

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

SCHEDULE 13D

**Under the Securities Exchange Act of 1934
(Amendment No.)***

Active Power, Inc.
(Name of Issuer)

Common Stock, par value \$0.001 per share
(Title of Class of Securities)

00504W100
(CUSIP Number)

Kinderhook Partners, L.P.
2 Executive Drive, Suite 585
Fort Lee, New Jersey 07024
Attention: Tushar Shah
(201) 461-0955
(Name, Address and Telephone Number of Person
Authorized to Receive Notices and Communications)

March 7, 2012
(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of §§240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box.

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See §240.13d-7 for other parties to whom copies are to be sent.

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

1.	Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only) Kinderhook Partners, LP
2.	Check the Appropriate Box if a Member of a Group (See Instructions) (a) <input type="checkbox"/> (b) <input checked="" type="checkbox"/>
3.	SEC Use Only
4.	Source of Funds (See Instructions) WC
5.	Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) <input type="checkbox"/>
6.	Citizenship or Place of Organization Delaware
Number of Shares Beneficially Owned by Each Reporting Person With	7. Sole Voting Power 0
	8. Shared Voting Power 17,632,985*
	9. Sole Dispositive Power 0
	10. Shared Dispositive Power 17,632,985*
11.	Aggregate Amount Beneficially Owned by Each Reporting Person 17,632,985*
12.	Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) <input type="checkbox"/> *
13.	Percent of Class Represented by Amount in Row (11) 18.5%*
14.	Type of Reporting Person (See Instructions) PN

* Consists of 17,632,985 shares of common stock, par value \$0.001 per share (the "Common Stock"), of Active Power, Inc., a Delaware corporation (the "Issuer"), held of record by Kinderhook Partners, LP, a Delaware limited partnership ("Kinderhook"). Based on the number of shares of Common Stock outstanding as of February 28, 2012 (as reported by the Issuer in its Annual Report on Form 10-K for the year ended December 31, 2011) plus the 14,336,912 shares of Common Stock issued by the Issuer on March 7, 2012 under a Securities Purchase Agreement, the 17,632,985 shares of outstanding Common Stock held by Kinderhook represent approximately 18.5% of the total outstanding Common Stock.

	1.	Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only) Kinderhook GP, LLC	
	2.	Check the Appropriate Box if a Member of a Group (See Instructions)	
	(a)	<input type="checkbox"/>	
	(b)	<input checked="" type="checkbox"/>	
	3.	SEC Use Only	
	4.	Source of Funds (See Instructions) AF	
	5.	Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) <input type="checkbox"/>	
	6.	Citizenship or Place of Organization Delaware	
Number of Shares Beneficially Owned by Each Reporting Person With	7.	Sole Voting Power 0	
	8.	Shared Voting Power 17,632,985	
	9.	Sole Dispositive Power 0	
	10.	Shared Dispositive Power 17,632,985	
	11.	Aggregate Amount Beneficially Owned by Each Reporting Person 17,632,985	
	12.	Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) <input type="checkbox"/> *	
	13.	Percent of Class Represented by Amount in Row (11) 18.5%*	
	14.	Type of Reporting Person (See Instructions) OO	

* Consists of 17,632,985 shares of Common Stock of the Issuer held of record by Kinderhook. Based on the number of shares of Common Stock outstanding as of February 28, 2012 (as reported by the Issuer in its Annual Report on Form 10-K for the year ended December 31, 2011) plus the 14,336,912 shares of Common Stock issued by the Issuer on March 7, 2012 under a Securities Purchase Agreement, the 17,632,985 shares of outstanding Common Stock held by Kinderhook represent approximately 18.5% of the total outstanding Common Stock.

	1.	Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only) Kinderhook Capital Management, LLC	
	2.	Check the Appropriate Box if a Member of a Group (See Instructions)	
	(a)	<input type="checkbox"/>	
	(b)	<input checked="" type="checkbox"/>	
	3.	SEC Use Only	
	4.	Source of Funds (See Instructions) AF	
	5.	Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) <input type="checkbox"/>	
	6.	Citizenship or Place of Organization Delaware	
Number of Shares Beneficially Owned by Each Reporting Person With	7.	Sole Voting Power 0	
	8.	Shared Voting Power 17,632,985	
	9.	Sole Dispositive Power 0	
	10.	Shared Dispositive Power 17,632,985	
	11.	Aggregate Amount Beneficially Owned by Each Reporting Person 17,632,985	
	12.	Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) <input type="checkbox"/> *	
	13.	Percent of Class Represented by Amount in Row (11) 18.5%*	
	14.	Type of Reporting Person (See Instructions) IA	

* Consists of 17,632,985 shares of Common Stock of the Issuer held of record by Kinderhook. Based on the number of shares of Common Stock outstanding as of February 28, 2012 (as reported by the Issuer in its Annual Report on Form 10-K for the year ended December 31, 2011) plus the 14,336,912 shares of Common Stock issued by the Issuer on March 7, 2012 under a Securities Purchase Agreement, the 17,632,985 shares of outstanding Common Stock held by Kinderhook represent approximately 18.5% of the total outstanding Common Stock.

