandum, closing documents (including any compilations thereof) and any other documents in connection with the offering, purchase, sale and delivery of the Shares; (iii) all expenses in connection with the qualification of the Shares for offering and sale under state securities laws as provided in Section 5(b) hereof, including the fees and disbursements of counsel for the Underwriters in connection with such qualification and in connection with the Blue Sky survey; (iv) all fees and expenses in connection with listing the Shares on the NASDAQ NMS; (v) the filing fees incident to, and the fees and disbursements of counsel for the Underwriters in connection with, securing any required review by the National Association of Securities Dealers, Inc. of the terms of the sale of the Shares; (vi) the cost of preparing stock certificates; (vii) the cost and charges of any transfer agent or registrar; and (viii) all other costs and expenses incident to the performance of its obligations hereunder which are not otherwise specifically provided for in this Section; and (b) such Selling Stockholder will pay or cause to be paid all costs and expenses incident to the performance of such Selling Stockholder's obligations hereunder which are not otherwise specifically provided for in this Section, including (i) any fees and expenses of counsel for such Selling Stockholder (if other than the Company's counsel), (ii) the fees and expenses of the Attorneys-in-Fact and the Custodian and (iii) all expenses and taxes incident to the sale and delivery of the Shares to be sold by such Selling Stockholder to the Underwriters hereunder. It is understood, however, that the Company shall bear, and the Selling Stockholder shall not be required to pay or to reimburse the Company for, the cost of any other matters not directly relating to the sale and purchase of the Shares pursuant to this Agreement and that, except as provided in this Section, and Sections 8 and 11 hereof, the Underwriters will pay all of their own costs and expenses, including the fees of their counsel, stock transfer taxes on resale of any of the Shares by them, and any advertising expenses connected with any offers they may make.

7. The obligations of the Underwriters hereunder, as to the Shares to be delivered at each Time of Delivery, shall be subject, in their discretion, to the condition that all representations and warranties and other statements of the Company and of the Selling Stockholder herein are, at and as of such Time of Delivery, true and correct, the condition that the Company and the Selling Stockholder shall have performed all of its and his obligations hereunder theretofore to be performed, and the following additional conditions:

(a) The Prospectus shall have been filed with the Commission pursuant to Rule 424(b) within the applicable time period prescribed for such filing by the rules and regulations under

the Act and in accordance with Section 5(a) hereof; if the Company has elected to rely upon Rule 462(b), the Rule 462(b) Registration Statement shall have become effective by 10:00 P.M., Washington, D.C. time, on the date of this Agreement; no stop order suspending the effectiveness of the Registration Statement or any part thereof shall have been issued and no proceeding for that purpose shall have been initiated or threatened by the Commission; and all requests for additional information on the part of the Commission shall have been complied with to your reasonable satisfaction;

(b) Vinson & Elkins L.L.P., counsel for the Underwriters, shall have furnished to you such written opinion or opinions (a draft of each such opinion is attached as Annex II(a) hereto), dated such Time of Delivery, with respect to the matters covered in paragraphs (i), (ii), (vi), (x) and (xii) of subsection (c) below as well as such other related matters as you may reasonably request, and such counsel shall have received such papers and information as they may reasonably request to enable them to pass upon such matters;

(c) Brobeck, Phleger & Harrison LLP, counsel for the Company, shall have furnished to you their written opinion (a draft of such opinion is attached as Annex II(b) hereto), dated such Time of Delivery, in form and substance satisfactory to you, to the effect that:

(i) The Company is duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware, with corporate power and authority to own its properties and conduct its business as described in the Prospectus;

(ii) The Company has an authorized capitalization as set forth in the Prospectus, and all of the issued shares of capital stock of the Company have been duly and validly authorized and issued and, to such counsel's knowledge, are fully paid and non-assessable; the Shares being delivered at such Time of Delivery have been duly authorized and when issued and delivered to the Underwriters against payment therefor in accordance with the terms of this Agreement, will be validly issued, fully paid and non-assessable; and the Shares conform to the description of the Stock contained in the Prospectus;

(iii) The Company has been duly qualified as a foreign corporation for the transaction of business and is in good standing under the laws of each other jurisdiction set forth in Schedule I to such counsel's opinion;

(iv) To such counsel's knowledge, the Company does not own or control, directly or indirectly, any shares of capital stock of any other corporation or any interest in any partnership, joint venture, limited liability company or other business enterprise;

(v) To such counsel's knowledge and other than as set forth in the Prospectus, there are no legal or governmental proceedings pending to which the Company is a party or of which any property of the Company is the subject which are required to be described in the Registration Statement or Prospectus (or any amendment or supplement thereto) that are not so described; and, to such counsel's knowledge, no such proceedings are threatened or contemplated by governmental authorities or threatened by others;

(vi) This Agreement has been duly authorized, executed and delivered by the Company;

(vii) The issue and sale of the Shares being delivered at such Time of Delivery by the Company and the compliance by the Company with all of the provisions of this Agreement and the consummation of the transactions herein contemplated will not conflict with or result in a breach or violation of any of the material terms or provisions of, or constitute a material default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument known to such counsel to which the Company is a party or by which the Company is bound or to which any of the property or assets of the Company are subject that is filed as an exhibit to the Registration Statement, nor will such action result in any violation of the provisions of the Certificate of Incorporation or By-laws of the Company or any statute or any order, rule or regulation (other than applicable state securities or Blue Sky laws, as to which such counsel need express no opinion) known to such counsel of any court or governmental agency or body having jurisdiction over the Company or any of its properties;

(viii) No consent, approval, authorization, order, registration or qualification of or with any court or governmental agency or body is required for the issue and sale of the Shares or the consummation by the Company of the transactions contemplated by this Agreement, except (A) as have been obtained under the Act and the Exchange Act or (B) such as may be required under state securities or Blue Sky laws governing the purchase and distribution of the Shares, as to which such counsel need express no opinion;

(ix) To such counsel's knowledge, the Company is not in violation of its Certificate of Incorporation;

(x) The statements set forth in the Prospectus under the caption "Description of Capital Stock", insofar as they purport to constitute a summary of the terms of the Stock, and under the caption "Underwriting", insofar as they purport to describe the provisions of the laws and documents referred to therein, are accurate, complete and fair;

(xi) The Company is not an "investment company", as such term is defined in the Investment Company Act; and

(xii) The Registration Statement and the Prospectus and any further amendments and supplements thereto made by the Company prior to such Time of Delivery (other than the financial statements, including the notes and schedules thereto, and the other financial data included in the Registration Statement and the Prospectus, as to which such counsel need express no opinion) comply as to form in all material respects with the requirements of the Act and the applicable rules and regulations thereunder; and they do not know of any amendment to the Registration Statement required to be filed or of any contracts or other documents of a character required to be filed as an exhibit to the Registration Statement or required to be described in the Registration Statement or the Prospectus which are not filed or described as required.

In addition, such opinion shall also contain a statement of such counsel to the effect that based upon such counsel's participation in conferences with certain officers and other representatives of the Company, its independent public accountants, the Underwriters and the Underwriter's counsel at which the contents of the Registration Statement, the Prospectus and related matters were discussed, (i) such counsel has no reason to believe that the Registration Statement or any further amendment thereto made by the Company prior to such Time of Delivery (other than the financial statements, including the notes and schedules thereto, and the other financial data included in the Registration Statement, as to which such counsel need express no belief), at the time the Registration Statement became effective or as of such Time of Delivery, contained or contains any untrue statement of a material fact or omitted or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading; and (ii) such counsel confirms that it has no reason to believe that the Prospectus or any further amendment or supplement thereto made by the Company prior to such Time of Delivery (other than the financial statements, including the notes and schedules thereto, and the other financial data included in the Prospectus, as to which such counsel need express no belief), as of its date or as of the Time of Delivery, contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

(d) Brobeck, Phleger & Harrison LLP, acting as special counsel for the Selling Stockholder, as indicated in Schedule II hereto, shall have furnished to you its written opinion with respect to the Selling Stockholder (a draft of such opinion is attached as Annex II(c) hereto), dated such Time of Delivery, in form and substance satisfactory to you, to the effect that:

(i) A Power-of-Attorney and a Custody Agreement have been duly executed and delivered by such Selling Stockholder and constitute valid and binding agreements of such Selling Stockholder in accordance with their terms;

(ii) This Agreement has been duly executed and delivered by or on behalf of such Selling Stockholder; and the sale of the Shares to be sold by such Selling Stockholder hereunder and the compliance by such Selling Stockholder with all of the provisions of this Agreement, the Power-of-Attorney and the Custody Agreement and the consummation of the transactions herein and therein contemplated will not conflict with or result in a breach or violation of any terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument known to such counsel to which such Selling Stockholder is a party or by which such Selling Stockholder is bound or to which any of the property or assets of such Selling Stockholder is subject that would have a material adverse effect on the ability of the Selling Stockholder to perform his obligations under this Agreement, nor will such action result in any violation of the provisions of any statute or any order, rule or regulation (other than applicable state securities or Blue Sky laws, as to which such counsel need express no opinion) known to such counsel of any court or governmental agency or body having jurisdiction over such Selling Stockholder or the property of such Selling Stockholder;

(iii) No consent, approval, authorization or, to such counsel's knowledge, order of any court or governmental agency or body is required for the consummation of the transactions contemplated by this Agreement in connection with the Shares to be sold by such Selling Stockholder hereunder, except (A) as have been obtained under the Act and the Exchange Act or (B) such as may be required under state securities or Blue Sky laws in connection with the purchase and distribution of such Shares by the Underwriters, as to which such counsel need express no opinion;

(iv) Immediately prior to such Time of Delivery, such Selling Stockholder was the sole registered owner of the Shares to be sold by the Selling Stockholder under this Agreement and, to the knowledge of such counsel, there are no facts or circumstances that would lead such counsel to believe that, as of such Time of Delivery, such Selling Stockholder is in breach of the warranties described in Section 8.108 of the Texas Business and Commerce Code; and

(v) The laws of the State of Texas govern the delivery of the certificates evidencing the Shares to be sold by the Selling Stockholder to the Underwriters and payment by the Underwriters of the purchase price for such Shares, and upon such delivery and payment, the Underwriters will acquire such Shares free of all adverse claims (as such term is defined in Section 8.102 of the Texas Business and Commerce Code), assuming that the Underwriters do not have notice of any adverse claim (as such term is defined in Section 8.102 of the Texas Business and Commerce Code).

In rendering the opinion in paragraph (iv), such counsel may rely upon a certificate of such Selling Stockholder in respect of matters of fact as to ownership of, and liens, encumbrances, equities or claims on, the Shares sold by such Selling Stockholder, provided that such counsel shall state that they believe that both you and they are justified in relying upon such certificate, and that copies thereof are furnished to you;

(e) On the date of the Prospectus at a time prior to the execution of this Agreement, at 9:30 a.m., New York City time, on the effective date of any post-effective amendment to the Registration Statement filed subsequent to the date of this Agreement and also at each Time of Delivery, Ernst & Young LLP shall have furnished to you a letter or letters, dated the respective dates of delivery thereof, in form and substance satisfactory to you, to the effect set forth in Annex I hereto (the executed copy of the letter delivered prior to the execution of this Agreement is attached as Annex I(a) hereto and a draft of the form of letter to be delivered on the effective date of any post-effective amendment to the Registration Statement and as of each Time of Delivery is attached as Annex I(b) hereto);

(f) (i) The Company shall not have sustained since the date of the latest audited financial statements included in the Prospectus any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Prospectus, and (ii) since the respective dates as of which information is given in the Prospectus there shall not have been any change in the capital stock or long-term debt of the Company or any change, or any development involving a prospective change, in or affecting the general affairs, management, financial position, stockholders' equity or results of operations of the Company, otherwise than as set forth or contemplated in

the Prospectus, the effect of which, in any such case described in clause (i) or (ii), is in the judgment of the Representatives so material and adverse as to make it impracticable or inadvisable to proceed with the public offering or the delivery of the Shares being delivered at such Time of Delivery on the terms and in the manner contemplated in the Prospectus;

(g) On or after the date hereof (i) no downgrading shall have occurred in the rating accorded the Company's debt securities or preferred stock by any "nationally recognized statistical rating organization", as that term is defined by the Commission for purposes of Rule 436(g)(2) under the Act, and (ii) no such organization shall have publicly announced that it has under surveillance or review, with possible negative implications, its rating of any of the Company's debt securities or preferred stock;

(h) On or after the date hereof there shall not have occurred any of the following: (i) a suspension or material limitation in trading in securities generally on the New York Stock Exchange or on NASDAQ NMS; (ii) a suspension or material limitation in trading in the Company's securities on NASDAQ NMS; (iii) a general moratorium on commercial banking activities declared by either Federal or New York or Texas State authorities; or (iv) the outbreak or escalation of hostilities involving the United States or the declaration by the United States of a national emergency or war, if the effect of any such event specified in this clause (iv) in the judgment of the Representatives makes it impracticable or inadvisable to proceed with the public offering or the delivery of the Shares being delivered at such Time of Delivery on the terms and in the manner contemplated in the Prospectus;

(i) The Shares to be sold at such Time of Delivery shall have been duly listed for quotation on NASDAQ NMS;

(j) The Company has obtained and delivered to the Underwriters executed copies of an agreement from each executive officer, director, stockholder and option holder, substantially to the effect set forth in Subsection 5(e) hereof and otherwise in form and substance satisfactory to you;

(k) The Company shall have complied with the provisions of Section 5(c) hereof with respect to the furnishing of prospectuses on the New York Business Day next succeeding the date of this Agreement; and

(l) The Company and the Selling Stockholder shall have furnished or caused to be furnished to you at such Time of Delivery certificates of officers of the Company and of the Selling Stockholder, respectively, satisfactory to you as to the accuracy of the representations and warranties of the Company and the Selling Stockholder, respectively, herein at and as of such Time of Delivery, as to the performance by the Company and the Selling Stockholder of all of their respective obligations hereunder to be performed at or prior to such Time of Delivery, and as to such other matters as you may reasonably request, and the Company shall have furnished or caused to be furnished certificates as to the matters set forth in subsections (a) and (f) of this Section.

8. (a) The Company and the Selling Stockholder, jointly and severally, will indemnify and hold harmless each Underwriter against any losses, claims, damages or liabilities, joint or several, to which such Underwriter may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus,

the Registration Statement or the Prospectus, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse each Underwriter for any legal or other expenses reasonably incurred by such Underwriter in connection with investigating or defending any such action or claim as such expenses are incurred; provided, however, that the Company and the Selling Stockholder shall not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in any Preliminary Prospectus, the Registration Statement or the Prospectus or any such amendment or supplement in reliance upon and in conformity with written information furnished to the Company by any Underwriter through Goldman, Sachs & Co. expressly for use therein; provided, further, that the liability of the Selling Stockholder pursuant to this Section 8(a) shall not exceed the product of the number of Optional Shares sold by such Selling Stockholder and the initial public offering price of the Shares as set forth in the Prospectus; and provided, further, that such Selling Stockholder shall not have any obligation under this Section 8(a) unless the Underwriters have purchased any Optional Shares from the Selling Stockholder pursuant to the rights granted to them by the Selling Stockholder in Section 2 of this Agreement.

(b) Each Underwriter will indemnify and hold harmless the Company and the Selling Stockholder against any losses, claims, damages or liabilities to which the Company or such Selling Stockholder may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement or the Prospectus, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in any Preliminary Prospectus, the Registration Statement or the Prospectus or any such amendment or supplement in reliance upon and in conformity with written information furnished to the Company by such Underwriter through Goldman, Sachs & Co. expressly for use therein; and will reimburse the Company and the Selling Stockholder for any legal or other expenses reasonably incurred by the Company or the Selling Stockholder in connection with investigating or defending any such action or claim as such expenses are incurred; provided, that no Underwriter shall have any obligation to the Selling Stockholder under this Section 8(b) unless the Underwriters have purchased any Optional Shares from the Selling Stockholder pursuant to the rights granted to them by the Selling Stockholder in Section 2 of this Agreement.

(c) Promptly after receipt by an indemnified party under subsection (a) or (b) above of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under such subsection, notify the indemnifying party in writing of the commencement thereof; but the omission so to notify the indemnifying party shall not relieve it from any liability which it may have to any indemnified party otherwise than under such subsection. In case any such action shall be brought against any indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it shall wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party, be counsel to the indemnifying party), and, after notice from the indemnifying party to such indemnified party of its election so to

assume the defense thereof, the indemnifying party shall not be liable to such indemnified party under such subsection for any legal expenses of other counsel or any other expenses, in each case subsequently incurred by such indemnified party, in connection with the defense thereof other than reasonable costs of investigation. No indemnifying party shall, without the written consent of the indemnified party, effect the settlement or compromise of, or consent to the entry of any judgment with respect to, any pending or threatened action or claim in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified party is an actual or potential party to such action or claim) unless such settlement, compromise or judgment (i) includes an unconditional release of the indemnified party from all liability arising out of such action or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of any indemnified party.

(d) If the indemnification provided for in this Section 8 is unavailable to or insufficient to hold harmless an indemnified party under subsection (a) or (b) above in respect of any losses, claims, damages or liabilities (or actions in respect thereof) referred to therein, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Company and the Selling Stockholder on the one hand and the Underwriters on the other from the offering of the Shares. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law or if the indemnified party failed to give the notice required under subsection (c) above, then each indemnifying party shall contribute to such amount paid or payable by such indemnified party in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company and the Selling Stockholder on the one hand and the Underwriters on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities (or actions in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by the Company and the Selling Stockholder on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company and the Selling Stockholder bear to the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover page of the Prospectus. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or the Selling Stockholder on the one hand or the Underwriters on the other and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company, the Selling Stockholder and the Underwriters agree that it would not be just and equitable if contributions pursuant to this subsection (d) were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this subsection (d). The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to above in this subsection (d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this subsection (d), no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Shares underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue

statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations in this subsection (d) to contribute are several in proportion to their respective underwriting obligations and not joint.

(e) The obligations of the Company and the Selling Stockholder under this Section 8 shall be in addition to any liability which the Company and the Selling Stockholder may otherwise have and shall extend, upon the same terms and conditions, to each person, if any, who controls any Underwriter within the meaning of the Act; and the obligations of the Underwriters under this Section 8 shall be in addition to any liability which the respective Underwriters may otherwise have and shall extend, upon the same terms and conditions, to each officer and director of the Company and to each person, if any, who controls the Company or the Selling Stockholder within the meaning of the Act.

9. (a) If any Underwriter shall default in its obligation to purchase the Shares which it has agreed to purchase hereunder at a Time of Delivery, you may in your discretion arrange for you or another party or other parties to purchase such Shares on the terms contained herein. If within thirty-six hours after such default by any Underwriter you do not arrange for the purchase of such Shares, then the Company and the Selling Stockholder shall be entitled to a further period of thirty-six hours within which to procure another party or other parties satisfactory to you to purchase such Shares on such terms. In the event that, within the respective prescribed periods, you notify the Company and the Selling Stockholder that you have so arranged for the purchase of such Shares, or the Company and the Selling Stockholder notify you that they have so arranged for the purchase of such Shares, you or the Company and the Selling Stockholder shall have the right to postpone such Time of Delivery for a period of not more than seven days, in order to effect whatever changes may thereby be made necessary in the Registration Statement or the Prospectus, or in any other documents or arrangements, and the Company agrees to file promptly any amendments to the Registration Statement or the Prospectus which in your opinion may thereby be made necessary. The term "Underwriter" as used in this Agreement shall include any person substituted under this Section with like effect as if such person had originally been a party to this Agreement with respect to such Shares.

(b) If, after giving effect to any arrangements for the purchase of the Shares of a defaulting Underwriter or Underwriters by you and the Company and the Selling Stockholder as provided in subsection (a) above, the aggregate number of such Shares which remains unpurchased does not exceed one-eleventh of the aggregate number of all the Shares to be purchased at such Time of Delivery, then the Company and the Selling Stockholder shall have the right to require each non-defaulting Underwriter to purchase the number of shares which such Underwriter agreed to purchase hereunder at such Time of Delivery and, in addition, to require each non-defaulting Underwriter to purchase its pro rata share (based on the number of Shares which such Underwriter agreed to purchase hereunder) of the Shares of such defaulting Underwriter or Underwriters for which such arrangements have not been made; but nothing herein shall relieve a defaulting Underwriter from liability for its default.