	1.	Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only) Stephen J. Clearman
	2.	Check the Appropriate Box if a Member of a Group (See Instructions)
	(a)	<input type="checkbox"/>
	(b)	<input checked="" type="checkbox"/>
	3.	SEC Use Only
	4.	Source of Funds (See Instructions) AF
	5.	Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) <input type="checkbox"/>
	6.	Citizenship or Place of Organization United States of America
Number of Shares Beneficially Owned by Each Reporting Person With	7.	Sole Voting Power 0
	8.	Shared Voting Power 17,632,985
	9.	Sole Dispositive Power 0
	10.	Shared Dispositive Power 17,632,985
	11.	Aggregate Amount Beneficially Owned by Each Reporting Person 17,632,985
	12.	Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) <input type="checkbox"/> *
	13.	Percent of Class Represented by Amount in Row (11) 18.5%*
	14.	Type of Reporting Person (See Instructions) IN, HC

* Consists of 17,632,985 shares of Common Stock of the Issuer held of record by Kinderhook. Based on the number of shares of Common Stock outstanding as of February 28, 2012 (as reported by the Issuer in its Annual Report on Form 10-K for the year ended December 31, 2011) plus the 14,336,912 shares of Common Stock issued by the Issuer on March 7, 2012 under a Securities Purchase Agreement, the 17,632,985 shares of outstanding Common Stock held by Kinderhook represent approximately 18.5% of the total outstanding Common Stock.

	1.	Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only) Tushar Shah
	2.	Check the Appropriate Box if a Member of a Group (See Instructions)
	(a)	<input type="checkbox"/>
	(b)	<input checked="" type="checkbox"/>
	3.	SEC Use Only
	4.	Source of Funds (See Instructions) AF
	5.	Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) <input type="checkbox"/>
	6.	Citizenship or Place of Organization United States of America
Number of Shares Beneficially Owned by Each Reporting Person With	7.	Sole Voting Power 0
	8.	Shared Voting Power 17,632,985
	9.	Sole Dispositive Power 0
	10.	Shared Dispositive Power 17,632,985
	11.	Aggregate Amount Beneficially Owned by Each Reporting Person 17,632,985
	12.	Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) <input type="checkbox"/> *
	13.	Percent of Class Represented by Amount in Row (11) 18.5%*
	14.	Type of Reporting Person (See Instructions) IN, HC

- Consists of 17,632,985 shares of Common Stock of the Issuer held of record by Kinderhook. Based on the number of shares of Common Stock outstanding as of February 28, 2012 (as reported by the Issuer in its Annual Report on Form 10-K for the year ended December 31, 2011) plus the 14,336,912 shares of Common Stock issued by the Issuer on March 7, 2012 under a Securities Purchase Agreement, the 17,632,985 shares of outstanding Common Stock held by Kinderhook represent approximately 18.5% of the total outstanding Common Stock.

Item 1. Security and Issuer

This statement on Schedule 13D relates to shares of common stock, par value \$0.001 per share (the "Common Stock"), of Active Power, Inc., a Delaware corporation (the "Issuer"). The address of the principal executive offices of the Issuer is 2128 W. Braker Lane, BK 12, Austin, Texas 78758.

Item 2. Identity and Background

- (a) This Schedule 13D is being filed by Kinderhook Partners, LP, a Delaware limited partnership (the "Partnership"), Kinderhook GP, LLC, a Delaware limited liability company and the general partner of the Partnership (the "General Partner"), Kinderhook Capital Management, LLC, a Delaware limited liability company and the investment adviser to the Partnership (the "Advisor"), Stephen J. Clearman, the co-managing member of the General Partner and the Advisor (the "Mr. Clearman"), and Tushar Shah, the co-managing member of the General Partner and the Advisor (the "Mr. Shah" and, collectively with the Partnership, the General Partner, the Advisor and Mr. Clearman, the "Reporting Persons").
- (b) The principal business address for each of the Reporting Persons is 2 Executive Drive, Suite 585, Fort Lee, New Jersey 07024.
- (c) The principal business of (i) the Partnership is to serve as a private investment vehicle, (ii) the General Partner is to serve as general partner of the Partnership and (iii) the Advisor is to serve as investment adviser to the Partnership. The principal occupation of each of Mr. Clearman and Mr. Shah is investment management.

Mr. Clearman and Mr. Shah are the co-managing members of the General Partner and the Advisor responsible for making investment decisions with respect to the Partnership and, as a result, Mr. Clearman and Mr. Shah may be deemed to control such entities. Accordingly, each of Mr. Clearman and Mr. Shah may be deemed to have a beneficial interest in the shares of Common Stock by virtue of his indirect control of the Partnership, the General Partner and the Advisor and the General Partner's and Advisor's power to vote and/or dispose of the shares of Common Stock. Each of Mr. Clearman and Mr. Shah disclaims beneficial ownership of the shares of Common Stock except to the extent of his pecuniary interest, if any, herein.