(c) If, after giving effect to any arrangements for the purchase of the Shares of a defaulting Underwriter or Underwriters by you and the Company and the Selling Stockholder as provided in subsection (a) above, the aggregate number of such Shares which remains unpurchased exceeds one-eleventh of the aggregate number of all the Shares to be purchased at such Time of Delivery, or if the Company and the Selling Stockholder shall not exercise the right described in subsection (b)

above to require non-defaulting Underwriters to purchase Shares of a defaulting Underwriter or Underwriters, then this Agreement (or, with respect to the Second Time of Delivery, the obligations of the Underwriters to purchase and of the Company and the Selling Stockholder to sell the Optional Shares) shall thereupon terminate, without liability on the part of any non-defaulting Underwriter or the Company or the Selling Stockholder, except for the expenses to be borne by the Company and the Selling Stockholder and the Underwriters as provided in Section 6 hereof and the indemnity and contribution agreements in Section 8 hereof; but nothing herein shall relieve a defaulting Underwriter from liability for its default.

10. The respective indemnities, agreements, representations, warranties and other statements of the Company, the Selling Stockholder and the several Underwriters, as set forth in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement, shall remain in full force and effect, regardless of any investigation (or any statement as to the results thereof) made by or on behalf of any Underwriter or any controlling person of any Underwriter, or the Company or the Selling Stockholder, or any officer or director or controlling person of the Company, or any controlling person of the Selling Stockholder, and shall survive delivery of and payment for the Shares.

11. If this Agreement shall be terminated pursuant to Section 9 hereof, neither the Company nor the Selling Stockholder shall then be under any liability to any Underwriter except as provided in Sections 6 and 8 hereof; but, if for any other reason, any Shares are not delivered by or on behalf of the Company and the Selling Stockholder as provided herein, the Company and the Selling Stockholder, pro rata (based on the number of Shares to be sold by the Company and such Selling Stockholder hereunder), will reimburse the Underwriters through you for all out-of-pocket expenses approved in writing by you, including fees and disbursements of counsel, reasonably incurred by the Underwriters in making preparations for the purchase, sale and delivery of the Shares not so delivered, but the Company and the Selling Stockholder shall then be under no further liability in respect of the Shares not so delivered to any Underwriter except as provided in Sections 6 and 8 hereof.

12. In all dealings hereunder, you shall act on behalf of each of the Underwriters, and the parties hereto shall be entitled to act and rely upon any statement, request, notice or agreement on behalf of any Underwriter made or given by you jointly or by Goldman, Sachs & Co. on behalf of you as the representatives; and in all dealings with the Selling Stockholder hereunder, you and the Company shall be entitled to act and rely upon any statement, request, notice or agreement on behalf of such Selling Stockholder made or given by any or all of the Attorneys-in-Fact for such Selling Stockholder.

All statements, requests, notices and agreements hereunder shall be in writing, and if to the Underwriters shall be delivered or sent by mail, telex or facsimile transmission to you as the representatives in care of Goldman, Sachs & Co., 32 Old Slip, 21st Floor, New York, New York 10005, Attention: Registration Department; if to any Selling Stockholder shall be delivered or sent by mail, telex or facsimile transmission to counsel for such Selling Stockholder at its address set forth in Schedule II hereto; and if to the Company shall be delivered or sent by mail, telex or facsimile transmission to the address of the Company set forth in the Registration Statement, Attention: Secretary; provided, however, that any notice to an Underwriter pursuant to Section 8(c) hereof shall be delivered or sent by mail, telex or facsimile transmission to such Underwriter at its address set forth in its Underwriters' Questionnaire, or telex constituting such Questionnaire, which address will

be supplied to the Company or the Selling Stockholder by you upon request. Any such statements, requests, notices or agreements shall take effect upon receipt thereof.

13. This Agreement shall be binding upon, and inure solely to the benefit of, the Underwriters, the Company and the Selling Stockholder and, to the extent provided in Sections 8 and 10 hereof, the officers and directors of the Company and each person who controls the Company, the Selling Stockholder or any Underwriter, and their respective heirs, executors, administrators, successors and assigns, and no other person shall acquire or have any right under or by virtue of this Agreement. No purchaser of any of the Shares from any Underwriter shall be deemed a successor or assign by reason merely of such purchase.

14. Time shall be of the essence of this Agreement. As used herein, the term "business day" shall mean any day when the Commission's office in Washington, D.C. is open for business.

15. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

16. This Agreement may be executed by any one or more of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

If the foregoing is in accordance with your understanding, please sign and return to us one for the Company and each of the Representatives plus one for each counsel counterparts hereof, and upon the acceptance hereof by you, on behalf of each of the Underwriters, this letter and such acceptance hereof shall constitute a binding agreement among each of the Underwriters, the Company and the Selling Stockholder. It is understood that your acceptance of this letter on behalf of each of the Underwriters is pursuant to the authority set forth in a form of Agreement among Underwriters, the form of which shall be submitted to the Company and the Selling Stockholder for examination upon request, but without warranty on your part as to the authority of the signers thereof. Any person executing and delivering this Agreement as Attorney-in-Fact for a Selling Stockholder represents by so doing that he has been duly appointed as Attorney-in-Fact by such Selling Stockholder pursuant to a validly existing and binding Power-of-Attorney which authorizes such Attorney-in-Fact to take such action.

Very truly yours,

Active Power, Inc.

By:

Name:
Title:

The Selling Stockholder

Joseph F. Pinkerton, III

Accepted as of the date hereof:
Goldman, Sachs & Co.
Merrill Lynch, Pierce, Fenner & Smith Incorporated,
Morgan Stanley & Co. Incorporated, and
CIBC World Markets Corp.

By:

(Goldman, Sachs & Co.)

SCHEDULE I

Underwriter	Total Number of Firm Shares to be Purchased	Number of Optional Shares to be Purchased if Maximum Option Exercised
Goldman, Sachs & Co.		
Merrill Lynch, Pierce, Fenner & Smith Incorporated		
Morgan Stanley & Co. Incorporated		
CIBC World Markets Corp		
[Names of other Underwriters]		
Total	8,000,000	1,200,000

SCHEDULE II

	Total Number of Firm Shares to be Sold	Number of Optional Shares to be Sold if Maximum Option Exercised
The Company	8,000,000	900,000
The Selling Stockholder:		
Joseph F. Pinkerton, III (a)	-0-	300,000
Total	8,000,000	1,200,000

(a) Brobeck, Phleger & Harrison LLP, 301 Congress Avenue, Suite 1200, Austin, Texas 78701 is acting as special counsel for the Selling Stockholder, and the Selling Stockholder has appointed _____ and _____, and each of them, as his Attorneys-in-Fact.

ANNEX I

DESCRIPTION OF COMFORT LETTER

Pursuant to Section 7(e) of the Underwriting Agreement, Ernst & Young LLP shall furnish letters to the Underwriters to the effect that:

(i) They are independent certified public accountants with respect to the Company within the meaning of the Act and the applicable published rules and regulations thereunder;

(ii) In their opinion, the financial statements and any supplementary financial information and schedules (and, if applicable, financial forecasts and/or pro forma financial information) examined by them and included in the Prospectus or the Registration Statement comply as to form in all material respects with the applicable accounting requirements of the Act and the related published rules and regulations thereunder; and, if applicable, they have made a review in accordance with standards established by the American Institute of Certified Public Accountants of the unaudited interim financial statements, selected financial data, pro forma financial information, financial forecasts and/or financial statements derived from audited financial statements of the Company for the periods specified in such letter, as indicated in their reports thereon, copies of which have been separately furnished to the representatives of the Underwriters (the "Representatives");

(iii) They have made a review in accordance with standards established by the American Institute of Certified Public Accountants of the unaudited statements of income, balance sheets and statements of cash flows included in the Prospectus as indicated in their reports thereon copies of which have been separately furnished to the Representatives and on the basis of specified procedures including inquiries of officials of the Company who have responsibility for financial and accounting matters regarding whether the unaudited financial statements referred to in paragraph (vi)(A)(i) below comply as to form in all material respects with the applicable accounting requirements of the Act and the related published rules and regulations, nothing came to their attention that cause them to believe that the unaudited financial statements do not comply as to form in all material respects with the applicable accounting requirements of the Act and the related published rules and regulations;

(iv) They have compared the information in the Prospectus under selected captions with the disclosure requirements of Regulation S-K and on the basis of limited procedures specified in such letter nothing came to their attention as a result of the foregoing procedures that caused them to believe that this information does not conform in all material respects with the disclosure requirements of Items 301, 302, 402 and 503(d), respectively, of Regulation S-K;

(v) On the basis of limited procedures, not constituting an examination in accordance with generally accepted auditing standards, consisting of a reading of the unaudited financial statements and other information referred to below, a reading of the latest available interim financial statements of the Company, inspection of the minute books of the Company since the date of the latest audited financial statements included in the Prospectus, inquiries of officials of the Company responsible for financial and accounting matters and such other inquiries and procedures as may be specified in such letter, nothing came to their attention that caused them to believe that:

(A) (i) the unaudited statements of income, balance sheets and statements of cash flows included in the Prospectus do not comply as to form in all material respects with the applicable accounting requirements of the Act and the related published rules and regulations, or (ii) any material modifications should be made to the unaudited statements of income, balance sheets and statements of cash flows included in the Prospectus for them to be in conformity with generally accepted accounting principles;

(B) any other unaudited income statement data and balance sheet items included in the Prospectus do not agree with the corresponding items in the unaudited financial statements from which such data and items were derived, and any such unaudited data and items were not determined on a basis substantially consistent with the basis for the corresponding amounts in the audited financial statements included in the Prospectus;

(C) the unaudited financial statements which were not included in the Prospectus but from which were derived any unaudited financial statements referred to in clause (A) and any unaudited income statement data and balance sheet items included in the Prospectus and referred to in clause (B) were not determined on a basis substantially consistent with the basis for the audited financial statements included in the Prospectus;

(D) any unaudited pro forma financial statements included in the Prospectus do not comply as to form in all material respects with the applicable accounting requirements of the Act and the published rules and regulations thereunder or the pro forma adjustments have not been properly applied to the historical amounts in the compilation of those statements;

(E) as of a specified date not more than five days prior to the date of such letter, there have been any changes in the capital stock (other than issuances of capital stock upon exercise of options and stock appreciation rights, upon earn-outs of performance shares and upon conversions of convertible securities, in each case which were outstanding on the date of the latest financial statements included in the Prospectus) or any increase in the long-term debt of the Company, or any decreases in net current assets or stockholders' equity or other items specified by the Representatives, or any increases in any items specified by the Representatives, in each case as compared with amounts shown in the latest balance sheet included in the Prospectus, except in each case for changes, increases or decreases which the Prospectus discloses have occurred or may occur or which are described in such letter; and

(F) for the period from the date of the latest financial statements included in the Prospectus to the specified date referred to in clause (E) there were any decreases in net revenues or operating profit or the total or per share amounts of net income or other items specified by the Representatives, or any increases in any items specified by the Representatives, in each case as compared with the comparable period of the preceding year and with any other period of corresponding length specified by the Representatives, except in each case for decreases or

increases which the Prospectus discloses have occurred or may occur or which are described in such letter; and

(vi) In addition to the examination referred to in their report(s) included in the Prospectus and the limited procedures, inspection of minute books, inquiries and other procedures referred to in paragraphs (iii) and (v) above, they have carried out certain specified procedures, not constituting an examination in accordance with generally accepted auditing standards, with respect to certain amounts, percentages and financial information specified by the Representatives, which are derived from the general accounting records of the Company, which appear in the Prospectus, or in Part II of, or in exhibits and schedules to, the Registration Statement specified by the Representatives, and have compared certain of such amounts, percentages and financial information with the accounting records of the Company and have found them to be in agreement.

EXHIBIT 3.1

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION OF ACTIVE POWER, INC.

Active Power, Inc., a corporation organized and existing under the Delaware General Corporation Law (the "DGCL"), Does Hereby Certify:

First: The original Certificate of Incorporation of this corporation was filed with the Secretary of State of Delaware on March 29, 2000 under the name "Active Power, Inc."

Second: The Amended and Restated Certificate of Incorporation of Active Power, Inc. in the form attached hereto as Annex A has been duly adopted in accordance with the provisions of Sections 228, 245 and 242 of the DGCL by the directors and stockholders of this corporation.

Third: The Amended and Restated Certificate of Incorporation so adopted reads in full as set forth in Annex A attached hereto and is incorporated herein by this reference.

In Witness Whereof, Active Power, Inc. has caused this Amended and Restated Certificate of Incorporation to be signed by its duly authorized and elected President this ___ day of _____, 2000.

ACTIVE POWER, INC.

By: Joseph F. Pinkerton, III

Joseph F. Pinkerton, III
President and Chief Executive Officer

ANNEX A

AMENDED AND RESTATED
CERTCIFICATE OF INCORPORATION
OF
ACTIVE POWER, INC.

ARTICLE I

The name of this corporation shall be Active Power, Inc. (the "Company").

ARTICLE II

The address of the registered office of the Company in the State of Delaware is 1209 Orange Street, City of Wilmington, County of New Castle, State of Delaware. The name of the registered agent at that address is The Corporation Trust Company.

ARTICLE III

The purpose of the Company is to engage in any lawful act or activity for which corporations may be organized under the Delaware General Corporation Law.

ARTICLE IV

4.1 Prior to a Qualified Public Offering (as defined in section 5B of this Section 4.1 of Article IV), the Company's capital stock shall be comprised as set forth in this Section 4.1 as follows:

A. The aggregate number of shares that the Company shall have authority to issue is Seventy Million Four Hundred Twenty Thousand (70,420,000) shares, (i) Sixty Million (60,000,000) shares of which shall be Common Stock with a par value of $0.001 per share, and (ii) Ten Million Four Hundred Twenty Thousand (10,420,000) shares of which shall be Preferred Stock with a par value of $0.001 per share. Of such Preferred Stock, (1) Four Hundred Twenty Thousand (420,000) shall be designated as the "1992 Preferred Stock" (the "1992 Preferred Stock"), (2) Five Hundred Sixty-Nine Thousand Four Hundred Six (569,406) shares shall be designated as "Series A Convertible Preferred Stock" (the "Series A Preferred Stock"), (3) One Million Eight Hundred Forty-Seven Thousand Two Hundred Ninety-Two (1,847,292) shares shall be designated as "Series B Convertible Preferred Stock" (the "Series B Preferred Stock"), (4) One Million Seven Hundred Twenty-Six Thousand Six Hundred Twenty

(1,726,620) shares shall be designated as "Series C Convertible Preferred Stock" (the "Series C Preferred Stock"), (5) One Million Six Hundred Fifty-Two Thousand Eight Hundred Ninety-Four (1,652,894) shares shall be designated as "Series D Convertible Preferred Stock" (the "Series D Preferred Stock"), (6) One Million Nine Hundred Thirty-Five Thousand Eight Hundred Seventy (1,935,870) shares shall be designated as "Series E Convertible Preferred Stock" (the "Series E Preferred Stock") and (7) the balance may be divided into and issued in series as described herein.

B. The Board of Directors of the Company is authorized subject to limitations prescribed by the General Corporation Law and the provisions of this Section 4.1 of Article IV, to provide for the issuance of the shares of Preferred Stock in series, and by filing a statement of designation pursuant to the General Corporation Law, to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions thereof.

The authority of the Board of Directors with respect to each series of Preferred Stock shall include, but not be limited to, determination of the following:

(1) the number of shares constituting that series and the distinctive designation of that series;

(2) the dividend rate on the shares of that series, whether dividends shall be cumulative, and, if so, from which date or dates, and the relative rights of priority, if any, of payment of dividends on shares of that series;

(3) whether that series shall have voting rights, in addition to the voting rights provided by law, and, if so, the terms of such voting rights;

(4) whether that series shall have conversion privileges, and, if so, the terms and conditions of such conversion, including provision for adjustment of the conversion rate in such events as the Board of Directors shall determine;

(5) whether or not the shares of that series be redeemable, and, if so, the terms and conditions of such redemption, including the date or date upon or after which they shall be redeemable, and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption dates;

(6) whether that series shall have a sinking fund for the redemption or purchase of shares of that series, and, if so, the terms and amount of such sinking fund;

(7) the rights of the shares of that series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Company, and the relative rights of priority, if any, of payment of shares of that series; and

(8) any other relative rights, preferences and limitations of that series.

The powers, preferences and rights of each series of Preferred Stock, and the qualifications, limitations or restrictions thereof, if any, may differ from those of any and all other series at any time outstanding. All shares of any one series of Preferred Stock shall be identical in all respects with all other shares of such series, except that shares of any one series issued at different times may differ as to the date from which dividends thereof shall be cumulative. The Board of Directors may increase the number of shares of the Preferred Stock designated for any existing series by a resolution adding to such series authorized and unissued shares of the Preferred Stock not designated for any other series. The Board of Directors may decrease the number of shares of Preferred Stock designated for any existing series by a resolution, subtracting from such series unissued shares of the Preferred Stock designated for such series, and the shares so subtracted shall become authorized, unissued and undesignated shares of the Preferred Stock.

C. The 1992 Preferred Stock shall have the preferences, limitations and relative rights set forth below:

(1) Dividends. Holders of the 1992 Preferred Stock shall not be entitled to receive dividends, payable in cash, stock or otherwise, with respect to such 1992 Preferred Stock at any time while such 1992 Preferred Stock is outstanding.

(2) Redemption. The 1992 Preferred Stock shall be redeemable by the Company. Such redemption shall be effected by the Company at such time as the Board of Directors of the Company determines, in its sole discretion, that the Company has available funds in excess of the anticipated needs of the Company, including reasonable reserves for future expenses or capital costs. No dividends shall be declared or paid with respect to the Common Stock so long as any shares of 1992 Preferred Stock are issued and outstanding. The redemption price per share of 1992 Preferred Stock shall be $0.50.

At such time or times as the Board of Directors determines that funds are available for the redemption of all or a portion of the 1992 Preferred Stock, the Company shall provide each holder of 1992 Preferred Stock with written notice of its election to redeem all or a portion of such 1992 Preferred Stock. If only a portion of the total outstanding shares of 1992 Preferred Stock is to be redeemed, a pro rata portion of each holder's shares of 1992 Preferred Stock shall be redeemed, provided that such redemption shall be adjusted to preclude the creation of fractional shares pursuant to such redemption.

Any shares of 1992 Preferred Stock which are redeemed by the Company will be cancelled and will not be reissued, sold or transferred. If fewer than the total number of shares of 1992 Preferred Stock represented by any certificate are redeemed, a new certificate representing the number of unredeemed shares of 1992 Preferred Stock will be issued to the holder thereof without cost to such holder within twenty days after surrender of the certificate representing the redeemed shares.

The Company will not redeem, repurchase or otherwise acquire any shares of 1992 Preferred Stock except as expressly authorized herein or pursuant to a purchase offer made pro rata to all holders of shares of 1992 Preferred Stock on the basis of the number of shares of 1992 Preferred Stock owned by each such holder.

(3) Liquidation. Subject to the rights of any series of Preferred Stock which may from time to time come into existence, in the event of a voluntary or involuntary liquidation, dissolution or winding up of the Company, holders of the then outstanding shares of 1992 Preferred Stock shall be entitled to receive for each such share of 1992 Preferred Stock payment in cash equal to $0.50, before any distribution of assets is made to holders of the Common Stock or any other class or series of capital stock of the Company ranking junior to the 1992 Preferred Stock as to distribution on liquidation, dissolution or winding up. Subject to the rights of any series of Preferred Stock which may from time to time come into existence, if, upon any such liquidation, dissolution or winding up of the Company, the assets of the Company available for distribution to holders of 1992 Preferred Stock shall be insufficient to permit payment in full of the aforesaid preferential amounts, then all such assets of the Company shall be distributed ratably among the holders of the 1992 Preferred Stock in proportion to the full preferential amounts to which they shall be entitled respectively.

After distribution in full of the preferential amounts to be distributed to the holders of any outstanding shares of 1992 Preferred Stock, and to the holders of any outstanding securities of the Company having a preference to distributions of assets of the Company upon liquidation, dissolution or winding up of the Company, the holders of the shares of Common Stock shall be entitled to receive all remaining assets of the Company available for distributions to its stockholders, ratably in proportion to the number of shares of the Common Stock held by them, and the holders of the 1992 Preferred Stock shall have no right to participate in such remaining assets.

Neither the merger nor consolidation of the Company into or with any other entity, nor the merger or consolidation of any other entity into or with the Company, nor a sale, transfer, lease or other disposition of all or any part of the assets of the Company shall be deemed to be a liquidation, dissolution or winding up of the Company within the meaning of this Part C of Section 4.1 of Article IV.

(4) Voting Rights. The holders of shares of 1992 Preferred Stock shall not be entitled to vote upon any matter submitted to a vote of the stockholders of the Company except to the extent required by law.

D. The description of the preferences, limitations and relative rights of the Company's Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock is set forth below:

(1) Dividends.

1A. Subject to the restrictions contained herein, the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock shall be entitled to receive cash dividends at the rate of $0.1216, $0.1624, $0.278, $0.484 and $0.9072 per share per annum, respectively (as adjusted for any stock dividends, combinations, splits or reclassifications with respect to such shares), payable out of funds legally available therefor, prior and in preference to any declaration or payment of any cash dividend on the Common Stock or the 1992 Preferred Stock of the Company. Such dividends shall be payable with respect to the Series A Preferred Stock at the beginning of each

calendar quarter beginning April 1, 1995, with respect to the Series B Preferred Stock at the beginning of each calendar quarter beginning July 1, 1996, with respect to the Series C Preferred Stock at the beginning of each calendar quarter beginning October 1, 1997, with respect to the Series D Preferred Stock at the beginning of each calendar quarter beginning July 1, 1998 and with respect to the Series E Preferred Stock at the beginning of each calendar quarter beginning January 1, 2000. Such dividends shall accrue on each share of Series A Preferred Stock from the date that such share was issued by the Company (the "Series A Issue Date"), on each share of Series B Preferred Stock from May 6, 1996 (the "Series B Issue Date"), on each share of Series C Preferred Stock from July 29, 1997 (the "Series C Issue Date"), on each share of Series D Preferred Stock from June 16, 1998 (the "Series D Issue Date"), and on each share of Series E Preferred Stock from the date that such share was issued by the Company (the "Series E Issue Date") and shall accrue from day to day, whether or not earned or declared. Such dividends shall be cumulative so that, except as provided below, if such dividends in respect of any previous or current dividend period shall not have been paid, the deficiency shall first be fully paid before any dividend or other distribution shall be paid on or declared and set apart for the 1992 Preferred Stock or the Common Stock. Any accumulation of dividends on the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock shall not bear interest. Cumulative dividends with respect to a share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock which are accrued, payable and/or in arrears shall not then or thereafter be paid and shall cease to be accrued, payable and/or in arrears if such share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, as the case may be, has been converted to Common Stock prior to July 29, 2002; provided that if any such shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock shall not have been converted into Common Stock prior to July 29, 2002, dividends with respect to any such unconverted shares shall continue to accumulate and shall be paid to the extent assets are legally available therefor as required under this paragraph 1A, when, as and if declared by the Board of Directors.

1B. Except as provided elsewhere herein, with respect to the 1992 Preferred Stock, no dividends (other than those payable solely in shares of Common Stock of the Company) shall be paid on or declared and set apart for any Common Stock or any other class or series of stock of the Company during any fiscal year of the Company until dividends for all past dividend periods and the then current dividend period shall have been paid, or a sum sufficient for the payment therefor set apart, with respect to the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, and no dividends shall be paid on any share of Common Stock unless a dividend (including the amount of any dividends paid pursuant to the above provisions of this paragraph 1B) is paid with respect to all outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock in an amount for each such share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock equal to or greater than the aggregate amount of such dividends for the number of shares of Common Stock into which each share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock could then be converted.

1C. In the event the Company shall declare a distribution (other than any distribution described in paragraph 1A or 1B) payable in securities of any other Person (as defined in part (8)), evidences of indebtedness issued by the Company or other Persons, assets (excluding cash dividends) or options or rights to purchase any such securities or evidences of indebtedness, then, in each such case, the holders of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock shall be entitled to a proportionate share of any such distribution as though the holders of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock were the holders of the number of shares of Common Stock of the Company into which their shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock are convertible as of the record date fixed for the determination of the holders of Common Stock of the Company entitled to receive such distribution.

(2) Liquidation Preference.

2A. In the event of any sale, liquidation, dissolution or winding up of the Company, either voluntary or involuntary:

(i) The holders of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of the 1992 Preferred Stock and Common Stock by reason of their ownership thereof, an amount for each share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock then held by them equal to $1.52, $2.03, $3.475, $6.05 and $11.34, respectively (as adjusted for any stock dividends, combinations, splits or reclassifications with respect to such shares), plus accrued or declared but unpaid dividends on the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock as the case may be. If upon the occurrence of such event, the assets and funds thus distributed among the holders of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock shall be insufficient to permit the payment to such holders of such full preferential amount, then the entire assets and funds of the Company legally available for distribution shall be distributed ratably among the holders of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock in proportion to the relative liquidation preferences (as provided in this subparagraph (i)) of the shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock then held by them.

(ii) Subject to payment in full of the liquidation preference with respect to the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock as provided in subparagraph (i) above, the holders of the 1992 Preferred Stock shall be entitled to payments upon the liquidation of the Company as provided in the Certificate of Incorporation.

(iii) Subject to the payment in full of the liquidation preferences with respect to the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock and the Series E Preferred Stock as provided in subparagraph (i) above and the 1992 Preferred Stock (if any) as provided in subparagraph (ii) above, the entire remaining assets and funds of the Company legally available for distribution, if any, shall be distributed among the holders of the Common Stock, the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock and the Series E Preferred Stock ratably in proportion to the shares of Common Stock then held by them and the shares of Common Stock which they have the right to acquire upon conversion of the shares of the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock and the Series E Preferred Stock then held by them, provided, however, that, including the amounts paid pursuant to subparagraph (i) above, in no event shall (A) the Series A Preferred Stock receive greater than $4.50 per share plus accrued or declared but unpaid dividends (as adjusted for any stock dividends, combinations or splits with respect to such shares), (B) the Series B Preferred Stock receive greater than $6.09 per share plus accrued or declared but unpaid dividends (as adjusted for any stock dividends, combinations or splits with respect to such shares), (C) the Series C Preferred Stock receive greater than $10.425 per share plus accrued or declared but unpaid dividends (as adjusted for any stock dividends, combinations or splits with respect to such shares), (D) the Series D Preferred Stock receive greater than $18.15 per share plus accrued or declared but unpaid dividends (as adjusted for any stock dividends, combinations or splits with respect to such shares), or (E) the Series E Preferred Stock receive greater than $17.01 per share plus accrued or declared but unpaid dividends (as adjusted for any stock dividends, combinations or splits with respect to such shares).

2B. For the purposes of this part (2), unless otherwise determined as to a particular transaction by the vote or written consent of a Sufficient Vote (as defined in subparagraph (v) below) of the holders of the shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock then outstanding and except as provided in the Certificate of Incorporation with respect to the 1992 Preferred Stock, a "liquidation" shall include:

(i) a reorganization, consolidation or merger of the Company with or into any other Company, or any other Person, other than a wholly-owned Subsidiary (as defined in part (8) below) of the Company in which the holders of the Company's securities prior to the transaction or series of transactions would beneficially own less than 50% of the outstanding voting securities of the surviving entity after the transaction or series of transactions, excluding any transaction in which stockholders of the Company prior to the transaction will maintain voting control of the resulting entity after the transaction;

(ii) any corporate reorganization in which the Company shall not be the continuing or surviving entity resulting from such reorganization;

(iii) a sale of all or substantially all of the assets of the Company; or

(iv) any transaction approved by the stockholders of the Company in which more than fifty percent (50%) of the outstanding stock of the Company (on

an as-if converted basis) is redeemed or repurchased in any 90-day period; such that in each case the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock shall be paid in cash or in securities received from the acquiring company, or in a combination thereof, at the closing of any such transaction, an amount equal to the amount per share which would be payable to the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock pursuant to this part (2) in a liquidation of the Company; and

(v) For purposes of this Certificate of Incorporation, a "Sufficient Vote" of the holders of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock shall mean the approval, either by vote or written consent, of the holders of at least fifty percent (50%) of all shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock then outstanding, voting together as a single class and without regard to the number of shares issuable upon the conversion of such Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock.

2C. Any securities to be delivered to the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock pursuant to paragraph 2B above shall be valued as follows:

(i) If such securities are not subject to restriction on free marketability, then:

(a) if traded on a securities exchange, the value of such securities shall be deemed to be the average of the security's closing prices on such exchange over the 30-day period ending three days prior to the closing;

(b) if actively traded over-the-counter, the value of such securities shall be deemed to be the average of the closing bid prices over the 30-day period ending three days prior to the closing; and

(c) if there is no active public market, the value of such securities shall be the fair market value thereof, as mutually determined by a majority of the members of the Board of Directors of the Company who are not then representatives of or otherwise affiliates of any holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock (collectively, the "Disinterested Directors") and a Sufficient Vote of the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, voting together as a single class, or, in the absence of such agreement, by an appraisal conducted by an independent appraiser jointly selected by the Disinterested Directors and the holders of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock then outstanding (an "Independent Appraisal") paid for by the Company; and

(ii) Securities subject to investment letter or other restrictions on free marketability shall be valued at an appropriate discount from the value determined as provided in subparagraphs (i)(a), (i)(b) or (i)(c) above to reflect the approximate fair market value thereof, as mutually determined by a majority of the Disinterested Directors and a Sufficient Vote of the holders of the outstanding Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, voting together as a single class, or, in the absence of such agreement, by an Independent Appraisal paid for by the Company.

2D. The Company shall give each holder of record of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock written notice of such impending transaction not later than 20 days prior to the stockholders meeting called to approve such transaction or 20 days prior to the closing of such transaction, whichever is earlier, and shall also notify such holders in writing of the final approval of such transaction. The first of such notices shall describe the material terms and conditions of the contemplated transaction, and the Company shall thereafter give such holders prompt notice of any material changes. The transaction shall in no event take place sooner than 20 days after the mailing by the Company of the first notice provided for herein or sooner than 20 days after the mailing by the Company of any notice of material changes provided for herein; provided, however, that such periods may be shortened upon the written consent of the holders of a Sufficient Vote of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, voting together as a single class.

(3) Redemptions.

3A. The holders of sixty-seven percent (67%) of the shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock then outstanding, at any time after July 29, 2002 and upon sixty (60) days prior written notice to the Company of such election (the "Redemption Notice"), may require the Company to
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redeem (and require each holder of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock to participate in such redemption) (each, a "Mandatory Redemption") on the
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dates referenced below (each, a "Mandatory Redemption Date") the number of
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shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock set forth opposite such Mandatory Redemption Date below at a price per share equal to the respective Series A Redemption Price, Series B Redemption Price, Series C Redemption Price, Series D Redemption Price or Series E Redemption Price (as defined in paragraph 3B), as the case may be:

Mandatory Redemption Date	Number of Shares
The date which is 60 days after the date of the Redemption Notice (the "First Mandatory Redemption Date")	Up to one-third (1/3) of the shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock then outstanding
First Anniversary of the First Mandatory Redemption Date	Up to one-half (1/2) of the shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock then outstanding
Second Anniversary of the First Mandatory Redemption Date	All remaining shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock then outstanding

3B. The holders of Series A Preferred Stock shall be entitled to receive from the Company on any Mandatory Redemption Date an amount in cash for each share of Series A Preferred Stock to be redeemed on such Mandatory Redemption Date (the "Series A Redemption Price") equal to the greater of (i) the fair
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market value of a share of Series A Preferred Stock on such Mandatory Redemption Date, or (ii) $1.52 (as adjusted for stock dividends, combinations, splits or reclassifications with respect to such shares) plus any accrued, or declared but unpaid, dividends on the Series A Preferred Stock as of the First Mandatory Redemption Date. The holders of Series B Preferred Stock shall be entitled to receive from the Company on any Mandatory Redemption Date an amount in cash for each share of Series B Preferred Stock to be redeemed on such Mandatory Redemption Date (the "Series B Redemption Price") equal to the greater of (i)
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the fair market value of a share of Series B Preferred Stock on such Mandatory Redemption Date, or (ii) $2.03 (as adjusted for stock dividends, combinations, splits or reclassifications with respect to such shares) plus any accrued, or declared but unpaid, dividends on the Series B Preferred Stock as of the First Mandatory Redemption Date. The holders of Series C Preferred Stock shall be entitled to receive from the Company on any Mandatory Redemption Date an amount in cash for each share of Series C Preferred Stock to be redeemed on such Mandatory Redemption Date (the "Series C Redemption Price") equal to the greater
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of (i) the fair market value of a share of Series C Preferred Stock on such Mandatory Redemption Date, or (ii) $3.475 (as adjusted for stock dividends, combinations, splits or reclassifications with respect to such shares) plus any accrued, or declared but unpaid, dividends

on the Series C Preferred Stock as of the First Mandatory Redemption Date. The holders of Series D Preferred Stock shall be entitled to receive from the Company on any Mandatory Redemption Date an amount in cash for each share of Series D Preferred Stock to be redeemed on such Mandatory Redemption Date (the "Series D Redemption Price") equal to the greater of (i) the fair market value of a share of Series D Preferred Stock on such Mandatory Redemption Date, or (ii) $6.05 (as adjusted for stock dividends, combinations, splits or reclassifications with respect to such shares) plus any accrued, or declared but unpaid, dividends on the Series D Preferred Stock as of the First Mandatory Redemption Date. The holders of Series E Preferred Stock shall be entitled to receive from the Company on any Mandatory Redemption Date an amount in cash for each share of Series E Preferred Stock to be redeemed on such Mandatory Redemption Date (the "Series E Redemption Price") equal to the greater of (i) the fair market value of a share of Series E Preferred Stock on such Mandatory Redemption Date, or (ii) $11.34 (as adjusted for stock dividends, combinations, splits or reclassifications with respect to such shares) plus any accrued, or declared but unpaid, dividends on the Series E Preferred Stock as of the First Mandatory Redemption Date. The Series A Redemption Price, Series B Redemption Price, Series C Redemption Price, Series D Redemption Price and Series E Redemption Price shall be adjusted for all redemptions of shares made after the First Mandatory Redemption Date to include accrued interest compounded monthly from the First Mandatory Redemption Date at the prime rate published in The Wall Street Journal on such date through and until payment in full of the Redemption Price for each share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, as the case may be, then outstanding in lieu of any further cumulative dividends on the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, as the case may be, from and after the First Mandatory Redemption Date. For purposes of this paragraph 3B, the "fair market value" of a share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, as the case may be, shall be its fair market value as determined by a majority of the Disinterested Directors and a Sufficient Vote of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock Series and Series E Preferred Stock then outstanding, or, if they are unable to reach an agreement not later than 20 days prior to such Mandatory Redemption Date, as determined by an Independent Appraisal paid for by the Company.

3C. If the funds of the Company legally available for redemption of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock on any Mandatory Redemption Date are insufficient to redeem the total number of shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock to be redeemed on such Mandatory Redemption Date, those funds that are legally available will be used by the Company to redeem the maximum possible number of shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock ratably among the holders of the shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock to be redeemed based upon the proportion which the aggregate Series A Redemption Price, Series B Redemption Price, Series C Redemption Price, Series D Redemption Price and Series E Redemption Price, respectively, bears to the aggregate redemption price to be paid with respect to the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D

Preferred Stock and Series E Preferred Stock. At any time and from time to time thereafter when additional funds of the Company are legally available for redemption of shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, such funds immediately will be used by the Company to redeem the balance of the shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock which the Company has become obligated to redeem on any Mandatory Redemption Date but which it has not redeemed and such funds will not be used for any other purpose, including, but not limited to, any redemption of the 1992 Preferred Stock as provided in the Certificate of Incorporation, or any redemption of any shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock which the Company is obligated to redeem on any subsequent Mandatory Redemption Date.

3D. No share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock is entitled to any dividends accruing after the First Mandatory Redemption Date. From and after the date on which the Series A Redemption Price, Series B Redemption Price, Series C Redemption Price, Series D Redemption Price or Series E Redemption Price is paid, all rights of the holders of such shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock will cease, and such shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock will not be deemed to be outstanding.

3E. Any shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock which are redeemed or otherwise acquired by the Company will be cancelled and will not be reissued, sold or transferred. If fewer than the total number of shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock represented by any certificate are redeemed, a new certificate representing the number of unredeemed shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock will be issued to the holder thereof without cost to such holder within ten business days after surrender of the certificate representing the redeemed shares.

3F. Neither the Company nor any Subsidiary (as defined in part (8)) will redeem, repurchase or otherwise acquire any shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, except as expressly authorized herein or pursuant to a purchase offer made pro rata to all holders of shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock on the basis of the number of shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock owned by each such holder.

(4) Voting Rights.

4A. Except as expressly provided in this Certificate of Incorporation or in any agreement to which stockholders of the Company may be a party with each other, each

holder of shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock shall be entitled to the number of votes equal to the number of shares of Common Stock into which such shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock could then be converted and shall have voting rights and powers equal to the voting rights and powers of the Common Stock (except as otherwise expressly provided in the Certificate of Incorporation or as required by law) and shall be entitled to notice of any stockholders' meeting in accordance with the Bylaws of the Company. Fractional votes shall not, however, be permitted and any fractional votes resulting from the above formula shall be rounded to the nearest whole number (with one-half being rounded upward).

4B. In addition, and without limiting any other rights to which a holder of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock otherwise may be entitled, the Company shall not engage in any of the transactions set forth in subparagraphs (i), (ii), (iii) and (iv) of paragraph 2B, subparagraph (c) of paragraph 2C, paragraph 2D, paragraph 3A and part (9) below of Section 4.1 of this Article IV, until such transaction has been approved by a Sufficient Vote of the holders of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock then outstanding.

(5) Conversion.

The holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock shall have conversion rights as follows (the "Conversion Rights"):

5A. Right to Convert.

(i) Conversion of Series A Preferred Stock. Subject to compliance with the provisions of paragraph 5C, each share of Series A Preferred Stock shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share, at the office of the Company or any transfer agent for such share, into such number of fully paid and nonassessable shares of Common Stock as is determined by dividing $1.52 by the conversion price with respect to the Series A Preferred Stock (the "Series A Conversion Price") in effect at the time of conversion. The initial Series A Conversion Price shall be $1.52 per share; provided, however, that such conversion price shall be subject to adjustment as provided herein.

(ii) Conversion of Series B Preferred Stock. Subject to compliance with the provisions of paragraph 5C, each share of Series B Preferred Stock shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share at the office of the Company or any transfer agent for such share, into such number of fully paid and non-assessable shares of Common Stock as is determined by dividing $2.03 by the conversion price with respect to the Series B Preferred Stock (the "Series B Conversion Price") in effect at the time of conversion. The initial Series B Conversion Price shall be $1.705 per share; provided, however, that such conversion price shall be subject to adjustment as provided herein.

(iii) Conversion of Series C Preferred Stock. Subject to compliance with the provisions of paragraph 5C, each share of Series C Preferred Stock shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share at the office of the Company or any transfer agent for such share, into such number of fully paid and non-assessable shares of Common Stock as is determined by dividing $3.475 by the conversion price with respect to the Series C Preferred Stock (the "Series C Conversion Price") in effect at the time of conversion. The initial Series C Conversion Price shall be $3.475 per share; provided, however, that such conversion price shall be subject to adjustment as provided herein.

(iv) Conversion of Series D Preferred Stock. Subject to compliance with the provisions of paragraph 5C, each share of Series D Preferred Stock shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share at the office of the Company or any transfer agent for such share, into such number of fully paid and non-assessable shares of Common Stock as is determined by dividing $6.05 by the conversion price with respect to the Series D Preferred Stock (the "Series D Conversion Price") in effect at the time of conversion. The initial Series D Conversion Price shall be $6.05 per share; provided, however, that such conversion price shall be subject to adjustment as provided herein.

(v) Conversion of Series E Preferred Stock. Subject to compliance with the provisions of paragraph 5C, each share of Series E Preferred Stock shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share at the office of the Company or any transfer agent for such share, into such number of fully paid and non-assessable shares of Common Stock as is determined by dividing $11.34 by the conversion price with respect to the Series E Preferred Stock (the "Series E Conversion Price") in effect at the time of conversion. The initial Series E Conversion Price shall be $11.34 per share; provided, however, that such conversion price shall be subject to adjustment as provided herein.

5B. Automatic Conversion.