- (d) During the last five years, none of the Reporting Persons has been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors).
- (e) During the last five years, none of the Reporting Persons has been a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, Federal or state securities laws or finding any violation with respect to such laws.
- (f) The place of organization of each of the Partnership, the General Partner and the Advisor is the State of Delaware. The citizenship of each of Mr. Clearman and Mr. Shah is the United States of America.

Item 3. Source and Amount of Funds or Other Consideration

On March 7, 2012, the Partnership entered into a Securities Purchase Agreement with the Issuer and other purchasers named therein pursuant to which the Partnership purchased 8,823,529 shares of Common Stock for the aggregate purchase price of \$5,999,999.72. The description of the Securities Purchase Agreement herein is a summary and is qualified in its entirety by reference to the Securities Purchase Agreement. A copy of the Securities Purchase Agreement is filed as Exhibit 2 to this Schedule 13D and is incorporated herein by reference. Prior to the purchase, the Partnership was the holder of record of 8,809,456 shares of Common Stock, which the Partnership purchased for an aggregate purchase price of \$6,161,502.58.

The funds used for the acquisition of the shares of Common Stock came from the working capital of the various funds and managed accounts of the Partnership.

No borrowed funds were used to purchase the shares of Common Stock, other than any borrowed funds used for working capital purposes in the ordinary course of business.

Item 4. Purpose of Transaction

The Reporting Persons acquired the shares of Common Stock reported herein for investment. The Reporting Persons intend to review their holdings in the Issuer on a continuing basis. Depending upon, among other things, current and anticipated future trading prices for the Issuer's securities, the financial condition, results of operations and prospects of the Issuer and its businesses, general economic, market and industry conditions, and the Reporting Persons' overall strategic objectives and financial condition, the Reporting Persons may from time to time, among other things, decide to increase, decrease or maintain the size of their investment in the Issuer.

- (a) In connection with the purchase of shares of Common Stock pursuant to the Securities Purchase Agreement, the Partnership entered into a Resale Registration Rights Agreement with the Issuer, pursuant to which the Issuer agreed to register under the Securities Act of 1933, as amended, for resale the shares of Common Stock held by the Partnership.

Depending on market conditions and other factors that each may deem material to its respective investment decision, each of the Reporting Persons may purchase additional shares of the Common Stock in the open market or in private transactions or may dispose of all or a portion of the shares of the Common Stock that it now owns or hereafter may acquire.

- (d) In connection with the purchase of shares of Common Stock pursuant to the Securities Purchase Agreement, the Partnership entered into a letter agreement with the Issuer, pursuant to which the Issuer agreed to designate one member of the board of directors of the Issuer. The Issuer agreed to use its reasonable best efforts to cause to be appointed any designee of the Partnership to the board of directors of the Issuer within 10 days after the Issuer receives written notice of such designation. Until such designee has been appointed to the board of directors of the Issuer, the Issuer agreed to invite a representative of the Partnership to attend all meetings of its board of directors in a nonvoting observer capacity.

The descriptions of the Resale Registration Rights Agreement and Side Letter herein are summaries and are qualified in their entirety by reference to the Resale Registration Rights Agreement and the Side Letter. A copy of the Resale Registration Rights Agreement is filed as Exhibit 3 to this Schedule 13D and is incorporated herein by reference and the Side Letter is filed as Exhibit 4 to this Schedule 13D and is incorporated herein by reference.

There can be no assurance that the Reporting Persons will pursue any of the matters set forth above. Moreover, there can be no assurance that the Reporting Persons will or will not develop any alternative plan or proposal with respect to any of the foregoing matters or take any particular action or actions with respect to some or all of their holdings in the Issuer, or as to the timing of any such matters should they be so pursued by the Reporting Persons. The Reporting Persons reserve the right, at any time and in each Reporting Person's sole discretion, to take or refrain from taking any of the actions set forth above.

Item 5. Interest in Securities of the Issuer

- (a), (b) According to the Issuer's Annual Report on Form 10-K for the year ended December 31, 2011, there were 81,090,323 shares of Common Stock issued and outstanding as of February 28, 2012. After giving effect to the issuance of the shares of Common Stock to the Reporting Persons and other purchasers pursuant to the Securities Purchase Agreement, the Reporting Persons have reason to believe that there are 95,427,235 shares of Common Stock outstanding. Based on the number of shares of Common Stock outstanding as of February 28, 2012 (as reported by the Issuer in its Annual Report on Form 10-K for the year ended December 31, 2011) plus the 14,336,912 shares of Common Stock issued by the Issuer on March 7, 2012 under the Securities Purchase Agreement, the Reporting Persons report beneficial ownership of the following shares of Common Stock:

The Partnership reports beneficial ownership of 17,632,985 shares of Common Stock, representing 18.5% of the Common Stock outstanding. The Partnership has the sole power to vote or direct the vote of 0 shares of Common Stock; has the shared power to vote or direct the vote of 17,632,985 shares of Common Stock; has sole power to dispose or direct the disposition of 0 shares of Common Stock; and has shared power to dispose or direct the disposition of 17,632,985 shares of Common Stock. The Partnership specifically disclaims beneficial ownership in the shares of Common Stock reported herein except to the extent of its pecuniary interest therein.

The General Partner reports beneficial ownership of 17,632,985 shares of Common Stock, representing 18.5% of the Common Stock outstanding. The General Partner has the sole power to vote or direct the vote of 0 shares of Common Stock; has the shared power to vote or direct the vote of 17,632,985 shares of Common Stock; has sole power to dispose or direct the disposition of 0 shares of Common Stock; and has shared power to dispose or direct the disposition of 17,632,985 shares of Common Stock. The General Partner specifically disclaims beneficial ownership in the shares of Common Stock reported herein except to the extent of its pecuniary interest therein.

The Advisor reports beneficial ownership of 17,632,985 shares of Common Stock, representing 18.5% of the Common Stock outstanding. The Advisor has the sole power to vote or direct the vote of 0 shares of Common Stock; has the shared power to vote or direct the vote of 17,632,985 shares of Common Stock; has sole power to dispose or direct the disposition of 0 shares of Common Stock; and has shared power to dispose or direct the disposition of 17,632,985 shares of Common Stock. The Advisor specifically disclaims beneficial ownership in the shares of Common Stock reported herein except to the extent of its pecuniary interest therein.

Mr. Shah may be deemed to have beneficial ownership of 17,632,985 shares of Common Stock, representing 18.5% of the Common Stock outstanding. Mr. Shah has the sole power to vote or direct the vote of 0 shares of Common Stock; has the shared power to vote or direct the vote of 17,632,985 shares of Common Stock; has sole power to dispose or direct the disposition of 0 shares of Common Stock; and has shared power to dispose or direct the disposition of 17,632,985 shares of Common Stock. Mr. Shah specifically disclaims beneficial ownership in the shares of Common Stock reported herein except to the extent of his pecuniary interest therein.

Mr. Clearman may be deemed to have beneficial ownership of 17,632,985 shares of Common Stock, representing 18.5% of the Common Stock outstanding. Mr. Clearman has the sole power to vote or direct the vote of 0 shares of Common Stock; has the shared power to vote or direct the vote of 17,632,985 shares of Common Stock; has sole power to dispose or direct the disposition of 0 shares of Common Stock; and has shared power to dispose or direct the disposition of 17,632,985 shares of Common Stock. Mr. Clearman specifically disclaims beneficial ownership in the shares of Common Stock reported herein except to the extent of his pecuniary interest therein.

- (c) Except as described herein, none of the Reporting Persons has effected any transaction in Common Stock of the Issuer in the past 60 days.
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- (d) No person other than the Reporting Persons is known to have the right to receive, or the power to direct the receipt of, dividends from, or proceeds from the sale of, the Shares reported in this Schedule 13D.

Item 6. Contracts, Arrangements, Understandings or Relationships with Respect to Securities of the Issuer

The information set forth above in Items 3 and 4 and the Joint Acquisition Statement attached as Exhibit 1 are incorporated herein by reference.

Item 7. Material to Be Filed as Exhibits

Exhibit 1 Joint Acquisition Statement dated as of March 15, 2012.

Exhibit 2 Securities Purchase Agreement by and among Active Power, Inc. and the purchasers named therein, dated March 7, 2012.

Exhibit 3 Resale Registration Rights Agreement between Active Power, Inc. and Kinderhook Partners, LP dated March 7, 2012.

Exhibit 4 Letter Agreement between Active Power, Inc. and Kinderhook Partners, LP dated March 7, 2012.

Signature

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

KINDERHOOK PARTNERS, LP

By: KINDERHOOK GP, LLC

By: /s/ Tushar Shah

Name: Tushar Shah

Title: Managing Member

Date: March 15, 2012

KINDERHOOK GP, LLC

By: /s/ Tushar Shah

Name: Tushar Shah

Title: Managing Member

Date: March 15, 2012

KINDERHOOK CAPITAL MANAGEMENT, LLC

By: /s/ Tushar Shah

Name: Tushar Shah

Title: Managing Member

Date: March 15, 2012

/s/ Stephen J. Clearman

Name: Stephen J. Clearman

Date: March 15, 2012

/s/ Tushar Shah

Name: Tushar Shah

Date: March 15, 2012

Joint Acquisition Statement
Pursuant to Section 240.13d-1(k)

The undersigned acknowledge and agree that the foregoing statement on Schedule 13D is filed on behalf of each of the undersigned and that all subsequent amendments to this statement on Schedule 13D shall be filed on behalf of each of the undersigned without the necessity of filing additional joint acquisition statements. The undersigned acknowledge that each shall be responsible for the timely filing of such amendments, and for the completeness and accuracy of the information concerning him or it contained therein, but shall not be responsible for the completeness and accuracy of the information concerning the other entities or persons, except to the extent that he or it knows or has reason to believe that such information is inaccurate.