(i) Each share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock shall automatically be converted into shares of Common Stock at the then effective Series A Conversion Price, Series B Conversion Price, Series C Conversion Price, Series D Conversion Price and Series E Conversion Price, respectively (each, a "Conversion Price"), immediately upon the closing of the sale of the Company's Common Stock in a firm commitment underwritten public offering pursuant to a registration statement under the Securities Act of 1933, as amended, with aggregate gross proceeds to the Company and any selling stockholders therein of at least $20,000,000 (before subtracting underwriting commissions and expenses) at an offering price of at least $17.01 per share (as adjusted for any stock dividends, combinations, splits or reclassifications, and the like) (a "Qualified Public Offering") (in the event of which Qualified Public Offering, the Person(s) entitled to receive Common Stock issuable upon such conversion of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock shall not be deemed to have converted that

Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock until immediately prior to the closing of such offering).

(ii) Each share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock shall automatically be converted into shares of Common Stock at the then effective Conversion Price immediately upon the vote or written consent of the holders of not less than eighty percent (80%) of the shares of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock then outstanding (voting or acting, as the case may be, as a single class and without regard to the number of shares issuable upon the conversion of such Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock).

5C. Mechanics of Conversion. Before any holder of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock shall be entitled to convert the same into shares of Common Stock, such holder shall surrender the certificate or certificates thereof, duly endorsed, at the office of the Company or of any transfer agent for such shares, and shall give written notice to the Company at such office that he elects to convert the same and shall state therein the name or names in which the certificate or certificates for shares of Common Stock are to be issued. The Company shall, as soon as practicable thereafter, issue and deliver at such office to such holder of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock certificate or certificates for the number of shares of Common Stock to which the holder shall be entitled as provided herein. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of surrender of the shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock to be converted, and the Person(s) entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock on such date. In the event of an automatic conversion, the Board of Directors may elect to treat the conversion of the shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock as having been made effective as of the date of the event resulting in the automatic conversion.

5D. Adjustments to Conversion Price for Dilutive Issues.

(i) Special Definitions. For purposes of this paragraph 5D, the following definitions apply:

(a) "Additional Shares of Common Stock" shall mean all shares of Common Stock issued (or, pursuant to 5D(iii), deemed to be issued) by the Company after the Series E Issue Date other than shares of Common Stock, Options and/or Convertible Securities issued or issuable:

1. upon conversion of shares of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock;

2. to current or former officers, directors, employees or consultants of the Company pursuant to a stock option plan, stock purchase plan or restricted stock plan approved by the stockholders and the Board of Directors;

3. to directors, employees or consultants of the Company as compensation for services rendered to the Company under agreements approved by all members of the Board of Directors at a duly convened meeting at which all such members were present or by their unanimous written consent;

4. upon exercise of certain warrants to purchase up to 550,000 shares (which number is subject to adjustment as provided therein) of Common Stock;

5. as a dividend or distribution on Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock;

6. pursuant to a transaction or event for which adjustment of the Series A Conversion Price, Series B Conversion Price, Series C Conversion Price, Series D Conversion Price or Series E Conversion Price is made pursuant to paragraph 5E; or

7. pursuant to the acquisition of another or other Person by merger, share exchange or purchase of all or substantially all of the assets of such Company or other Person or reorganization transaction.

(b) "Convertible Securities" shall mean any evidences of indebtedness, shares (other than Common Stock, Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock) or other securities convertible into or exchangeable for Common Stock.

(c) "Options" shall mean rights, options or warrants to subscribe for, purchase or otherwise acquire either Common Stock or Convertible Securities.

(ii) No Adjustment of Conversion Price. No adjustment in the Series A Conversion Price, Series B Conversion Price, Series C Conversion Price, Series D Conversion Price or Series E Conversion Price of a particular share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, respectively, shall be made in respect of the issuance of Additional Shares of Common Stock unless the consideration per share for an Additional Share of Common Stock issued or deemed to be issued by the Company is less than the Series A Conversion Price, Series B Conversion Price, Series C Conversion Price, Series D Conversion Price or Series E Conversion Price as the case may be, in effect on the date of, and immediately prior to such issue, for such share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, respectively.

(iii) Deemed Issue of Additional Shares of Common Stock. In the event the Company, at any time or from time to time after the Series E Issue Date, shall issue

any Options or Convertible Securities or shall fix a record date for the determination of holders of any class of securities then entitled to receive any such Options or Convertible Securities, then the maximum number of shares (as set forth in the instrument relating thereto without regard to any provisions contained therein designed to protect against dilution) of Common Stock issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue or, in case such a record date shall have been fixed, as of the close of business on such record date, provided that Additional Shares of Common Stock shall not be deemed to have been issued unless the consideration per share (determined pursuant to paragraph 5D(v) hereof) of such Additional Shares of Common Stock would be less than the Series A Conversion Price, Series B Conversion Price, Series C Conversion Price, Series D Conversion Price or Series E Conversion Price, as the case may be, in effect on the date of and immediately prior to such issue, or such record date, as the case may be, and provided further that in any such case in which Additional Shares of Common Stock are deemed to be issued:

(a) no further adjustments in the Series A Conversion Price, Series B Conversion Price, Series C Conversion Price, Series D Conversion Price or Series E Conversion Price shall be made upon the subsequent issue of Convertible Securities or shares of Common Stock upon the exercise of such Options or conversion or exchange of such Convertible Securities;

(b) if such Options or Convertible Securities by their terms provide, with the passage of time or otherwise, for any increase in the consideration payable to the Company, or decrease in the number of shares of Common Stock issuable upon the exercise, conversion or exchange thereof, then the Series A Conversion Price, Series B Conversion Price, Series C Conversion Price, Series D Conversion Price or Series E Conversion Price, as the case may be, computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon any such increase or decrease becoming effective, be recomputed to reflect such increase or decrease insofar as it affects such Options or the rights of conversion or exchange under such Convertible Securities (provided, however, that no such adjustment of the Series A Conversion Price, Series B Conversion Price, Series C Conversion Price, Series D Conversion Price or Series E Conversion Price shall affect Common Stock previously issued upon conversion of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock).

(c) upon the expiration of any such Options or any rights of conversion or exchange under such Convertible Securities which shall not have been exercised, the Series A Conversion Price, Series B Conversion Price, Series C Conversion Price, Series D Conversion Price or Series E Conversion Price computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon such expiration, be recomputed as if:

1. in the case of Convertible Securities or Options for Common Stock, the only Additional Shares of Common Stock issued were the shares of Common Stock, if any, actually issued upon the exercise of such Options or the conversion or

exchange of such Convertible Securities and the consideration received therefor was the consideration actually received by the Company for the issue of all such Options, whether or not exercised, plus the consideration actually received by the Company upon such exercise, or for the issue of all such Convertible Securities which were actually converted or exchanged, plus the additional consideration, if any, actually received by the Company upon such conversion or exchange, and

2. in the case of Options for Convertible Securities, only the Convertible Securities, if any, actually issued upon the exercise thereof were issued at the time of issue of such Options and the consideration received by the Company for the Additional Shares of Common Stock deemed to have been then issued was the consideration actually received by the Company for the issue of all such Options, whether or not exercised, plus the consideration deemed to have been received by the Company (determined pursuant to paragraph 5D(v) below) upon the issue of the Convertible Securities with respect to which such Options were actually exercised;

(d) no adjustment of the conversion rate for the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock shall have the effect of increasing the Series A Conversion Price, Series B Conversion Price, Series C Conversion Price, Series D Conversion Price or Series E Conversion Price to an amount which exceeds the lower of (x) the Series A Conversion Price, Series B Conversion Price, Series C Conversion Price, Series D Conversion Price or Series E Conversion Price on the original adjustment date, or (y) the Series A Conversion Price, Series B Conversion Price, Series C Conversion Price, Series D Conversion Price or Series E Conversion Price that would have resulted from any actual issuance of Additional Shares of Common Stock between the original adjustment date and such readjustment date;

(e) in the case of any Options which expire by their terms not more than 30 days after the date of issue thereof, no adjustment of the Series A Conversion Price, Series B Conversion Price, Series C Conversion Price, Series D Conversion Price or Series E Conversion Price shall be made, except as to shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock converted during such period, until the expiration or exercise of all such Options, whereupon such adjustment shall be made in the same manner provided in clause (c) above; and

(f) if any such record date shall have been fixed and such Options or Convertible Securities are not issued on the date fixed thereof, the adjustment previously made in the Series A Conversion Price, Series B Conversion Price, Series C Conversion Price, Series D Conversion Price or Series E Conversion Price which became effective on such record date shall be cancelled as of the close of business on such record date, and shall instead be made on the actual date of issuance, if any.

(iv) Adjustment of Conversion Price Upon Issuance of Additional Shares of Common Stock. In the event the Company, at any time after the Series E Issue Date, shall issue Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to paragraph 5D(iii)) for a consideration per share less than the Series A Conversion Price, Series B Conversion Price, Series C Conversion Price, Series D Conversion Price or Series E Conversion Price, as the case may be, in effect on the date of and immediately prior to such issue, then and in such event, such Series A Conversion Price, Series B Conversion Price, Series C Conversion Price,

Series D Conversion Price or Series E Conversion Price shall be reduced, as the case may be, concurrently with such issue, to a price (calculated to the nearest whole cent) determined by multiplying the Series A Conversion Price, Series B Conversion Price, Series C Conversion Price, Series D Conversion Price or Series E Conversion Price, as applicable, by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to such issue plus the number of shares of Common Stock which the aggregate consideration received by the Company for the total number of Additional Shares of Common Stock so issued would purchase at the applicable Conversion Price, and the denominator of which shall be the number of shares of Common Stock outstanding immediately prior to such issue plus the number of such Additional Shares of Common Stock so issued; and provided further that, for the purposes of this paragraph 5D(iv), all shares of Common Stock issuable upon conversion of all outstanding Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock shall be deemed to be outstanding. For example, if after the Series E Issue Date, the Company issues 1,000,000 shares of Common Stock for consideration per share of $10.00, assuming 5,386,643 shares of Common Stock outstanding (determined in the manner provided above and using the initial Series E conversion rate of one (1)), the Conversion Price of a share of Series E Preferred Stock immediately would be reduced to the price determined by multiplying $11.34 (the initial Series E Conversion Price) by the following fraction:

(5,386,643 + [(1,000,000 x 10.00) 11.34]) (5,386,643 + 1,000,000)

$$= \frac{5,386,643 + 881,834}{6,386,643}$$

$$= \frac{6,268,477}{6,386,643}$$

$$= 0.9815$$

resulting in an adjusted Series E Conversion Price of $11.34 x 0.9815 = $11.13, and a revised Series E Conversion Rate of 1.02:1 (i.e., $11.34 $11.13).

(v) Determination of Consideration. For purposes of this paragraph 5D, the consideration received by the Company for the issuance of any Additional Shares of Common Stock shall be computed as follows:

(a) Cash and Property. Such consideration shall:

1. insofar as it consists of cash, be computed at the aggregate amount of cash received by the Company excluding amounts paid or payable for accrued interest or accrued dividends after deducting all commissions and expenses paid and concessions and discounts allowed to underwriters, dealers or others performing similar services in connection with such issue;

2. insofar as it consists of property other than cash, be computed at the fair value thereof at the time of such issue, as determined in good faith by the Board of Directors; and

3. in the event Additional Shares of Common Stock are issued together with other shares or securities or other assets of the Company for consideration which covers both, be the proportion of such consideration so received, computed as provided in clauses (1) and (2) above, as determined in good faith by the Board of Directors.

(b) Options and Convertible Securities. The consideration per share received by the Company for Additional Shares of Common Stock deemed to have been issued pursuant to paragraph 5D(iii), relating to Options and Convertible Securities, shall be determined by dividing:

1. the total amount, if any, received or receivable by the Company as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein designed to protect against dilution) payable to the Company upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Option for Convertible Securities and the conversion or exchange of such Convertible Securities; by

2. the maximum number of shares of Common Stock (as set forth in the instruments relating thereto, without regard to any provision contained therein designed to protect against dilution) issuable upon the exercise of such Options or the conversion or exchange of such Convertible Securities.

5E. Adjustments for Dividends, Combinations or Subdivisions of Common Stock. In the event that the Company at any time or from time to time after the Series E Issue Date shall declare or pay any dividend on the Common Stock payable in Common Stock or in any right to acquire Common Stock, or shall effect a subdivision of the outstanding shares of Common Stock into a greater number of shares of Common Stock (by stock split, reclassification or otherwise), or in the event the outstanding shares of Common Stock shall be combined or consolidated, by reclassification or otherwise, into a lesser number of shares of Common Stock, then the Series A Conversion Price, Series B Conversion Price, Series C Conversion Price, Series D Conversion Price and Series E Conversion Price in effect immediately prior to such event shall, concurrently with the effectiveness of such event, be proportionately decreased or increased, as appropriate.

5F. Other Distributions. In the event the Company shall at any time or from time to time make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive a dividend or other distribution payable in securities of other Persons, evidences of indebtedness issued by the Company or any of its subsidiaries or other Persons, assets (excluding cash dividends) or Options or rights not referred to in paragraph 5D(iii), then in each such event provision shall be made so that the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock

shall receive, upon the conversion thereof, the securities of the Company which they would have received had their stock been converted into Common Stock on the date of such event.

5G. Other Adjustments. In case of any reorganization or any reclassification of the capital stock of the Company, any consolidation, merger or share exchange of the Company with or into another corporation or corporations (other than a consolidation or merger deemed to be a liquidation, dissolution or winding up of the Company as provided in paragraph 2B above), each share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock shall thereafter be convertible into the number of shares of stock or other securities or property (including cash) to which a holder of the number of shares of Common Stock deliverable upon conversion of such share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock would have been entitled upon the record date of (or date of, if no record date is fixed) such reorganization, reclassification, consolidation, merger or share exchange; and, in any case appropriate adjustment (as determined by the Board of Directors) shall be made in the application of the provisions herein set forth with respect to the rights and interests thereafter of the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock to the end that the provisions set forth herein shall thereafter be applicable, as nearly equivalent as is practicable, in relation to any shares of stock or the securities or property (including cash) thereafter deliverable upon the conversion of the shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock.

5H. No Impairment. The Company will not, by amendment of its Certificate of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company but will at all times in good faith assist in the carrying out of all the provisions of this part (5) and in the taking of all such action as may be necessary or appropriate in order to protect the conversion right of the holders of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock against impairment.

5I. Certificates as to Adjustments. Upon the occurrence of each adjustment or readjustment of the Series A Conversion Price, Series B Conversion Price, Series C Conversion Price, Series D Conversion Price or Series E Conversion Price, as the case may be, pursuant to this part (5), the Company at its expense shall promptly compute such adjustment and prepare and furnish to each holder of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, as the case may be, a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Company shall, upon the written request at any time of any holder of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, as the case may be, furnish or cause to be furnished to such holder a like certificate setting forth (i) such adjustments and readjustments, (ii) the Series A Conversion Price, Series B Conversion Price, Series C Conversion Price, Series D Conversion Price and Series E Conversion Price at the time in effect, and (iii) the number of shares of Common Stock and the amount, if any, of other

property which at the time would be received upon the conversion of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock.

5J. Issue Taxes. The Company shall pay any and all issue and other taxes that may be payable in respect of any issue or delivery of shares of Common Stock on conversion of shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock pursuant hereto; provided, however, that the Company shall not be obligated to pay any transfer taxes resulting from any transfer requested by any holder in connection with any such conversion.

5K. Reservation of Stock Issuable Upon Conversion. The Company shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the conversion of the shares of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, the Company will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose, including, without limitation, engaging in best efforts to obtain the requisite stockholder approval of any necessary amendment to its Certificate of Incorporation.

5L. Fractional Shares. No fractional share shall be issued upon the conversion of any share or shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock. All shares of Common Stock (including fractions thereof) issuable upon conversion of more than one share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock by a holder thereof shall be aggregated for purposes of determining whether the conversion would result in the issuance of any fractional share. If, after such aggregation, the conversion would result in the issuance of a fraction of a share of Common Stock, the Company shall, in lieu of issuing any fractional share, pay the holder otherwise entitled to such fraction a sum in cash equal to the fair market value of such fraction on the date of conversion (as determined in good faith by the Board of Directors of the Company).

(6) Registration of Transfer.

The Company will keep at its principal office a register for the registration of shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock. Upon the surrender of any certificate representing shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock at such place, the Company will, at the request of the record holder of such certificate, execute and deliver (at the Company's expense) a new

certificate or certificates in exchange therefor representing in the aggregate the number of shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock represented by the surrendered certificate. Each such new certificate will be registered in such name and will represent such number of shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock as is requested by the holder of the surrendered certificate and will be substantially identical in form to the surrendered certificate, and dividends will accrue on the shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock represented by such new certificate from the date to which dividends have been fully paid on such shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock represented by the surrendered certificate.

(7) Replacement.

Upon receipt of evidence reasonably satisfactory to the Company (an affidavit of the registered holder will be satisfactory) of the ownership and the loss, theft, destruction or mutilation of any certificate evidencing shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, and in the case of any such loss, theft or destruction, upon receipt of indemnity reasonably satisfactory to the Company or, in the case of any mutilation, upon surrender of such certificate the Company will (at its expense) execute and deliver in lieu of such certificate a new certificate of like kind representing the number of shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock represented by such lost, stolen, destroyed or mutilated certificate, and dividends will accrue on the shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock represented by such new certificate from the date to which dividends have been fully paid on such lost, stolen, destroyed or mutilated certificate.

(8) Certain Definitions. When used in this Part D of this Section 4.1 of Article IV:

"Common Stock" means, collectively, the Company's Common Stock, par value $0.001 per share, and any capital stock of any class of the Company hereafter authorized which is not limited to a fixed sum or percentage of par or stated value in respect to the rights of the holders thereof to participate in dividends or in the distribution of assets upon any liquidation, dissolution or winding up of the Company.

"Person" means an individual, a partnership, a corporation, an association, a joint stock company, a trust, a joint venture, an unincorporated organization and a governmental entity or any department, agency or political subdivision thereof.

"Subsidiary" means any corporation more than fifty percent (50%) of the outstanding voting securities are owned by the Company or any Subsidiary, directly or indirectly, or a partnership or limited liability company in which the Company or any Subsidiary is a general partner or manager or holds interests entitling it to receive more than fifty percent (50%) of the profits or losses of the partnership or limited liability company.
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(9) Amendment and Waiver.

No amendment, modification or waiver of this Part D of this Section 4.1 of Article IV will be binding or effective with respect to any provision of these terms without the vote or prior written consent of a Sufficient Vote of the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock outstanding at the time such action is taken, voting together as a single class. No change in the terms hereof may be accomplished by merger or consolidation of the Company or any other liquidation event under Section 2B above with another Person unless the Company has obtained the prior written consent of the holders of a Sufficient Vote of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock.

(10) Notices.

10A. Any notice or other communication required or permitted hereunder shall be in writing and shall be delivered personally or by express courier, telegraphed, telexed, sent by facsimile transmission or sent postage prepaid by certified or registered mail, return receipt requested, or by express mail. Any such notice shall be deemed given when so delivered personally, telegraphed, telexed, or sent by confirmed facsimile transmission or, if mailed, three (3) business days after the date of deposit in the United States mail addressed (a) to the Company, at its principal executive offices and (b) to any stockholder, at such holder's address as it appears in the stock records of the Company (unless otherwise indicated by any such holder). Notice given by personal delivery, courier service or mail shall be effective upon actual receipt. Notice given by telecopier shall be confirmed by appropriate answer back and shall be effective upon actual receipt if received during the recipient's normal business hours, or at the beginning of the next day after receipt if not received during the recipient's normal business hours.

10B. In the event of any taking by the Company of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend (other than a cash dividend) or other distribution, any security or right convertible into or entitling the holder thereof to receive Additional Shares of Common Stock, or any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, the Company shall mail to each holder of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock at least 20 days prior to the date specified therein, a notice specifying the date on which any such record is to be taken, and the amount and character of such dividend, distribution, security or right.

E. Common Stock. The Common Stock shall be subject to the prior and superior rights of the 1992 Preferred Stock, Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock and of any subsequent series of preferred stock. Each share of Common Stock shall be equal to every other share of Common Stock. The holder of shares of Common Stock shall be entitled to one vote for each share of such stock upon matters presented to stockholders.