Dated: March 15, 2012

KINDERHOOK PARTNERS, LP
By: KINDERHOOK GP, LLC

By: /s/ Tushar Shah
Name: Tushar Shah
Title: Managing Member

KINDERHOOK GP, LLC

By: /s/ Tushar Shah
Name: Tushar Shah
Title: Managing Member

KINDERHOOK CAPITAL MANAGEMENT, LLC

By: /s/ Tushar Shah
Name: Tushar Shah
Title: Managing Member

/s/ Stephen J. Clearman
Name: Stephen J. Clearman

/s/ Tushar Shah
Name: Tushar Shah

SECURITIES PURCHASE AGREEMENT

THIS SECURITIES PURCHASE AGREEMENT (this “**Agreement**”) is made effective as of March 7, 2012, by and among Active Power, Inc. (the “**Company**”), a corporation organized under the laws of the State of Delaware, with its principal offices at 2128 W. Braker Lane, BK12, Austin, Texas 78758, and the purchasers whose names and addresses are set forth on the signature pages hereof (each a “**Purchaser**” and collectively the “**Purchasers**”).

IN CONSIDERATION of the mutual covenants contained in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged and agreed by the parties hereto, the Company and each of the Purchasers, intending to be legally bound, agree as follows:

SECTION 1. Authorization of Sale of the Shares. Subject to the terms and conditions of this Agreement, the Company has authorized the issuance and sale of 14,336,912 shares (the “**Shares**”) of common stock, par value \$0.001 per share (the “**Common Stock**”), of the Company.

SECTION 2. Agreement to Sell and Purchase the Shares. At the Closing (as defined in Section 3), the Company will, subject to the terms and conditions of this Agreement, issue and sell to the Purchasers and the Purchasers will buy from the Company, upon the terms and conditions hereinafter set forth, the number of Shares at the purchase price per share and aggregate purchase prices set forth on the signature pages hereto. The obligation of each Purchaser to buy Shares shall be a several, and not joint, obligation.

SECTION 3. Delivery of the Shares at the Closing. The completion of the purchase and sale of the Shares (the “**Closing**”) shall occur at the offices of Wilson Sonsini Goodrich & Rosati, Professional Corporation, 900 South Capital of Texas Highway, Las Cimas IV, Fifth Floor, Austin, TX 78746-5546, simultaneously with the execution of this Agreement (the date of the execution of this Agreement, the “**Closing Date**”).

At the Closing, each Purchaser shall deliver, in immediately available funds, the full amount of the purchase price for the Shares being purchased by such Purchaser hereunder by wire transfer to an account designated by the Company and the Company shall deliver to each Purchaser one or more stock certificates registered in the name of such Purchaser, or in such nominee name(s) as designated by such Purchaser in writing, representing the number of Shares set forth on such Purchaser’s signature page. The name(s) in which the stock certificates are to be registered are set forth in the Stock Certificate Questionnaire attached hereto as part of Appendix I.

The Company's obligation to complete the purchase and sale of the Shares and deliver such stock certificate(s) to each Purchaser at the Closing shall be subject to the following conditions, any one or more of which may be waived by the Company: (x) receipt by the Company of same-day funds in the full amount of the purchase price for the Shares being purchased hereunder; (y) completion of the purchases and sales under the Agreement with all Purchasers; and (z) the accuracy in all material respects of the representations and warranties made by the Purchasers and the fulfillment of those undertakings of the Purchasers to be fulfilled prior to the Closing. Each Purchaser's obligation to accept delivery of such stock certificate(s) and to pay for the Shares evidenced thereby shall be subject to the following conditions, any one or more of which may be waived by such Purchaser: (a) each of the representations and warranties of the Company in this Agreement (disregarding, for this purpose, all exceptions in those representations and warranties relating to materiality, Material Adverse Effect (as defined below) or any similar standard or qualification) shall be true and correct on and as of the date of this Agreement and as of the Closing Date (except to the extent expressly made as of a specified date, in which case as of such date); (b) receipt by the Purchaser of a certificate executed by the chief executive officer and the chief financial or accounting officer of the Company, dated as of the Closing Date, to the effect of (a) above, and to the effect that the Company has complied in all material respects with the Agreement and satisfied all the conditions herein on its part to be performed or satisfied on or prior to such Closing Date; (c) the delivery to the Purchaser by counsel to the Company of a legal opinion in a form reasonably acceptable to the Purchaser; (d) the fulfillment in all material respects of those undertakings of the Company to be fulfilled prior to the Closing; (e) the execution and delivery by the Company to Kinderhook Partners, L.P. of a resale registration rights agreement in a form reasonably acceptable to such Purchaser (the "**Registration Rights Agreement**"); and (f) the purchase by each of the other Purchasers of the Shares that they have agreed to purchase from the Company, for total proceeds of \$9,749,100. For the purposes of this Agreement the term "**Material Adverse Effect**" shall mean a material adverse effect on the condition, properties, business or results of operations of the Company and its Subsidiaries, taken as a whole; *provided, however*, in no event shall any of the following be taken into account in determining whether there has been or will be a Material Adverse Effect: (A) any effect resulting from changes or effects in general worldwide or U.S. economic, capital market or political conditions, which changes or effects do not disproportionately affect the Company, (B) any effect resulting from changes or effects generally affecting the industries or markets in which the Company operates, which changes or effects do not disproportionately affect the Company, (C) any effect resulting from any act of war or terrorism (or, in each case, any escalation thereof), which changes or effects do not disproportionately affect the Company, (D) any changes in applicable laws or regulations or accounting principles or (E) any change in and of itself in the trading price or trading volume of the Company's Common Stock.

SECTION 4. Representations, Warranties and Covenants of the Company. The Company hereby represents and warrants to, and covenants with, the Purchasers, as of the date of this Agreement and as of the Closing Date (except to the extent expressly made as of a specified date, in which case as of such date), as follows:

4.1 Organization and Qualification. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation, and the Company is qualified to do business as a foreign corporation in each jurisdiction in which qualification is required, except where failure to so qualify would not have a Material Adverse Effect. Each of the Company's subsidiaries (each a "**Subsidiary**" and collectively the "**Subsidiaries**") is duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation and is qualified to do business as a foreign corporation in each jurisdiction in which qualification is required, except where failure to so qualify would not have a Material Adverse Effect.

4.2 Registration of Offering. The Company's Registration Statement on Form S-3 (File No. 333-163301) (the "**Registration Statement**") has been declared effective by the Securities and Exchange Commission (the "**Commission**") and no stop orders have been issued or, to the knowledge of the Company, are threatened. The Shares are to be offered and sold pursuant to the Registration Statement and a prospectus contained therein dated December 17, 2009, as supplemented by a prospectus supplement dated March 7, 2012 (the "**Prospectus Supplement**") to be filed pursuant to Rule 424(b) under the Securities Act of 1933, as amended (the "**Securities Act**"). The Prospectus Supplement will be filed with the Commission in the manner and within the time period required under Rule 424(b). The Registration Statement and the Prospectus, as supplemented by the Prospectus Supplement, each comply in all material respects with the Securities Act, and each of the Registration Statement and the Prospectus, as supplemented by the Prospectus Supplement, does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The documents incorporated by reference in the Registration Statement and the Prospectus, as supplemented by the Prospectus Supplement, when they were filed with the Commission and as of the date hereof conformed in all material respects to the requirements of the Exchange Act, and none of such documents contained or contains any untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

4.3 Authorized Capital Stock. The authorized capital stock of the Company consists of (a) 150,000,000 shares of Common Stock, of which 81,090,323 shares were issued and outstanding as of the close of business on February 28, 2012, and (b) 10,000,000 shares of preferred stock, par value \$0.001 per share, of which no shares were issued and outstanding as of February 28, 2012. The issued and outstanding shares of Common Stock have been duly authorized and validly issued, are fully paid and nonassessable, have been issued in compliance with all federal and state securities laws, and were not issued in violation of or subject to any preemptive rights or other rights to subscribe for or purchase securities. Except as set forth in the Commission Documents (as defined in Section 4.12), the Company does not have outstanding any options to purchase, or any preemptive rights or other rights to subscribe for or to purchase, any securities or obligations convertible into, or any contracts or commitments to issue or sell, shares of its capital stock or any such options, rights, convertible securities or obligations. With respect to each of the Subsidiaries, (i) all the issued and outstanding shares of such Subsidiary's capital stock have been duly authorized and validly issued, are fully paid and nonassessable, have been issued in compliance with all federal and state securities laws, were not issued in violation of or subject to any preemptive rights or other rights to subscribe for or purchase securities, and (ii) there are no outstanding options to purchase, or any preemptive rights or other rights to subscribe for or to purchase, any securities or obligations convertible into, or any contracts or commitments to issue or sell, shares of such Subsidiary's capital stock or any such options, rights, convertible securities or obligations.