4.2 Effective as of a Qualified Public Offering (as defined in Section 5B of Part D of Section 4.1 of this Article IV), the Company's capital stock shall be comprised as follows:

A. Authorized Shares. The aggregate number of shares that the Company shall have authority to issue is Four Hundred Twenty-Five Million Four Hundred Twenty Thousand (425,420,000), (a) Four Hundred Million (400,000,000) shares of which shall be Common Stock, par value $0.001 per share, and (b) Twenty-Five Million Four Hundred Twenty Thousand (25,420,000) shares of which shall be Preferred Stock, par value $0.001 per share. Of such Preferred Stock, Four Hundred Twenty Thousand (420,000) shall be designated as the "1992 Preferred Stock" (the "1992 Preferred Stock").

B. Common Stock. Each share of Common Stock shall have one vote on each matter submitted to a vote of the stockholders of the Company. Subject to the provisions of applicable law and the rights of the holders of the outstanding shares of Preferred Stock, if any, the holders of shares of Common Stock shall be entitled to receive, when and as declared by the Board of Directors of the Company, out of the assets of the Company legally available therefor, dividends or other distributions, whether payable in cash, property or securities of the Company. The holders of shares of Common Stock shall be entitled to receive, in proportion to the number of shares of Common Stock held, the net assets of the Company upon dissolution after any preferential amounts required to be paid or distributed to holders of outstanding shares of Preferred Stock, if any, are so paid or distributed.

C. Preferred Stock.

(1) Series. The Preferred Stock may be issued from time to time by the Board of Directors as shares of one or more series. The description of shares of each additional series of Preferred Stock, including any designations, preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications, and terms and conditions of redemption shall be as set forth in resolutions adopted by the Board of Directors.

(2) Rights and Preferences. The Board of Directors is expressly authorized, at any time, by adopting resolutions providing for the issuance of, or providing for a change in the number of, shares of any particular series of Preferred Stock and, if and to the extent from time to time required by law, by filing certificates of amendment or designation which are effective without stockholder action, to increase or decrease the number of shares included in each series of Preferred Stock, but not below the number of shares then issued, and to set in any one or more respects the designations, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, or terms and conditions of redemption relating to the shares of each such series. The authority of the Board of Directors with respect to each series of Preferred Stock shall include, but not be limited to, setting or changing the following:

(a) the dividend rate, if any, on shares of such series, the times of payment and the date from which dividends shall be accumulated, if dividends are to be cumulative ;

(b) whether the shares of such series shall be redeemable and, if so, the redemption price and the terms and conditions of such redemption;

(c) the obligation, if any, of the Company to redeem shares of such series pursuant to a sinking fund;

(d) whether shares of such series shall be convertible into, or exchangeable for, shares of stock of any other class or classes and, if so, the terms and conditions of such conversion or exchange, including the price or prices or the rate or rates of conversion or exchange and the terms of adjustment, if any;

(e) whether the shares of such series shall have voting rights, in addition to the voting rights provided by law, and, if so, the extent of such voting rights;

(f) the rights of the shares of such series in the event of voluntary or involuntary liquidation, dissolution or winding-up of the Company; and

(g) any other relative rights, powers, preferences, qualifications, limitations or restrictions thereof relating to such series.

D. The 1992 Preferred Stock shall have the preferences, limitations and relative rights set forth below:

(1) Dividends. Holders of the 1992 Preferred Stock shall not be entitled to receive dividends, payable in cash, stock or otherwise, with respect to such 1992 Preferred Stock at any time while such 1992 Preferred Stock is outstanding.

(2) Redemption. The 1992 Preferred Stock shall be redeemable by the Company. Such redemption shall be effected by the Company at such time as the Board of Directors of the Company determines, in its sole discretion, that the Company has available funds in excess of the anticipated needs of the Company, including reasonable reserves for future expenses or capital costs. No dividends shall be declared or paid with respect to the Common Stock so long as any shares of 1992 Preferred Stock are issued and outstanding. The redemption price per share of 1992 Preferred Stock shall be $0.50.

At such time or times as the Board of Directors determines that funds are available for the redemption of all or a portion of the 1992 Preferred Stock, the Company shall provide each holder of 1992 Preferred Stock with written notice of its election to redeem all or a portion of such 1992 Preferred Stock. If only a portion of the total outstanding shares of 1992 Preferred Stock is to be redeemed, a pro rata portion of each holder's shares of 1992 Preferred Stock shall be redeemed, provided that such redemption shall be adjusted to preclude the creation of fractional shares pursuant to such redemption.

Any shares of 1992 Preferred Stock which are redeemed by the Company will be cancelled and will not be reissued, sold or transferred. If fewer than the total number of shares of 1992 Preferred Stock represented by any certificate are redeemed, a new certificate representing the number of unredeemed shares of 1992 Preferred Stock will be issued to the holder thereof without cost to such holder within twenty days after surrender of the certificate representing the redeemed shares.

The Company will not redeem, repurchase or otherwise acquire any shares of 1992 Preferred Stock except as expressly authorized herein or pursuant to a purchase offer made pro rata to all holders of shares of 1992 Preferred Stock on the basis of the number of shares of 1992 Preferred Stock owned by each such holder.

(3) Liquidation. Subject to the rights of any series of Preferred Stock which may from time to time come into existence, in the event of a voluntary or involuntary liquidation, dissolution or winding up of the Company, holders of the then outstanding shares of 1992 Preferred Stock shall be entitled to receive for each such share of 1992 Preferred Stock payment in cash equal to $0.50, before any distribution of assets is made to holders of the Common Stock or any other class or series of capital stock of the Company ranking junior to the 1992 Preferred Stock as to distribution on liquidation, dissolution or winding up. Subject to the rights of any series of Preferred Stock which may from time to time come into existence, if, upon any such liquidation, dissolution or winding up of the Company, the assets of the Company available for distribution to holders of 1992 Preferred Stock shall be insufficient to permit payment in full of the aforesaid preferential amounts, then all such assets of the Company shall be distributed ratably among the holders of the 1992 Preferred Stock in proportion to the full preferential amounts to which they shall be entitled respectively.

After distribution in full of the preferential amounts to be distributed to the holders of any outstanding shares of 1992 Preferred Stock, and to the holders of any outstanding securities of the Company having a preference to distributions of assets of the Company upon liquidation, dissolution or winding up of the Company, the holders of the shares of Common Stock shall be entitled to receive all remaining assets of the Company available for distributions to its stockholders, ratably in proportion to the number of shares of the Common Stock held by them, and the holders of the 1992 Preferred Stock shall have no right to participate in such remaining assets.

Neither the merger nor consolidation of the Company into or with any other entity, nor the merger or consolidation of any other entity into or with the Company, nor a sale, transfer, lease or other disposition of all or any part of the assets of the Company shall be deemed to be a liquidation, dissolution or winding up of the Company within the meaning of this Part D of Section 4.2 of Article IV.

(4) Voting Rights. The holders of shares of 1992 Preferred Stock shall not be entitled to vote upon any matter submitted to a vote of the stockholders of the Company except to the extent required by law.

ARTICLE V

A director of the Company shall not be personally liable to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (a) for any breach of the director's duty of loyalty to the Company or its stockholders, (b) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (c) under Section 174 of the Delaware

General Corporation Law or (d) for any transaction from which the director derived any improper personal benefit. If the Delaware General Corporation Law is amended after approval by the stockholders of this Article to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Company shall be eliminated or limited to the fullest extent permitted by the Delaware General Corporation Law as so amended.

ARTICLE VI

The management of the business and the conduct of the affairs of the Company shall be vested in its Board of Directors. The number of directors which shall constitute the whole Board of Directors shall be fixed by, or in the manner provided in, the Bylaws of the Company.

ARTICLE VII

Meetings of stockholders may be held within or without the State of Delaware, as the Bylaws of the Company may provide. The books of the Company may be kept (subject to any provision contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the Bylaws of the Company.

ARTICLE VIII

Election of directors at an annual or special meeting of stockholders need not be by written ballot unless the Bylaws of the Company shall so provide.

ARTICLE IX

A. At each annual meeting of stockholders, directors of the Company shall be elected to hold office until the expiration of the term for which they are elected, and until their successors have been duly elected and qualified. Effective immediately following the closing of the initial public offering of the Company's capital stock pursuant to an effective registration statement filed under the Securities Act of 1933, as amended (the "Initial Public Offering"), the directors of the Company shall be divided into three classes as nearly equal in size as is practicable, hereby designated as Class I, Class II and Class III. The initial Class I, Class II and Class III directors shall be those directors designated and elected by resolution of the Board of Directors or stockholders prior to the Initial Public Offering. The term of office of the initial Class I directors shall expire at the first annual meeting of stockholders following the closing of the Initial Public Offering (the "First Public Company Annual Meeting"); the term of office of the initial Class II directors shall expire at the next succeeding annual meeting of stockholders; and the term of office of the initial Class III directors shall expire at the second succeeding annual meeting of stockholders. At each annual meeting after the First Public Company Annual Meeting, directors to replace those of a Class whose terms expire at such annual meeting shall be elected to hold office until the third succeeding annual meeting and until their respective successors shall have been duly elected and qualified. If the number of directors is hereafter changed, any newly created directorships or decrease in directorships shall be so apportioned among the classes as to make all classes as nearly equal in number as is practicable.

B. Vacancies occurring on the Board of Directors for any reason may be filled by vote of a majority of the remaining members of the Board of Directors, although less than a quorum, at a meeting of the Board of Directors. A person so elected by the Board of Directors to fill a vacancy shall hold office until the next succeeding annual meeting of stockholders of the Company and until his or her successor shall have been duly elected and qualified.

ARTICLE X

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

ARTICLE XI

Effective upon the closing of the Initial Public Offering, stockholders of the Company may not take action by written consent in lieu of a meeting but must take any actions at a duly called annual or special meeting.

ARTICLE XII

Notwithstanding any other provisions of this Certificate of Incorporation or any provision of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of the capital stock required by law or this Certificate of Incorporation, effective as of the Initial Public Offering, the affirmative vote of the holders of at least two-thirds (2/3) of the combined voting power of all of the then-outstanding shares of the Company entitled to vote shall be required to alter, amend or repeal Articles IX or XI or this Article XII, or any provisions thereof.

ARTICLE XIII

Subject to Article XII above, the Company reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred on stockholders herein are granted subject to this reservation.

* * *

EXHIBIT 4.1

[LOGO] TM ACTIVE POWER

COMMON STOCK
INCORPORATED UNDER THE LAWS
OF THE STATE OF DELAWARE

NUMBER
APT

SHARES

THIS CERTIFICATE IS TRANSFERABLE
IN BOSTON, MA AND NEW YORK, NY

CUSIP 00504W 10 0

SEE REVERSE FOR
CERTAIN DEFINITIONS

THIS IS TO CERTIFY THAT

IS THE OWNER OF

FULLY PAID AND NON-ASSESSABLE SHARES, $.001 par value, of the COMMON STOCK of

ACTIVE POWER
(hereinafter called the "Corporation"), transferable on the books of the Corporation or by duly authorized attorney, upon surrender of this certificate properly endorsed. This Certificate is not valid unless countersigned by a Transfer Agent and registered by a Registar.

WITNESS the facsimile seal of the Corporation and the facsimile signatures of its duly authorized officers.

Dated:

[SEAL]

/s/ David S. Gino
Secretary and Chief Financial Officer

/s/ Joseph F. Pinkerton, III
President and Chief Executive Officer

COUNTERSIGNED AND REGISTERED:
EQUISERVE TRUST COMPANY, N.A.
TRANSFER AGENT
AND REGISTRAR

BY
AUTHORIZED SIGNATURE

ACTIVE POWER

THE CORPORATION WILL FURNISH WITHOUT CHARGE TO EACH STOCKHOLDER WHO SO REQUESTS, A FULL STATEMENT OF THE DESIGNATIONS, RELATIVE RIGHTS, PREFERENCES AND LIMITATIONS OF EACH CLASS OF STOCK OR SERIES THEREOF AUTHORIZED TO BE ISSUED AND THE AUTHORITY OF THE BOARD OF DIRECTORS OF THE CORPORATION TO DESIGNATE AND FIX THE RELATIVE RIGHTS, PREFERENCES AND LIMITATIONS OF CLASSES OF PREFERRED STOCK IN SERIES.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM -- as tenants in common	UNIF GIFT MIN ACT --_____Custodian_____
TEN ENT -- as tenants by the entireties	(Cust) (Minor)
JT TEN -- as joint tenants with right of survivorship and not as tenants in common	Under Uniform Gifts to Minors Act_____ (State)

Additional abbreviations may also be used though not in the above list.

For value received, _____ hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF ASSIGNEE

- ---

- ---

- ---

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING POSTAL ZIP CODE OF ASSIGNEE)

- ---

- ---

Shares

- ---

represented by the within Certificate, and do hereby irrevocably constitute and appoint

- ---

- ---

Attorney to transfer the said Shares on the Books of the within-named Corporation, with full power of substitution in the premises.

Dated: _____

_____

NOTICE: The signature to this assignment must correspond with the name as written upon the face of the certificate in every particular, without alteration or enlargement, or any change whatever.

SIGNATURE(S) GUARANTEED:

_____

THE SIGNATURE(S) MUST BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM), PURSUANT TO S.E.C. RULE 17Ad-15.

_____

Exhibit 5.1

OPINION REGARDING LEGALITY OF SHARES

BROBECK, PHLEGER & HARRISON LLP
301 Congress Avenue, Suite 1200
Austin, Texas 78701
Telephone: (512) 477-5495
Facsimile: (512) 477-5813

June 30, 2000

Active Power, Inc.
11525 Stonehollow Drive, Suite 110
Austin, Texas 78758

Re: Active Power, Inc. Registration Statement on Form S-1
for 8,000,000 Shares of Common Stock

Ladies and Gentlemen:

We have acted as counsel to Active Power, Inc., a Delaware corporation (the "Company"), in connection with the proposed issuance and sale by the Company of up to 8,000,000 shares of the Company's Common Stock (the "Shares") pursuant to the Company's Registration Statement on Form S-1 (the "Registration Statement") filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended (the "Act").

This opinion is being furnished in accordance with the requirements of Item 16(a) of Form S-1 and Item 601(b)(5)(i) of Regulation S-K.

We have reviewed the Company's Certificate of Incorporation and Bylaws and the corporate proceedings taken by the Company in connection with the issuance and sale of the Shares. Based on such review, we are of the opinion that the Shares have been duly authorized, and if, as and when issued in accordance with the Registration Statement and the related prospectus (as amended and supplemented through the date of issuance) will be legally issued, fully paid and nonassessable.

We consent to the filing of this opinion letter as Exhibit 5.1 to the Registration Statement and to the reference to this firm under the caption "Legal Matters" in the prospectus which is part of the Registration Statement. In giving this consent, we do not thereby admit that we are within the category of persons whose consent is required under Section 7 of the Act, the rules and regulations of the Securities and Exchange Commission promulgated thereunder, or Item 509 of Regulation S-K.

This opinion letter is rendered as of the date first written above and we disclaim any obligation to advise you of facts, circumstances, events or developments which hereafter may be brought to our attention and which may alter, affect or modify the opinion expressed herein. Our opinion is expressly limited to the matters set forth above and we render no opinion, whether by implication or otherwise, as to any other matters relating to the Company or the Shares.

Very truly yours,

BROBECK, PHLEGER & HARRISON LLP

EXHIBIT 10.2

ACTIVE POWER, INC.
2000 STOCK INCENTIVE PLAN

ARTICLE ONE

GENERAL PROVISIONS

I. PURPOSE OF THE PLAN

This 2000 Stock Incentive Plan is intended to promote the interests of Active Power, Inc., a Delaware corporation, by providing eligible persons with the opportunity to acquire a proprietary interest, or otherwise increase their proprietary interest, in the Corporation as an incentive for them to remain in the service of the Corporation.

Capitalized terms shall have the meanings assigned to such terms in the attached Appendix.

II. STRUCTURE OF THE PLAN

A. The Plan shall be divided into three separate equity incentive programs:

(i) the Discretionary Option Grant Program under which eligible persons may, at the discretion of the Plan Administrator, be granted options to purchase shares of Common Stock,

(ii) the Stock Issuance Program under which eligible persons may, at the discretion of the Plan Administrator, be issued shares of Common Stock directly, either through the immediate purchase of such shares or as a bonus for services rendered the Corporation (or any Parent or Subsidiary), and

(iii) the Automatic Option Grant Program under which eligible non-employee Board members shall automatically receive options at periodic intervals to purchase shares of Common Stock.

B. The provisions of Articles One and Five shall apply to all equity programs under the Plan and shall govern the interests of all persons under the Plan.

III. ADMINISTRATION OF THE PLAN

A. Prior to the Section 12 Registration Date, the Discretionary Option Grant and Stock Issuance Programs shall be administered by the Board unless otherwise determined by the Board. Beginning with the Section 12 Registration Date, the following provisions shall govern the administration of the Plan:

(i) The Board shall have the authority to administer the Discretionary Option Grant and Stock Issuance Programs with respect to Section 16 Insiders but may delegate such authority in whole or in part to the Primary Committee.

(ii) Administration of the Discretionary Option Grant and Stock Issuance Programs with respect to all other persons eligible to participate in those programs may, at the Board's discretion, be vested in the Primary Committee or a Secondary Committee, or the Board may retain the power to administer those programs with respect to all such persons.

(iii) Administration of the Automatic Option Grant Program shall be self-executing in accordance with the terms of that program.

B. Each Plan Administrator shall, within the scope of its administrative jurisdiction under the Plan, have full power and authority subject to the provisions of the Plan:

(i) to establish such rules as it may deem appropriate for proper administration of the Plan, to make all factual determinations, to construe and interpret the provisions of the Plan and the awards thereunder and to resolve any and all ambiguities thereunder;

(ii) to determine, with respect to awards made under the Discretionary Option Grant and Stock Issuance Programs, which eligible persons are to receive such awards, the time or times when such awards are to be made, the number of shares to be covered by each such award, the vesting schedule (if any) applicable to the award, the status of a granted option as either an Incentive Option or a Non-Statutory Option and the maximum term for which the option is to remain outstanding;

(iii) to amend, modify or cancel any outstanding award with the consent of the holder or accelerate the vesting of such award; and

(iv) to take such other discretionary actions as permitted pursuant to the terms of the applicable program.

Decisions of each Plan Administrator within the scope of its administrative functions under the Plan shall be final and binding on all parties.

C. Members of the Primary Committee or any Secondary Committee shall serve for such period of time as the Board may determine and may be removed by the Board at any time. The Board may also at any time terminate the functions of any Secondary Committee and reassume all powers and authority previously delegated to such committee.

D. Service on the Primary Committee or the Secondary Committee shall constitute service as a Board member, and members of each such committee shall accordingly be entitled to full indemnification and reimbursement as Board members for their service on such committee. No member of the Primary Committee or the Secondary Committee shall be liable for any act or omission made in good faith with respect to the Plan or any options or stock issuances under the Plan.

IV. ELIGIBILITY

A. The persons eligible to participate in the Discretionary Option Grant and Stock Issuance Programs are as follows:

(i) Employees,

(ii) non-employee members of the Board or the board of directors of any Parent or Subsidiary, and

(iii) consultants and other independent advisors who provide services to the Corporation (or any Parent or Subsidiary).

B. Only non-employee Board members shall be eligible to participate in the Automatic Option Grant Program.

V. STOCK SUBJECT TO THE PLAN

A. The stock issuable under the Plan shall be shares of authorized but unissued or reacquired Common Stock, including shares repurchased by the Corporation on the open market. The maximum number of shares of Common Stock initially reserved for issuance over the term of the Plan shall not exceed Nine Million Sixteen Thousand (9,016,000) shares. Such reserve shall consist of (i) the number of shares estimated to remain available for issuance, as of the Section 12 Registration Date, under the Predecessor Plan, including the shares subject to the outstanding options to be incorporated into the Plan and the additional shares which would otherwise be available for future grant, plus (ii) an increase of Two Million Seven Hundred Sixty Thousand (2,760,000) shares authorized by the Board subject to stockholder approval prior to the Section 12 Registration Date.

B. The number of shares of Common Stock available for issuance under the Plan shall automatically increase on the first trading day of January each calendar year during the term of the Plan, beginning with the calendar year 2001, by an amount equal to two percent (2%) of the total number of shares of Common Stock outstanding on the last trading day in December of the immediately preceding calendar year, but in no event shall such annual increase exceed One Million One Hundred Fifty Thousand (1,150,000) shares.

C. No one person participating in the Plan may receive options, separately exercisable stock appreciation rights and direct stock issuances for more than One Million One Hundred Fifty Thousand (1,150,000) shares of Common Stock in the aggregate per calendar year.