4.4 Issuance, Sale and Delivery of the Shares. The Shares have been duly authorized and, when issued, delivered and paid for in the manner set forth in this Agreement, will be validly issued, fully paid and nonassessable. No preemptive rights or other rights to subscribe for or purchase any shares of Common Stock of the Company exist with respect to the issuance and sale of the Shares by the Company pursuant to this Agreement. Except as set forth in the Commission Documents, no stockholder of the Company has any right to require the Company to register the sale of any capital stock owned by such stockholder. No further approval or authority of the stockholders or the Board of Directors of the Company will be required for the issuance and sale of the Shares to be sold by the Company as contemplated herein.

4.5 Due Execution, Delivery and Performance of the Agreement. The Company has full legal right, corporate power and authority to enter into this Agreement and the Registration Rights Agreement and perform the transactions contemplated hereby and thereby. Each of this Agreement and the Registration Rights Agreement has been duly authorized, executed and delivered by the Company. Each of this Agreement and the Registration Rights Agreement constitutes a legal, valid and binding agreement of the Company, enforceable against the Company in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws and judicial decisions of general application relating to or affecting the enforcement of creditors' rights and the application of equitable principles relating to the availability of remedies, and except as rights to indemnity or contribution, including but not limited to, indemnification provisions set forth in Section 7 of the Registration Rights Agreement may be limited by federal or state securities law or the public policy underlying such laws. The execution and performance of this Agreement and the Registration Rights Agreement by the Company and the consummation of the transactions herein contemplated will not violate any provision of the certificate of incorporation or bylaws of the Company, the organizational documents of any Subsidiary or, to the Company's knowledge, any applicable law, rule or regulation. No consent, approval, authorization or other order of any court, regulatory body, administrative agency or other governmental agency or body is required for the execution and delivery of this Agreement or the Registration Rights Agreement by the Company or the consummation by the Company of the transactions contemplated by this Agreement, except for compliance with the Blue Sky laws and the rules and regulations of the Financial Industry Regulatory Authority, Inc. applicable to the offering of the Shares, or the Registration Rights Agreement, except for compliance with the registration requirements of the Securities Act.

4.6 No Defaults or Consents. Except as would not cause a Material Adverse Effect, individually or in the aggregate, neither the execution, delivery and performance of this Agreement by the Company nor the consummation of any of the transactions contemplated hereby (including, without limitation, the issuance and sale by the Company of the Shares) will give rise to a right to terminate or accelerate the due date of any payment due under, or conflict with or result in the breach of any term or provision of, or constitute a default (or an event that with notice or lapse of time or both would constitute a default) under, or require any consent or waiver under, or result in the execution or imposition of any lien, charge or encumbrance upon any properties or assets of the Company or its Subsidiaries pursuant to the terms of, any indenture, mortgage, deed of trust or other agreement or instrument to which the Company or any of its Subsidiaries is a party or by which either the Company or its Subsidiaries or any of its or their properties or businesses is bound, or any franchise, lease, license, permit, judgment, decree, order, statute, rule or regulation of any court or any regulatory body, administrative agency or other governmental agency or body applicable to the Company or any Subsidiary or any of their respective assets or properties, except for such consents or waivers that have already been obtained and are in full force and effect.

4.7 No Material Adverse Change. Except as disclosed in the Commission Documents, since December 31, 2011, (i) neither the Company nor any of its Subsidiaries have paid or declared any dividends or other distributions with respect to their capital stock and neither the Company nor any Subsidiary is in default in the payment of principal or interest on any material outstanding debt obligations; (ii) there has not been any change in the capital stock of the Company or its Subsidiaries other than the sale of the Shares hereunder and shares or options issued pursuant to employee equity incentive plans or purchase plans approved by the Company's Board of Directors, or indebtedness material to the Company and its Subsidiaries taken as a whole (other than in the ordinary course of business and any required scheduled payments); and (iii) there has not occurred any event that has caused or could reasonably be expected to cause a Material Adverse Effect.

4.8 Compliance. The Company and its Subsidiaries conduct their business in compliance with all applicable laws, rules and regulations of the jurisdictions in which each is conducting business, including, without limitation, all applicable local, state and federal environmental laws and regulations, except where failure to be so in compliance would not have a Material Adverse Effect.

4.9 Taxes. The Company and each Subsidiary have filed all required federal, state and foreign income and franchise tax returns and have paid or accrued all taxes shown as due thereon, and none of the Company or any Subsidiary has knowledge of a tax deficiency that has been or might be asserted or threatened against it that could have a Material Adverse Effect.

4.10 Transfer Taxes. On the Closing Date, all stock transfer or other taxes (other than income taxes) that are required to be paid in connection with the sale and transfer of the Shares to be sold to the Purchaser hereunder will have been fully paid or provided for by the Company.

4.11 Investment Company. The Company is not, nor will be after giving effect to the sale of the Shares, an "investment company" or an "affiliated person" of, or "promoter" or "principal underwriter" for an investment company, within the meaning of the Investment Company Act of 1940, as amended, and the rules and regulations of the Commission promulgated thereunder.