D. Shares of Common Stock subject to outstanding options (including options incorporated into this Plan from the Predecessor Plan) shall be available for subsequent issuance under the Plan to the extent those options expire, terminate or are cancelled for any reason prior to exercise in full. Unvested shares issued under the Plan and subsequently repurchased by the Corporation, at the original exercise or issue price paid per share, pursuant to the Corporation's repurchase rights under the Plan shall be added back to the number of shares of Common Stock reserved for issuance under the Plan and shall accordingly be available for reissuance through one or more subsequent options or direct stock issuances under the Plan.

However, should the exercise price of an option under the Plan be paid with shares of Common Stock or should shares of Common Stock otherwise issuable under the Plan be withheld by the Corporation in satisfaction of the withholding taxes incurred in connection with the exercise of an option or the vesting of a stock issuance under the Plan, then the number of shares of Common Stock available for issuance under the Plan shall be reduced by the gross number of shares for which the option is exercised or which vest under the stock issuance, and not by the net number of shares of Common Stock issued to the holder of such option or stock issuance. Shares of Common Stock underlying one or more stock appreciation rights exercised under the Plan shall not be available for subsequent issuance.

E. If any change is made to the Common Stock by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration, appropriate adjustments shall be made to (i) the maximum number and/or class of securities issuable under the Plan, (ii) the number and/or class of securities by which the share reserve is to increase each calendar year pursuant to the automatic share increase provisions of the Plan, (iii) the number and/or class of securities for which any one person may be granted options, separately exercisable stock appreciation rights and direct stock issuances under the Plan per calendar year, (iv) the number and/or class of securities for which grants are subsequently to be made under the Automatic Option Grant Program to new and continuing non-employee Board members, (v) the number and/or class of securities and the exercise price per share in effect under each outstanding option under the Plan and (vi) the number and/or class of securities and price per share in effect under each outstanding option incorporated into this Plan from the Predecessor Plan. Such adjustments to the outstanding options are to be effected in a manner which shall preclude the enlargement or dilution of rights and benefits under such options. The adjustments determined by the Plan Administrator shall be final, binding and conclusive.

ARTICLE TWO

DISCRETIONARY OPTION GRANT PROGRAM

I. OPTION TERMS

Each option shall be evidenced by one or more documents in the form approved by the Plan Administrator; provided, however, that each such document shall comply with the terms specified below. Each document evidencing an Incentive Option shall, in addition, be subject to the provisions of the Plan applicable to such options.

A. Exercise Price.

1. The exercise price per share shall be fixed by the Plan Administrator at the time of the option grant and may be less than, equal to or greater than the Fair Market Value per share of Common Stock on the option grant date.

2. The exercise price shall become immediately due upon exercise of the option and shall, subject to the provisions of Section II of Article Five and the documents evidencing the option, be payable in one or more of the following forms:

(i) in cash or check made payable to the Corporation;

(ii) shares of Common Stock held for the requisite period necessary to avoid a charge to the Corporation's earnings for financial reporting purposes and valued at Fair Market Value on the Exercise Date, or

(iii) to the extent the option is exercised for vested shares, through a special sale and remittance procedure pursuant to which the Optionee shall concurrently provide irrevocable instructions to (a) a Corporation-designated brokerage firm to effect the immediate sale of the purchased shares and remit to the Corporation, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased shares plus all applicable Federal, state and local income and employment taxes required to be withheld by the Corporation by reason of such exercise and (b) the Corporation to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale.

Except to the extent such sale and remittance procedure is utilized, payment of the exercise price for the purchased shares must be made on the Exercise Date.

B. Exercise and Term of Options. Each option shall be exercisable at such time or times, during such period and for such number of shares as shall be determined by the Plan Administrator and set forth in the documents evidencing the option. However, no option shall have a term in excess of ten (10) years measured from the option grant date.

C. Cessation of Service.

1. The following provisions shall govern the exercise of any options outstanding at the time of the Optionee's cessation of Service or death:

(i) Any option outstanding at the time of the Optionee's cessation of Service for any reason shall remain exercisable for such period of time thereafter as shall be determined by the Plan Administrator and set forth in the documents evidencing the option, but no such option shall be exercisable after the expiration of the option term.

(ii) Any option exercisable in whole or in part by the Optionee at the time of death may be subsequently exercised by his or her Beneficiary.

(iii) During the applicable post-Service exercise period, the option may not be exercised in the aggregate for more than the number of vested shares for which the option is exercisable on the date of the Optionee's cessation of Service. Upon the expiration of the applicable exercise period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be outstanding for any vested shares for which the option has not been exercised. However, the option shall, immediately upon the Optionee's cessation of Service, terminate and cease to be outstanding to the extent the option is not otherwise at that time exercisable for vested shares.

(iv) Should the Optionee's Service be terminated for Misconduct or should the Optionee engage in Misconduct while his or her options are outstanding, then all such options shall terminate immediately and cease to be outstanding.

2. The Plan Administrator shall have complete discretion, exercisable either at the time an option is granted or at any time while the option remains outstanding:

(i) to extend the period of time for which the option is to remain exercisable following the Optionee's cessation of Service to such period of time as the Plan Administrator shall deem appropriate, but in no event beyond the expiration of the option term, and/or

(ii) to permit the option to be exercised, during the applicable post-Service exercise period, for one or more additional installments in which the Optionee would have vested had the Optionee continued in Service.

D. Stockholder Rights. The holder of an option shall have no stockholder rights with respect to the shares subject to the option until such person shall have exercised the option, paid the exercise price and become a holder of record of the purchased shares.

E. Repurchase Rights. The Plan Administrator shall have the discretion to grant options which are exercisable for unvested shares of Common Stock. Should the Optionee cease Service while holding such unvested shares, the Corporation shall have the right to

repurchase, at the exercise price paid per share, any or all of those unvested shares. The terms upon which such repurchase right shall be exercisable (including the period and procedure for exercise and the appropriate vesting schedule for the purchased shares) shall be established by the Plan Administrator and set forth in the document evidencing such repurchase right.

F. Limited Transferability of Options. During the lifetime of the Optionee, Incentive Options shall be exercisable only by the Optionee and shall not be assignable or transferable other than by will or by the laws of inheritance following the Optionee's death. Non-Statutory Options shall be subject to the same restrictions, except that a Non-Statutory Option may, to the extent permitted by the Plan Administrator, be assigned in whole or in part during the Optionee's lifetime (i) as a gift to one or more members of the Optionee's immediate family, to a trust in which Optionee and/or one or more such family members hold more than fifty percent (50%) of the beneficial interest or to an entity in which more than fifty percent (50%) of the voting interests are owned by one or more such family members or (ii) pursuant to a domestic relations order. The terms applicable to the assigned portion shall be the same as those in effect for the option immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Plan Administrator may deem appropriate.

Notwithstanding the foregoing, the Optionee may also designate one or more persons as the beneficiary or beneficiaries of his or her outstanding options, and those options shall, in accordance with such designation, automatically be transferred to such beneficiary or beneficiaries upon the Optionee's death while holding those options. Such beneficiary or beneficiaries shall take the transferred options subject to all the terms and conditions of the applicable agreement evidencing each such transferred option, including (without limitation) the limited time period during which the option may be exercised following the Optionee's death.

II. INCENTIVE OPTIONS

The terms specified below shall be applicable to all Incentive Options. Except as modified by the provisions of this Section II, all the provisions of Articles One, Two and Six shall be applicable to Incentive Options. Options which are specifically designated as Non-Statutory Options when issued under the Plan shall not be subject to the terms of this Section II.

A. Eligibility. Incentive Options may only be granted to Employees.

B. Exercise Price. The exercise price per share shall not be less than one hundred percent (100%) of the Fair Market Value per share of Common Stock on the option grant date.

C. Dollar Limitation. The aggregate Fair Market Value of the shares of Common Stock (determined as of the respective date or dates of grant) for which one or more options granted to any Employee under the Plan (or any other option plan of the Corporation or any Parent or Subsidiary) may for the first time become exercisable as Incentive Options during any one calendar year shall not exceed the sum of One Hundred Thousand Dollars ($100,000). To the extent the Employee holds two (2) or more such options which become exercisable for the first time in the same calendar year, the foregoing limitation on the exercisability of such options as Incentive Options shall be applied on the basis of the order in which such options are granted.

D. 10% Stockholder. If any Employee to whom an Incentive Option is granted is a 10% Stockholder, then the exercise price per share shall not be less than one hundred ten percent (110%) of the Fair Market Value per share of Common Stock on the option grant date, and the option term shall not exceed five (5) years measured from the option grant date.

III. CHANGE IN CONTROL/HOSTILE TAKE-OVER

A. Each option outstanding at the time of a Change in Control but not otherwise fully-vested shall automatically accelerate so that each such option shall, immediately prior to the effective date of the Change in Control, become exercisable for all of the shares of Common Stock at the time subject to that option and may be exercised for any or all of those shares as fully-vested shares of Common Stock. However, an outstanding option shall not so accelerate if and to the extent: (i) such option is, in connection with the Change in Control, assumed or otherwise continued in full force and effect by the successor corporation (or parent thereof) pursuant to the terms of the Change in Control, (ii) such option is replaced with a cash incentive program of the successor corporation which preserves the spread existing at the time of the Change in Control on the shares of Common Stock for which the option is not otherwise at that time exercisable and provides for subsequent payout in accordance with the same vesting schedule applicable to those option shares or (iii) the acceleration of such option is subject to other limitations imposed by the Plan Administrator at the time of the option grant. Each option outstanding at the time of the Change in Control shall terminate as provided in Section III.C. of this Article Two.

B. All outstanding repurchase rights shall also terminate automatically, and the shares of Common Stock subject to those terminated rights shall immediately vest in full, in the event of any Change in Control, except to the extent: (i) those repurchase rights are assigned to the successor corporation (or parent thereof) or otherwise continue in full force and effect pursuant to the terms of the Change in Control or (ii) such accelerated vesting is precluded by other limitations imposed by the Plan Administrator at the time the repurchase right is issued.

C. Immediately following the consummation of the Change in Control, all outstanding options shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof) or otherwise expressly continued in full force and effect pursuant to the terms of the Change in Control.

D. Each option which is assumed in connection with a Change in Control shall be appropriately adjusted, immediately after such Change in Control, to apply to the number and class of securities which would have been issuable to the Optionee in consummation of such Change in Control had the option been exercised immediately prior to such Change in Control. Appropriate adjustments to reflect such Change in Control shall also be made to (i) the exercise price payable per share under each outstanding option, provided the aggregate exercise price payable for such securities shall remain the same, (ii) the maximum number and/or class of securities available for issuance over the remaining term of the Plan and (iii) the maximum number and/or class of securities for which any one person may be granted options, separately exercisable stock appreciation rights and direct stock issuances under the Plan per calendar year. To the extent the actual holders of the Corporation's outstanding Common Stock receive cash consideration for their Common Stock in consummation of the Change in Control, the successor

corporation may, in connection with the assumption of the outstanding options, substitute one or more shares of its own common stock with a fair market value equivalent to the cash consideration paid per share of Common Stock in such Change in Control.

E. The Plan Administrator may at any time provide that one or more options will automatically accelerate in connection with a Change in Control, whether or not those options are assumed or otherwise continued in full force and effect pursuant to the terms of the Change in Control. Any such option shall accordingly become exercisable, immediately prior to the effective date of such Change in Control, for all of the shares of Common Stock at the time subject to that option and may be exercised for any or all of those shares as fully-vested shares of Common Stock. In addition, the Plan Administrator may at any time provide that one or more of the Corporation's repurchase rights shall not be assignable in connection with such Change in Control and shall terminate upon the consummation of such Change in Control.

F. The Plan Administrator may at any time provide that one or more options will automatically accelerate upon an Involuntary Termination of the Optionee's Service within a designated period (not to exceed twenty-four (24) months) following the effective date of any Change in Control in which those options do not otherwise accelerate. Any options so accelerated shall remain exercisable for fully-vested shares until the earlier of (i) the expiration of
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the option term or (ii) the expiration of the one (1) year period measured from the effective date of the Involuntary Termination. In addition, the Plan Administrator may at any time provide that one or more of the Corporation's repurchase rights shall immediately terminate upon such Involuntary Termination.

G. The Plan Administrator may at any time provide that one or more options will automatically accelerate in connection with a Hostile Take-Over. Any such option shall become exercisable, immediately prior to the effective date of such Hostile Take-Over, for all of the shares of Common Stock at the time subject to that option and may be exercised for any or all of those shares as fully-vested shares of Common Stock. In addition, the Plan Administrator may at any time provide that one or more of the Corporation's repurchase rights shall terminate automatically upon the consummation of such Hostile Take-Over. Alternatively, the Plan Administrator may condition such automatic acceleration and termination upon an Involuntary Termination of the Optionee's Service within a designated period (not to exceed twenty-four (24) months) following the effective date of such Hostile Take-Over. Each option so accelerated shall remain exercisable for fully-vested shares until the expiration or sooner termination of the option term.

H. The portion of any Incentive Option accelerated in connection with a Change in Control or Hostile Take Over shall remain exercisable as an Incentive Option only to the extent the applicable One Hundred Thousand Dollar ($100,000) limitation is not exceeded. To the extent such dollar limitation is exceeded, the accelerated portion of such option shall be exercisable as a Non-Statutory Option under the Federal tax laws.

IV. STOCK APPRECIATION RIGHTS

The Plan Administrator may, subject to such conditions as it may determine, grant to selected Optionees stock appreciation rights which will allow the holders of those rights to

elect between the exercise of the underlying option for shares of Common Stock and the surrender of that option in exchange for a distribution from the Corporation in an amount equal to the excess of (a) the Option Surrender Value of the number of shares for which the option is surrendered over (b) the aggregate exercise price payable for such shares. The distribution may be made in shares of Common Stock valued at Fair Market Value on the option surrender date, in cash, or partly in shares and partly in cash, as the Plan Administrator shall in its sole discretion deem appropriate.

ARTICLE THREE

STOCK ISSUANCE PROGRAM

I. STOCK ISSUANCE TERMS

Shares of Common Stock may be issued under the Stock Issuance Program through direct and immediate issuances without any intervening options. Shares of Common Stock may also be issued under the Stock Issuance Program pursuant to share right awards which entitle the recipients to receive those shares upon the attainment of designated performance goals or Service requirements. Each such award shall be evidenced by one or more documents which comply with the terms specified below.

A. Purchase Price.

1. The purchase price per share of Common Stock subject to direct issuance shall be fixed by the Plan Administrator and may be less than, equal to or greater than the Fair Market Value per share of Common Stock on the issue date.

2. Subject to the provisions of Section II of Article Five, shares of Common Stock may be issued under the Stock Issuance Program for any of the following items of consideration which the Plan Administrator may deem appropriate in each individual instance:

(i) cash or check made payable to the Corporation, or

(ii) past services rendered to the Corporation (or any Parent or Subsidiary).

B. Vesting/Issuance Provisions.

1. The Plan Administrator may issue shares of Common Stock which are fully and immediately vested upon issuance or which are to vest in one or more installments over the Participant's period of Service or upon attainment of specified performance objectives. Alternatively, the Plan Administrator may issue share right awards which shall entitle the recipient to receive a specified number of vested shares of Common Stock upon the attainment of one or more performance goals or Service requirements established by the Plan Administrator.

2. Any new, substituted or additional securities or other property (including money paid other than as a regular cash dividend) which the Participant may have the right to receive with respect to his or her unvested shares of Common Stock by reason of any stock dividend, stock split, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration shall be issued subject to (i) the same vesting requirements applicable to the Participant's unvested shares of Common Stock and (ii) such escrow arrangements as the Plan Administrator shall deem appropriate.

3. The Participant shall have full stockholder rights with respect to the issued shares of Common Stock, whether or not the Participant's interest in those shares is vested. Accordingly, the Participant shall have the right to vote such shares and to receive any regular cash dividends paid on such shares.

4. Should the Participant cease to remain in Service while holding one or more unvested shares of Common Stock, or should the performance objectives not be attained with respect to one or more such unvested shares of Common Stock, then those shares shall be immediately surrendered to the Corporation for cancellation, and the Participant shall have no further stockholder rights with respect to those shares. To the extent the surrendered shares were previously issued to the Participant for consideration paid in cash or cash equivalent (including the Participant's purchase-money indebtedness), the Corporation shall repay to the Participant the cash consideration paid for the surrendered shares and shall cancel the unpaid principal balance of any outstanding purchase-money note of the Participant attributable to the surrendered shares.

5. The Plan Administrator may waive the surrender and cancellation of one or more unvested shares of Common Stock (or other assets attributable thereto) which would otherwise occur upon the cessation of the Participant's Service or the non-attainment of the performance objectives applicable to those shares. Such waiver shall result in the immediate vesting of the Participant's interest in the shares of Common Stock as to which the waiver applies. Such waiver may be effected at any time, whether before or after the Participant's cessation of Service or the attainment or non-attainment of the applicable performance objectives.

6. Outstanding share right awards shall automatically terminate, and no shares of Common Stock shall actually be issued in satisfaction of those awards, if the performance goals or Service requirements established for such awards are not attained. The Plan Administrator, however, shall have the authority to issue shares of Common Stock in satisfaction of one or more outstanding share right awards as to which the designated performance goals or Service requirements are not attained.

II. CHANGE IN CONTROL/HOSTILE TAKE-OVER

A. All of the Corporation's outstanding repurchase rights shall terminate automatically, and all the shares of Common Stock subject to those terminated rights shall immediately vest in full, in the event of any Change in Control, except to the extent (i) those repurchase rights are assigned to the successor corporation (or parent thereof) or otherwise continue in full force and effect pursuant to the terms of the Change in Control or (ii) such accelerated vesting is precluded by other limitations imposed by the Plan Administrator at the time the repurchase right is issued.

B. The Plan Administrator may at any time provide for the automatic termination of one or more of those outstanding repurchase rights and the immediate vesting of the shares of Common Stock subject to those terminated rights upon (i) a Change in Control or Hostile Take-Over or (ii) an Involuntary Termination of the Participant's Service within a designated period (not to exceed twenty-four (24) months) following the effective date of any

Change in Control or Hostile Take-Over in which those repurchase rights are assigned to the successor corporation (or parent thereof) or otherwise continue in full force and effect.

III. SHARE ESCROW/LEGENDS

Unvested shares may, in the Plan Administrator's discretion, be held in escrow by the Corporation until the Participant's interest in such shares vests or may be issued directly to the Participant with restrictive legends on the certificates evidencing those unvested shares.

ARTICLE FOUR

AUTOMATIC OPTION GRANT PROGRAM

I. OPTION TERMS

A. Grant Dates. Options shall be made on the dates specified below:

1. Each individual who is first elected or appointed as a non-employee Board member at any time after the Underwriting Date shall automatically be granted, on the date of such initial election or appointment, a Non-Statutory Option to purchase Twenty-Five Thousand (25,000) shares of Common Stock, provided that individual has not been in the employ of the Corporation (or any Parent or Subsidiary) in the two (2) years immediately preceding such election or appointment.

2. On the date of each Annual Stockholders Meeting beginning with the 2001 Annual Stockholder Meeting, each individual who is to continue to serve as a non-employee Board member shall automatically be granted a Non-Statutory Option to purchase Seven Thousand Five Hundred (7,500) shares of Common Stock, provided that individual has served as a non-employee Board member for at least six (6) months.

B. Exercise Price.

1. The exercise price per share shall be equal to one hundred percent (100%) of the Fair Market Value per share of Common Stock on the option grant date.

2. The exercise price shall be payable in one or more of the alternative forms authorized under the Discretionary Option Grant Program. Except to the extent the sale and remittance procedure specified thereunder is utilized, payment of the exercise price for the purchased shares must be made on the Exercise Date.

C. Option Term. Each option shall have a term of ten (10) years measured from the option grant date.

D. Exercise and Vesting of Options. Each option shall be immediately exercisable for any or all of the option shares. However, any unvested shares purchased under the option shall be subject to repurchase by the Corporation, at the exercise price paid per share, upon the Optionee's cessation of Board service prior to vesting in those shares. Each initial 25,000-share option shall vest, and the Corporation's repurchase right shall lapse, in a series of three (3) successive equal annual installments over the Optionee's period of continued service as a Board member, with the first such installment to vest upon the Optionee's completion of one (1) year of Board service measured from the option grant date. Each annual 7,500-share option shall vest, and the Corporation's repurchase right shall lapse, upon Optionee's completion of one (1) year of Board service measured from the option grant date.

E. Cessation of Board Service. The following provisions shall govern the exercise of any options outstanding at the time of the Optionee's cessation of Board service:

(i) Any option outstanding at the time of the Optionee's cessation of Board service for any reason shall remain exercisable for a twelve (12)-month period following the date of such cessation of Board service, but in no event shall such option be exercisable after the expiration of the option term.

(ii) Any option exercisable in whole or in part by the Optionee at the time of death may be subsequently exercised by his or her Beneficiary.

(iii) Following the Optionee's cessation of Board service, the option may not be exercised in the aggregate for more than the number of shares for which the option was exercisable on the date of such cessation of Board service. Upon the expiration of the applicable exercise period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be outstanding for any vested shares for which the option has not been exercised. However, the option shall, immediately upon the Optionee's cessation of Board service, terminate and cease to be outstanding for any and all shares for which the option is not otherwise at that time exercisable.

(iv) However, should the Optionee cease to serve as a Board member by reason of death or Permanent Disability, then all shares at the time subject to the option shall immediately vest so that such option may, during the twelve (12)-month exercise period following such cessation of Board service, be exercised for all or any portion of those shares as fully-vested shares of Common Stock.

II. CHANGE IN CONTROL/HOSTILE TAKE-OVER

A. In the event of any Change in Control or Hostile Take-Over, the shares of Common Stock at the time subject to each outstanding option but not otherwise vested shall automatically vest in full so that each such option may, immediately prior to the effective date of such Change in Control or Hostile Take-Over, became fully exercisable for all of the shares of Common Stock at the time subject to such option and maybe exercised for all or any of those shares as fully-vested shares of Common Stock. Each such option accelerated in connection with a Change in Control shall terminate upon the Change in Control, except to the extent assumed by the successor corporation (or parent thereof) or otherwise continued in full force and effect pursuant to the terms of the Change in Control. Each such option accelerated in connection with a Hostile Take-Over shall remain exercisable until the expiration or sooner termination of the option term.

B. All outstanding repurchase rights shall automatically terminate and the shares of Common Stock subject to those terminated rights shall immediately vest in full, in the event of any Change in Control or Hostile Take-Over.

C. Upon the occurrence of a Hostile Take-Over, the Optionee shall have a thirty (30)-day period in which to surrender to the Corporation each of his or her outstanding options. The Optionee shall in return be entitled to a cash distribution from the Corporation in an amount equal to the excess of (i) the Option Surrender Value of the shares of Common Stock at

the time subject to each surrendered option (whether or not the option is otherwise at the time exercisable for those shares) over (ii) the aggregate exercise price payable for such shares. Such cash distribution shall be paid within five (5) days following the surrender of the option to the Corporation.

D. Each option which is assumed in connection with a Change in Control shall be appropriately adjusted to apply to the number and class of securities which would have been issuable to the Optionee in consummation of such Change in Control had the option been exercised immediately prior to such Change in Control. Appropriate adjustments shall also be made to the exercise price payable per share under each outstanding option, provided the aggregate exercise price payable for such securities shall remain the same. To the extent the actual holders of the Corporation's outstanding Common Stock receive cash consideration for their Common Stock in consummation of the Change in Control, the successor corporation may, in connection with the assumption of the outstanding options, substitute one or more shares of its own common stock with a fair market value equivalent to the cash consideration paid per share of Common Stock in such Change in Control.

III. REMAINING TERMS

The remaining terms of each option granted under the Automatic Option Grant Program shall be the same as the terms in effect for options made under the Discretionary Option Grant Program.

ARTICLE FIVE

MISCELLANEOUS

I. NO IMPAIRMENT OF AUTHORITY

Outstanding awards shall in no way affect the right of the Corporation to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

II. FINANCING

The Plan Administrator may permit any Optionee or Participant to pay the option exercise price under the Discretionary Option Grant Program or the purchase price of shares issued under the Stock Issuance Program by delivering a full-recourse, interest bearing promissory note payable in one or more installments. The terms of any such promissory note (including the interest rate and the terms of repayment) shall be established by the Plan Administrator in its sole discretion. In no event may the maximum credit available to the Optionee or Participant exceed the sum of (i) the aggregate option exercise price or purchase price payable for the purchased shares (less the par value of such shares) plus (ii) any Federal, state and local income and employment tax liability incurred by the Optionee or the Participant in connection with the option exercise or share purchase.

III. TAX WITHHOLDING

A. The Corporation's obligation to deliver shares of Common Stock upon the exercise of options or the issuance or vesting of such shares under the Plan shall be subject to the satisfaction of all applicable Federal, state and local income and employment tax withholding requirements.

B. The Plan Administrator may, in its discretion, provide any or all holders of Non-Statutory Options or unvested shares of Common Stock under the Plan with the right to use shares of Common Stock in satisfaction of all or part of the Withholding Taxes incurred by such holders in connection with the exercise of their options or the vesting of their shares. Such right may be provided to any such holder in either or both of the following formats:

Stock Withholding: The election to have the Corporation withhold, from the shares of Common Stock otherwise issuable upon the exercise of such Non-Statutory Option or the vesting of such shares, a portion of those shares with an aggregate Fair Market Value equal to the percentage of the Withholding Taxes (not to exceed one hundred percent (100%)) designated by the holder.

Stock Delivery: The election to deliver to the Corporation, at the time the Non-Statutory Option is exercised or the shares vest, one or more shares of Common Stock previously acquired by such holder (other than in connection with the option exercise or share vesting triggering the Withholding Taxes) with an aggregate Fair Market Value equal to the percentage of the Taxes (not to exceed one hundred percent (100%)) designated by the holder.

IV. EFFECTIVE DATE AND TERM OF THE PLAN

A. The Plan shall become effective immediately upon the Plan Effective Date. Options may be granted under the Discretionary Option Grant Program at any time on or after the Plan Effective Date. However, no options granted under the Plan may be exercised, and no shares shall be issued under the Plan, until the Plan is approved by the Corporation's stockholders. If such stockholder approval is not obtained within twelve (12) months after the Plan Effective Date, then all options previously granted under this Plan shall terminate and cease to be outstanding, and no further options shall be granted and no shares shall be issued under the Plan.

B. The Plan shall serve as the successor to the Predecessor Plan, and no further options or direct stock issuances shall be made under the Predecessor Plan after the Section 12 Registration Date. All options outstanding under the Predecessor Plan on the Section 12 Registration Date shall be incorporated into the Plan at that time and shall be treated as outstanding options under the Plan. However, each outstanding option so incorporated shall continue to be governed solely by the terms of the documents evidencing such option, and no provision of the Plan shall be deemed to affect or otherwise modify the rights or obligations of the holders of such incorporated options with respect to their acquisition of shares of Common Stock.

C. One or more provisions of the Plan, including (without limitation) the option/vesting acceleration provisions of Article Two relating to Changes in Control, may, in the Plan Administrator's discretion, be extended to one or more options incorporated from the Predecessor Plan which do not otherwise contain such provisions.

D. The Plan shall terminate upon the earliest of (i) _____, 2010, (ii) the date on which all shares available for issuance under the Plan shall have been issued as fully-vested shares or (iii) the termination of all outstanding options in connection with a Change in Control. Upon such plan termination, all outstanding options and unvested stock issuances shall thereafter continue to have force and effect in accordance with the provisions of the documents evidencing such grants or issuances.

V. AMENDMENT OF THE PLAN

A. The Board shall have complete and exclusive power and authority to amend or modify the Plan in any or all respects. However, no such amendment or modification shall adversely affect the rights and obligations with respect to stock options or unvested stock issuances at the time outstanding under the Plan unless the Optionee or the Participant consents to such amendment or modification. In addition, certain amendments may require stockholder approval pursuant to applicable laws or regulations.

B. Options to purchase shares of Common Stock may be granted under the Discretionary Option Grant Program and shares of Common Stock may be issued under the Stock Issuance Program that are in each instance in excess of the number of shares then available for issuance under the Plan, provided any excess shares actually issued under those programs shall be held in escrow until there is obtained stockholder approval of an amendment sufficiently

increasing the number of shares of Common Stock available for issuance under the Plan. If such stockholder approval is not obtained within twelve (12) months after the date the first such excess issuances are made, then (i) any unexercised options granted on the basis of such excess shares shall terminate and cease to be outstanding and (ii) the Corporation shall promptly refund to the Optionees and the Participants the exercise or purchase price paid for any excess shares issued under the Plan and held in escrow, together with interest (at the applicable Short Term Federal Rate) for the period the shares were held in escrow, and such shares shall thereupon be automatically cancelled and cease to be outstanding.

VI. USE OF PROCEEDS

Any cash proceeds received by the Corporation from the sale of shares of Common Stock under the Plan shall be used for general corporate purposes.

VII. REGULATORY APPROVALS

A. The implementation of the Plan, the granting of any stock option under the Plan and the issuance of any shares of Common Stock (i) upon the exercise of any granted option or (ii) under the Stock Issuance Program shall be subject to the Corporation's procurement of all approvals and permits required by regulatory authorities having jurisdiction over the Plan, the stock options granted under it and the shares of Common Stock issued pursuant to it.

B. No shares of Common Stock or other assets shall be issued or delivered under the Plan unless and until there shall have been compliance with all applicable requirements of Federal and state securities laws, including the filing and effectiveness of the Form S-8 registration statement for the shares of Common Stock issuable under the Plan, and all applicable listing requirements of any stock exchange (or the Nasdaq National Market, if applicable) on which Common Stock is then listed for trading.

VIII. NO EMPLOYMENT/SERVICE RIGHTS

Nothing in the Plan shall confer upon the Optionee or the Participant any right to continue in Service for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Corporation (or any Parent or Subsidiary employing or retaining such person) or of the Optionee or the Participant, which rights are hereby expressly reserved by each, to terminate such person's Service at any time for any reason, with or without cause.

APPENDIX

The following definitions shall be in effect under the Plan:

A. Automatic Option Grant Program shall mean the automatic option grant program in effect under the Plan.

B. Beneficiary shall mean, in the event the Plan Administrator implements a beneficiary designation procedure, the person designated by an Optionee or Participant, pursuant to such procedure, to succeed to such person's rights under any outstanding awards held by him or her at the time of death. In the absence of such designation or procedure, the Beneficiary shall be the personal representative of the estate of the Optionee or Participant or the person or persons to whom the award is transferred by will or the laws of inheritance.

C. Board shall mean the Corporation's Board of Directors.

D. Change in Control shall mean a change in ownership or control of the Corporation effected through any of the following transactions:

(i) a merger, consolidation or reorganization approved by the Corporation's stockholders, unless securities representing more than fifty percent (50%) of the total combined voting power of the voting securities of the successor corporation are immediately thereafter beneficially owned, directly or indirectly and in substantially the same proportion, by the persons who beneficially owned the Corporation's outstanding voting securities immediately prior to such transaction,

(ii) any stockholder-approved transfer or other disposition of all or substantially all of the Corporation's assets, or

(iii) the acquisition, directly or indirectly by any person or related group of persons (other than the Corporation or a person that directly or indirectly controls, is controlled by, or is under common control with, the Corporation), of beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities pursuant to a tender or exchange offer made directly to the Corporation's stockholders which the Board recommends such stockholders accept.

E. Code shall mean the Internal Revenue Code of 1986, as amended.

F. Common Stock shall mean the Corporation's common stock.

G. Corporation shall mean Active Power, Inc., a Delaware corporation, and any corporate successor to all or substantially all of the assets or voting stock of Active Power, Inc. which shall by appropriate action adopt the Plan.

H. Discretionary Option Grant Program shall mean the discretionary option grant program in effect under the Plan.

I. Employee shall mean an individual who is in the employ of the Corporation (or any Parent or Subsidiary), subject to the control and direction of the employer entity as to both the work to be performed and the manner and method of performance.

J. Exercise Date shall mean the date on which the Corporation shall have received written notice of the option exercise.

K. Fair Market Value per share of Common Stock on any relevant date shall be determined in accordance with the following provisions:

(i) If the Common Stock is at the time traded on the Nasdaq National Market, then the Fair Market Value shall be the closing selling price per share of Common Stock on the date in question, as such price is reported on the Nasdaq National Market or any successor system and in The Wall Street Journal. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

(ii) If the Common Stock is at the time listed on any Stock Exchange, then the Fair Market Value shall be the closing selling price per share of Common Stock on the date in question on the Stock Exchange determined by the Plan Administrator to be the primary market for the Common Stock, as such price is officially quoted in the composite tape of transactions on such exchange and reported in The Wall Street Journal. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

(iii) For purposes of any option grants made on the Underwriting Date, the Fair Market Value shall be deemed to be equal to the price per share at which the Common Stock is to be sold in the initial public offering pursuant to the Underwriting Agreement.

(iv) For purposes of any options made prior to the Underwriting Date, the Fair Market Value shall be determined by the Plan Administrator, after taking into account such factors as it deems appropriate.

L. Hostile Take-Over shall mean:

(i) the acquisition, directly or indirectly, by any person or related group of persons (other than the Corporation or a person that directly or indirectly controls, is controlled by, or is under common control with, the Corporation) of beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities pursuant to a tender or exchange offer made directly to the

Corporation's stockholders which the Board does not recommend such stockholders to accept, or

(ii) a change in the composition of the Board over a period of thirty-six (36) consecutive months or less such that a majority of the Board members ceases, by reason of one or more contested elections for Board membership, to be comprised of individuals who either (A) have been Board members continuously since the beginning of such period or (B) have been elected or nominated for election as Board members during such period by at least a majority of the Board members described in clause (A) who were still in office at the time the Board approved such election or nomination.

M. Incentive Option shall mean an option which satisfies the requirements of Code Section 422.

N. Involuntary Termination shall mean the termination of the Service of any individual which occurs by reason of:

(i) such individual's involuntary dismissal or discharge by the Corporation for reasons other than Misconduct, or

(ii) such individual's voluntary resignation following (A) a change in his or her position with the Corporation or Parent or Subsidiary employing the individual which materially reduces his or her duties and responsibilities or the level of management to which he or she reports, (B) a reduction in his or her level of compensation (including base salary, fringe benefits and target bonus under any corporate-performance based bonus or incentive programs) by more than fifteen percent (15%) or (C) a relocation of such individual's place of employment by more than fifty (50) miles, provided and only if such change, reduction or relocation is effected by the Corporation without the individual's consent.

O. Misconduct shall mean the commission of any act of fraud, embezzlement or dishonesty by the Optionee or Participant, any unauthorized use or disclosure by such person of confidential information or trade secrets of the Corporation (or any Parent or Subsidiary), or any intentional wrongdoing by such person, whether by omission or commission, which adversely affects the business or affairs of the Corporation (or any Parent or Subsidiary) in a material manner. This shall not limit the grounds for the dismissal or discharge of any person in the Service of the Corporation (or any Parent or Subsidiary).

P. 1934 Act shall mean the Securities Exchange Act of 1934, as amended.

Q. Non-Statutory Option shall mean an option not intended to satisfy the requirements of Code Section 422.

R. Option Surrender Value shall mean the Fair Market Value per share of Common Stock on the date the option is surrendered to the Corporation or, in the event of a Hostile Take-Over, effected through a tender offer, the highest reported price per share of Common Stock paid by the tender offeror in effecting such Hostile Take-Over, if greater.

However, if the surrendered option is an Incentive Option, the Option Surrender Value shall not exceed the Fair Market Value per share.

S. Optionee shall mean any person to whom an option is granted under the Discretionary Option Grant or Automatic Option Grant Program.

T. Parent shall mean any corporation (other than the Corporation) in an unbroken chain of corporations ending with the Corporation, provided each corporation in the unbroken chain (other than the Corporation) owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

U. Participant shall mean any person who is issued shares of Common Stock under the Stock Issuance Program.

V. Permanent Disability or Permanently Disabled shall mean the inability of the Optionee or the Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment expected to result in death or to be of continuous duration of twelve (12) months or more. However, solely for purposes of the Automatic Option Grant Program, Permanent Disability or Permanently Disabled shall mean the inability of the non-employee Board member to perform his or her usual duties as a Board member by reason of any medically determinable physical or mental impairment expected to result in death or to be of continuous duration of twelve (12) months or more.

W. Plan shall mean the Corporation's 2000 Stock Incentive Plan, as set forth in this document.

X. Plan Administrator shall mean the particular entity, whether the Primary Committee, the Board or the Secondary Committee, which is authorized to administer the Discretionary Option Grant and Stock Issuance Programs with respect to one or more classes of eligible persons, to the extent such entity is carrying out its administrative functions under those programs with respect to the persons under its jurisdiction. However, the Primary Committee shall have the plenary authority to make all factual determinations and to construe and interpret any and all ambiguities under the Plan to the extent such authority is not otherwise expressly delegated to any other Plan Administrator.

Y. Plan Effective Date shall mean _____, 2000 the date on which the Plan was adopted by the Board.

Z. Predecessor Plan shall mean the Corporation's pre-existing 1993 Stock Option Plan in effect immediately prior to the Plan Effective Date hereunder.

AA. Primary Committee shall mean the committee of two (2) or more non-employee Board members appointed by the Board to administer the Discretionary Option Grant and Stock Issuance Programs with respect to Section 16 Insiders and to administer the Salary Investment Option Grant Program with respect to all eligible individuals.

BB. Secondary Committee shall mean a committee of one (1) or more Board members appointed by the Board to administer the Discretionary Option Grant and Stock Issuance Programs with respect to eligible persons other than Section 16 Insiders.

CC. Section 12 Registration Date shall mean the date on which the Common Stock is first registered under Section 12(g) of the 1934 Act.

DD. Section 16 Insider shall mean an officer or director of the Corporation subject to the short-swing profit liabilities of Section 16 of the 1934 Act.

EE. Service shall mean the performance of services for the Corporation (or any Parent or Subsidiary) by a person in the capacity of an Employee, a non-employee member of the board of directors or a consultant or independent advisor, except to the extent otherwise specifically provided in the documents evidencing the option grant or stock issuance.

FF. Stock Exchange shall mean either the American Stock Exchange or the New York Stock Exchange.

GG. Stock Issuance Program shall mean the stock issuance program in effect under the Plan.

HH. Subsidiary shall mean any corporation (other than the Corporation) in an unbroken chain of corporations beginning with the Corporation, provided each corporation (other than the last corporation) in the unbroken chain owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

II. 10% Stockholder shall mean the owner of stock (as determined under Code Section 424(d)) possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Corporation (or any Parent or Subsidiary).

JJ. Underwriting Agreement shall mean the agreement between the Corporation and the underwriter or underwriters managing the initial public offering of the Common Stock.

KK. Underwriting Date shall mean the date on which the Underwriting Agreement is executed and priced in connection with an initial public offering of the Common Stock.

LL. Withholding Taxes shall mean the Federal, state and local income and employment withholding tax liabilities to which the holder of Non-Statutory Options or unvested shares of Common Stock may become subject in connection with the exercise of those options or the vesting of those shares.

EXHIBIT 10.3

ACTIVE POWER, INC.
EMPLOYEE STOCK PURCHASE PLAN

I. PURPOSE OF THE PLAN

This Employee Stock Purchase Plan is intended to promote the interests of Active Power, Inc., a Delaware corporation, by providing eligible employees with the opportunity to acquire a proprietary interest in the Corporation through participation in a payroll-deduction based employee stock purchase plan designed to qualify under Section 423 of the Code.

Capitalized terms herein shall have the meanings assigned to such terms in the attached Appendix.

II. ADMINISTRATION OF THE PLAN

The Plan Administrator shall have full authority to interpret and construe any provision of the Plan and to adopt such rules and regulations for administering the Plan as it may deem necessary in order to comply with the requirements of Section 423 of the Code. Decisions of the Plan Administrator shall be final and binding on all parties having an interest in the Plan.

III. STOCK SUBJECT TO PLAN

A. The stock purchasable under the Plan shall be shares of authorized but unissued or reacquired Common Stock, including shares of Common Stock purchased on the open market. The maximum number of shares of Common Stock which may be issued in the aggregate under the Plan shall not exceed One Million One Hundred and Fifty Thousand (1,150,000) shares.

B. The number of shares of Common Stock available for issuance under the Plan shall automatically increase on the first trading day of January each calendar year during the term of the Plan, beginning with calendar year 2001, by an amount equal to one half of one percent (0.5%) of the total number of shares of Common Stock outstanding on the last trading day in December of the immediately preceding calendar year, but in no event shall any such annual increase exceed Three Hundred Forty Five Thousand (345,000) shares.

C. Should any change be made to the Common Stock by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration, appropriate adjustments shall be made to the maximum number and class of securities issuable in the aggregate under the Plan, (ii) the maximum number and class of securities by which the share reserve is to increase automatically each calendar year, (iii) the maximum number and class of securities purchasable per Participant and in the aggregate on any one Purchase Date and (iv) the number and class of securities and the price per share in effect under each outstanding purchase right in order to prevent the dilution or enlargement of benefits thereunder.

IV. OFFERING PERIODS

A. Shares of Common Stock shall be offered for purchase under the Plan through a series of successive offering periods until such time as (i) the maximum number of shares of Common Stock available for issuance under the Plan shall have been purchased or (ii) the Plan shall have been sooner terminated.

B. Each offering period shall be of such duration (not to exceed twenty-four (24) months) as determined by the Plan Administrator prior to the start date of such offering period. However, the initial offering period shall commence at the Effective Time and terminate on the last business day in July 2002. Subsequent offering periods shall commence as designated by the Plan Administrator.

C. Each offering period shall be comprised of a series of one or more successive Purchase Intervals. Purchase Intervals shall run from the first business day in February each year to the last business day in July of the same year and from the first business day in August each year to the last business day in January of the following year. However, the first Purchase Interval in effect under the initial offering period shall commence at the Effective Time and terminate on the last business day in January 2001.

D. Should the Fair Market Value per share of Common Stock on any Purchase Date within an offering period be less than the Fair Market Value per share of Common Stock on the start date of that offering period, then that offering period shall automatically terminate immediately after the purchase of shares of Common Stock on such Purchase Date, and a new offering period shall commence on the next business day following such Purchase Date. The new offering period shall have a duration of twenty-four (24) months, unless a shorter duration is established by the Plan Administrator within five (5) business days following the start date of that offering period.

V. ELIGIBILITY

A. Each individual who is an Eligible Employee on the start date of an offering period under the Plan may enter that offering period on such start date or on any subsequent Semi-Annual Entry Date within that offering period, provided he or she remains an Eligible Employee.

B. Each individual who first becomes an Eligible Employee after the start date of an offering period may enter that offering period on any subsequent Semi-Annual Entry Date within that offering period on which he or she is an Eligible Employee.

C. The date an individual enters an offering period shall be designated his or her Entry Date for purposes of that offering period.

D. To participate in the Plan for a particular offering period, the Eligible Employee must complete the enrollment forms prescribed by the Plan Administrator (including a stock purchase agreement and a payroll deduction authorization) and file such forms with the Plan Administrator (or its designate) on or before his or her scheduled Entry Date.

VI. PAYROLL DEDUCTIONS

A. The payroll deduction authorized by the Participant for purposes of acquiring shares of Common Stock during an offering period may be any multiple of one percent (1%) of the Base Salary paid to the Participant during each Purchase Interval within that offering period, up to a maximum of fifteen percent (15%). The deduction rate so authorized shall continue in effect throughout the offering period, except to the extent such rate is changed in accordance with the following guidelines:

(i) The Participant may, at any time during the offering period, reduce his or her rate of payroll deduction to become effective as soon as possible after filing the appropriate form with the Plan Administrator. The Participant may not, however, effect more than one (1) such reduction per Purchase Interval.

(ii) The Participant may, prior to the commencement of any new Purchase Interval within the offering period, increase the rate of his or her payroll deduction by filing the appropriate form with the Plan Administrator. The new rate (which may not exceed the fifteen percent (15%) maximum) shall become effective on the start date of the first Purchase Interval following the filing of such form.

B. Payroll deductions shall begin on the first pay day administratively feasible following the Participant's Entry Date into the offering period and shall (unless sooner terminated by the Participant) continue through the pay day ending with or immediately prior to the last day of that offering period. The amounts so collected shall be credited to the Participant's book account under the Plan, but no interest shall be paid on the balance from time to time outstanding in such account. The amounts collected from the Participant shall not be required to be held in any segregated account or trust fund and may be commingled with the general assets of the Corporation and used for general corporate purposes.

C. Payroll deductions shall automatically cease upon the termination of the Participant's purchase right in accordance with the provisions of the Plan.

D. The Participant's acquisition of Common Stock under the Plan on any Purchase Date shall neither limit nor require the Participant's acquisition of Common Stock on any subsequent Purchase Date, whether within the same or a different offering period.

VII. PURCHASE RIGHTS

A. Grant of Purchase Right. A Participant shall be granted a separate purchase right for each offering period in which he or she participates. The purchase right shall be granted on the Participant's Entry Date into the offering period and shall provide the Participant with the right to purchase shares of Common Stock, in a series of successive installments over the remainder of such offering period, upon the terms set forth below. The Participant shall execute a stock purchase agreement embodying such terms and such other provisions (not inconsistent with the Plan) as the Plan Administrator may deem advisable.

Under no circumstances shall purchase rights be granted under the Plan to any Eligible Employee if such individual would, immediately after the grant, own (within the meaning of Code Section 424(d)) or hold outstanding options or other rights to purchase, stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Corporation or any Corporate Affiliate.

B. Exercise of the Purchase Right. Each purchase right shall be automatically exercised in installments on each successive Purchase Date within the offering period, and shares of Common Stock shall accordingly be purchased on behalf of each Participant (other than Participants whose payroll deductions have previously been refunded pursuant to the Termination of Purchase Right provisions below) on each such Purchase Date. The purchase shall be effected by applying the Participant's payroll deductions for the Purchase Interval ending on such Purchase Date to the purchase of whole shares of Common Stock at the purchase price in effect for the Participant for that Purchase Date.

C. Purchase Price. The purchase price per share at which Common Stock will be purchased on the Participant's behalf on each Purchase Date within the offering period shall be equal to eighty-five percent (85%) of the lower of (i) the Fair Market Value per share of Common Stock on the Participant's Entry Date into that offering period or (ii) the Fair Market Value per share of Common Stock on that Purchase Date.

D. Number of Purchasable Shares. The number of shares of Common Stock purchasable by a Participant on each Purchase Date during the offering period shall be the number of whole shares obtained by dividing the amount collected from the Participant through payroll deductions during the Purchase Interval ending with that Purchase Date by the purchase price in effect for the Participant for that Purchase Date. However, the maximum number of shares of Common Stock purchasable per Participant on any one Purchase Date shall not exceed Five Thousand Seven Hundred Fifty (5,750) shares, subject to periodic adjustments in the event of certain changes in the Corporation's capitalization. In addition, the maximum number of shares of Common Stock purchasable in the aggregate by all Participants on any one Purchase Date shall not exceed Two Hundred Eighty Seven Thousand Five Hundred (287,500) shares, subject to periodic adjustments in the event of certain changes in the corporation's capitalization.

E. Excess Payroll Deductions. Any payroll deductions not applied to the purchase of shares of Common Stock on any Purchase Date because they are not sufficient to purchase a whole share of Common Stock shall be held for the purchase of Common Stock on the next Purchase Date. However, any payroll deductions not applied to the purchase of Common Stock by reason of the limitation on the maximum number of shares purchasable on the Purchase Date shall be promptly refunded.

F. Termination of Purchase Right. The following provisions shall govern the termination of outstanding purchase rights:

(i) A Participant may, at any time prior to the next scheduled Purchase Date in the offering period, terminate his or her outstanding purchase right by filing the appropriate form with the Plan Administrator (or its designate), and no further payroll deductions shall be collected from the Participant with

respect to the terminated purchase right. Any payroll deductions collected during the Purchase Interval in which such termination occurs shall, at the Participant's election, be immediately refunded or held for the purchase of shares on the next Purchase Date. If no such election is made at the time such purchase right is terminated, then the payroll deductions collected with respect to the terminated right shall be refunded as soon as possible.

(ii) The termination of such purchase right shall be irrevocable, and the Participant may not subsequently rejoin the offering period for which the terminated purchase right was granted. In order to resume participation in any subsequent offering period, such individual must re-enroll in the Plan (by making a timely filing of the prescribed enrollment forms) on or before his or her scheduled Entry Date into that offering period.

(iii) Should the Participant cease to remain an Eligible Employee for any reason (including death, disability or change in status) while his or her purchase right remains outstanding, then that purchase right shall immediately terminate, and all of the Participant's payroll deductions for the Purchase Interval in which the purchase right so terminates shall be immediately refunded. However, should the Participant cease to remain in active service by reason of an approved unpaid leave of absence, then the Participant shall have the right, exercisable up until the last business day of the Purchase Interval in which such leave commences, to (a) withdraw all the payroll deductions collected to date on his or her behalf for that Purchase Interval or (b) have such funds held for the purchase of shares on his or her behalf on the next scheduled Purchase Date. In no event, however, shall any further payroll deductions be collected on the Participant's behalf during such leave. Upon the Participant's return to active service (i) within ninety (90) days following the commencement of such leave or, (ii) prior to the expiration of any longer period for which such Participant's right to reemployment with the Corporation is guaranteed by either statute or contract, his or her payroll deductions under the Plan shall automatically resume at the rate in effect at the time the leave began. However, should the Participant's leave of absence exceed ninety (90) days and his or her re-employment rights not be guaranteed by either statute or contract, then the Participant shall be treated as a new Employee for purposes of the Plan and must, in order to resume participation in the Plan, re-enroll in the Plan (by making a timely filing of the prescribed enrollment forms) on or before his or her scheduled Entry Date into the offering period.

G. Change in Control. Each outstanding purchase right shall automatically be exercised, immediately prior to the effective date of any Change in Control, by applying the payroll deductions of each Participant for the Purchase Interval in which such Change in Control occurs to the purchase of whole shares of Common Stock at a purchase price per share equal to eighty-five percent (85%) of the lower of (i) the Fair Market Value per share of Common Stock on the Participant's Entry Date into the offering period in which such Change in Control occurs or (ii) the Fair Market Value per share of Common Stock immediately prior to the effective date of such Change in Control. However, the applicable limitation on the number of shares of

Common Stock purchasable by all Participants in the aggregate shall not apply to any such purchase.

The Corporation shall use its best efforts to provide at least ten (10)-days prior written notice of the occurrence of any Change in Control, and Participants shall, following the receipt of such notice, have the right to terminate their outstanding purchase rights prior to the effective date of the Change in Control.

H. Proration of Purchase Rights. Should the total number of shares of Common Stock to be purchased pursuant to outstanding purchase rights on any particular date exceed the number of shares then available for issuance under the Plan, the Plan Administrator shall make a pro-rata allocation of the available shares on a uniform and nondiscriminatory basis, and the payroll deductions of each Participant, to the extent in excess of the aggregate purchase price payable for the Common Stock pro-rated to such individual, shall be refunded.

I. Assignability. The purchase right shall be exercisable only by the Participant and shall not be assignable or transferable by the Participant.

J. Stockholder Rights. A Participant shall have no stockholder rights with respect to the shares subject to his or her outstanding purchase right until the shares are purchased on the Participant's behalf in accordance with the provisions of the Plan and the Participant has become a holder of record of the purchased shares.

VIII. ACCRUAL LIMITATIONS

A. No Participant shall be entitled to accrue rights to acquire Common Stock pursuant to any purchase right outstanding under this Plan if and to the extent such accrual, when aggregated with (i) rights to purchase Common Stock accrued under any other purchase right granted under this Plan and (ii) similar rights accrued under other employee stock purchase plans (within the meaning of Code Section 423) of the Corporation or any Corporate Affiliate, would otherwise permit such Participant to purchase more than Twenty-Five Thousand Dollars ($25,000) worth of stock of the Corporation or any Corporate Affiliate (determined on the basis of the Fair Market Value per share on the date or dates such rights are granted) for each calendar year such rights are at any time outstanding.

B. For purposes of applying such accrual limitations to the purchase rights granted under the Plan, the following provisions shall be in effect:

(i) The right to acquire Common Stock under each outstanding purchase right shall accrue in a series of installments on each successive Purchase Date during the offering period on which such right remains outstanding.

(ii) No right to acquire Common Stock under any outstanding purchase right shall accrue to the extent the Participant has already accrued in the same calendar year the right to acquire Common Stock under one (1) or more other purchase rights at a rate equal to Twenty-Five Thousand Dollars ($25,000) worth of Common Stock (determined on the basis of the Fair Market Value per

share on the date or dates of grant) for each calendar year such rights were at any time outstanding.

C. If by reason of such accrual limitations, any purchase right of a Participant does not accrue for a particular Purchase Interval, then the payroll deductions which the Participant made during that Purchase Interval with respect to such purchase right shall be promptly refunded.

D. In the event there is any conflict between the provisions of this Article and one or more provisions of the Plan or any instrument issued thereunder, the provisions of this Article shall be controlling.

IX. EFFECTIVE DATE AND TERM OF THE PLAN

A. The Plan was adopted by the Board on June 8, 2000 and shall become effective at the Effective Time, provided no purchase rights granted under the Plan shall be exercised, and no shares of Common Stock shall be issued hereunder, until (i) the Plan shall have been approved by the stockholders of the Corporation and (ii) the Corporation shall have complied with all applicable requirements of the 1933 Act (including the registration of the shares of Common Stock issuable under the Plan on a Form S-8 registration statement filed with the Securities and Exchange Commission), all applicable listing requirements of any stock exchange (or the Nasdaq National Market, if applicable) on which the Common Stock is listed for trading and all other applicable requirements established by law or regulation. In the event such stockholder approval is not obtained, or such compliance is not effected, within twelve (12) months after the date on which the Plan is adopted by the Board, the Plan shall terminate and have no further force or effect, and all sums collected from Participants during the initial offering period hereunder shall be refunded.

B. Unless sooner terminated by the Board, the Plan shall terminate upon the earliest of (i) the last business day in July 2010, (ii) the date on which all shares available for issuance under the Plan shall have been sold pursuant to purchase rights exercised under the Plan or (iii) the date on which all purchase rights are exercised in connection with a Corporate Transaction. No further purchase rights shall be granted or exercised, and no further payroll deductions shall be collected, under the Plan following such termination.

X. AMENDMENT/TERMINATION OF THE PLAN

A. The Board may alter, amend, suspend or terminate the Plan at any time to become effective immediately following the close of any Purchase Interval. However, the Plan may be amended or terminated immediately upon Board action, if and to the extent necessary to assure that the Corporation will not recognize, for financial reporting purposes, any compensation expense in connection with the shares of Common Stock offered for purchase under the Plan, should the financial accounting rules applicable to the Plan at the Effective Time be subsequently revised so as to require the recognition of compensation expense in the absence of such amendment or termination.

B. In no event may the Board effect any of the following amendments or revisions to the Plan without the approval of the Corporation's stockholders: (i) increase the

number of shares of Common Stock issuable under the Plan, except for permissible adjustments in the event of certain changes in the Corporation's capitalization, (ii) alter the purchase price formula so as to reduce the purchase price payable for the shares of Common Stock purchasable under the Plan or (iii) modify eligibility requirements for participation in the Plan.

XI. GENERAL PROVISIONS

A. Nothing in the Plan shall confer upon the Participant any right to continue in the employ of the Corporation or any Corporate Affiliate for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Corporation (or any Corporate Affiliate employing such person) or of the Participant, which rights are hereby expressly reserved by each, to terminate such person's employment at any time for any reason, with or without cause.

B. All costs and expenses incurred in the administration of the Plan shall be paid by the Corporation; however, each Plan Participant shall bear all costs and expenses incurred by such individual in the sale or other disposition of any shares purchased under the Plan.

C. The provisions of the Plan shall be governed by the laws of the State of Texas without regard to that State's conflict-of-laws rules.

Schedule A

Corporations Participating in
Employee Stock Purchase Plan
As of the Effective Time

Active Power, Inc.

APPENDIX

The following definitions shall be in effect under the Plan:

A. Base Salary shall mean the base salary payable to a Participant
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by one or more Participating Corporations during such individual's period of participation in one or more offering periods under the Plan. Such Base Salary shall be calculated before deduction of (A) any income or employment tax withholdings or (B) any pre-tax contributions made by the Participant to any Code Section 401(k) salary deferral plan or any Code Section 125 cafeteria benefit program now or hereafter established by the Corporation or any Corporate Affiliate. However, Base Salary shall not include any overtime payments, bonuses, commissions, current profit-sharing distributions and other incentive-type payments or contributions (other than Code Section 401(k) or Code Section 125 contributions) made on the Participant's behalf by the Corporation or any Corporate Affiliate to any employee benefit or welfare plan now or hereafter established.

B. Board shall mean the Corporation's Board of Directors.

C. Change in Control shall mean a change in ownership of the

Corporation pursuant to any of the following transactions:

(i) a merger or consolidation in which securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities are transferred to a person or persons different from the persons holding those securities immediately prior to such transaction, or

(ii) the sale, transfer or other disposition of all or substantially all of the assets of the Corporation in complete liquidation or dissolution of the Corporation, or

(iii) the acquisition, directly or indirectly, by a person or related group of persons (other than the Corporation or a person that directly or indirectly controls, is controlled by or is under common control with the Corporation) of beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities pursuant to a tender or exchange offer made directly to the Corporation's stockholders.

D. Code shall mean the Internal Revenue Code of 1986, as amended.

E. Common Stock shall mean the Corporation's common stock.

F. Corporate Affiliate shall mean any parent or subsidiary
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corporation of the Corporation (as determined in accordance with Code Section 424), whether now existing or subsequently established.

G. Corporation shall mean Active Power, Inc., a Delaware corporation, and any corporate successor to all or substantially all of the assets or voting stock of Active Power, Inc. which shall by appropriate action adopt the Plan.

H. Effective Time shall mean the time at which the Underwriting Agreement is executed. Any Corporate Affiliate which becomes a Participating Corporation after such Effective Time shall designate a subsequent Effective Time with respect to its employee-Participants.

I. Eligible Employee shall mean any person who is employed by a Participating Corporation on a basis under which he or she is regularly expected to render more than twenty (20) hours of service per week for more than five (5) months per calendar year for earnings considered wages under Code Section 3401(a).

J. Entry Date shall mean the date an Eligible Employee first commences participation in the offering period in effect under the Plan. The earliest Entry Date under the Plan shall be the Effective Time.

K. Fair Market Value per share of Common Stock on any relevant date shall be determined in accordance with the following provisions:

(i) If the Common Stock is at the time traded on the Nasdaq National Market, then the Fair Market Value shall be the closing selling price per share of Common Stock on the date in question, as such price is reported by the National Association of Securities Dealers on the Nasdaq National Market or any successor system. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

(ii) If the Common Stock is at the time listed on any Stock Exchange, then the Fair Market Value shall be the closing selling price per share of Common Stock on the date in question on the Stock Exchange determined by the Plan Administrator to be the primary market for the Common Stock, as such price is officially quoted in the composite tape of transactions on such exchange. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

(iii) For purposes of the initial offering period which begins at the Effective Time, the Fair Market Value shall be deemed to be equal to the price per share at which the Common Stock is sold in the initial public offering pursuant to the Underwriting Agreement.

L. 1933 Act shall mean the Securities Act of 1933, as amended.

M. Participant shall mean any Eligible Employee of a Participating Corporation who is actively participating in the Plan.

N. Participating Corporation shall mean the Corporation and such Corporate Affiliate or Affiliates as may be authorized from time to time by the Board to extend the benefits of the Plan to their Eligible Employees. The Participating Corporations in the Plan are listed in attached Schedule A.

O. Plan shall mean the Corporation's Employee Stock Purchase Plan, as set forth in this document.

P. Plan Administrator shall mean the committee of two (2) or more Board members appointed by the Board to administer the Plan.

Q. Purchase Date shall mean the last business day of each Purchase Interval. The initial Purchase Date shall be January 31, 2001.

R. Purchase Interval shall mean each successive six (6)-month period within the offering period at the end of which there shall be purchased shares of Common Stock on behalf of each Participant.

S. Semi-Annual Entry Date shall mean the first business day in February and August each year on which an Eligible Employee may first enter an offering period.

T. Stock Exchange shall mean either the American Stock Exchange or the New York Stock Exchange.

U. Underwriting Agreement shall mean the agreement between the Corporation and the underwriter or underwriters managing the Corporation's initial public offering of its Common Stock.

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the reference to our firm under the caption "Experts" and to the use of our report dated February 26, 2000 (except for Note 12, as to which the date is March 31, 2000) in the Registration Statement (Form S-1 No. 333-36946) and related Prospectus of Active Power, Inc. for the registration of 8,000,000 shares of its common stock.

Ernst & Young LLP

Austin, Texas

The foregoing consent is in the form that will be signed upon Board of Directors' approvals of the stock split described in Note 12 to the financial statements.

/s/ Ernst & Young LLP

Austin, Texas

June 29, 2000