4.12 Additional Information. As of their respective filing dates, none of the Commission Documents contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein in light of the circumstances in which they were made not misleading. As of the date hereof, the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, together with all other documents filed by the Company with the Commission since January 1, 2011, do 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 light of the circumstances in which they were made not misleading. The documents incorporated by reference in the Commission Documents or attached as exhibits thereto, at the time they became effective or were filed with the Commission, as the case may be, complied in all material respects with the requirements of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), as applicable, and the rules and regulations of the Commission thereunder. Since January 1, 2011, the Company has filed all documents required to be filed by with the Commission pursuant to the reporting requirements of the Exchange Act. All materials filed or furnished by the Company with the Commission under the Exchange Act or the Securities Act since January 1, 2011 and all amendments thereto, exhibits included therein, financial statements and schedules thereto and documents incorporated by reference therein, are referred to as the "**Commission Documents**."

4.13 Price of Common Stock. The Company has not taken, directly or indirectly, any action designed to cause or result in, or that has constituted or that might reasonably be expected to constitute, the stabilization or manipulation of the price of the shares of the Common Stock to facilitate the sale or resale of the Shares.

4.14 Listing Compliance. Except as set forth in the Commission Documents, the Company is in compliance with the requirements of the Nasdaq Global Market for continued listing of the Common Stock thereon. The Company has taken no action designed to, or likely to have the effect of, terminating the registration of the Common Stock under the Exchange Act or the listing of the Common Stock on the Nasdaq Global Market, nor has the Company received any notification that the Commission or the Nasdaq Global Market is contemplating terminating such registration or listing. The transactions contemplated by this Agreement will not contravene the rules and regulations of the Nasdaq Global Market. The Company will comply with all requirements of the Nasdaq Global Market with respect to the issuance of the Shares and shall cause the Shares to be listed on the Nasdaq Global Market.

4.15 Legal Proceedings. There are no current or pending legal, governmental or regulatory actions, suits or proceedings that are required under the Securities Act to be described in the Registration Statement or the Prospectus that are not so described in the Registration Statement and the Prospectus; and there are no contracts or other documents that are required under the Securities Act to be filed as exhibits to the Registration Statement or described in the Registration Statement or the Prospectus that are not so filed as exhibits to the Registration Statement or described in the Registration Statement and the Prospectus.

4.16 Section 203 of the DGCL. The Board of Directors of the Company has approved for the purposes of Section 203(a)(1) of the Delaware General Corporation Law (the “**DGCL**”) Kinderhook becoming an “interested stockholder” (as defined in Section 203(c)(5) of the DGCL) and taken all other actions necessary so that the restrictions contained in Section 203(a) applicable to a “business combination” (as defined in Section 203(c)(3) of the DGCL) shall not apply to the execution, delivery or performance of this Agreement, the Registration Rights Agreement or the issuance of the Shares or the other transactions contemplated by this Agreement or the Registration Rights Agreement.

SECTION 5. Representations, Warranties and Covenants of the Purchaser. Each Purchaser represents and warrants to, and covenants with, the Company, as of the date of this Agreement (except to the extent expressly made as of a specified date, in which case as of such date), that:

5.1 Confidentiality. The Purchaser understands that the federal securities laws impose restrictions on trading based on information regarding this offering. The Purchaser further acknowledges that (i) the Purchaser may have received material, non-public information about the Company in connection with this offering, (ii) the United States securities laws prohibit any person who has received such information from purchasing or selling securities of the subject issuer or from communicating such information to any other person under circumstances in which it is reasonably foreseeable that such person may purchase or sell such securities, and (iii) the Purchaser shall not directly or indirectly, offer, sell, assign, transfer, pledge, contract to sell or otherwise dispose of any Common Stock or other securities of the Company while in possession of such material, non-public information. The Purchaser's confidentiality obligation hereunder will terminate upon the issuance by the Company of a press release announcing the offering contemplated hereby as provided in Section 19. The foregoing agreements shall not apply to any information that is or becomes publicly available through no fault of the Purchaser, or that the Purchaser is legally required to disclose; *provided, however*, that if the Purchaser is requested or ordered to disclose any such information pursuant to any court or other government order or any other applicable legal or regulatory procedure, it shall provide the Company with prompt notice of any such request or order in time sufficient to enable the Company to seek an appropriate protective order.

5.2 Authorization; Validity; Enforcement. The Purchaser has full right, power, authority and capacity to enter into this Agreement and to consummate the transactions contemplated hereby and has taken all necessary action to authorize the execution, delivery and performance of this Agreement. The making and performance of this Agreement by the Purchaser and the consummation of the transactions herein contemplated will not violate any provision of the organizational documents of the Purchaser or conflict with, result in the breach or violation of, or constitute, either by itself or upon notice or the passage of time or both, a default under any material agreement, mortgage, deed of trust, lease, franchise, license, indenture, permit or other instrument to which the Purchaser is a party or, any statute or any authorization, judgment, decree, order, rule or regulation of any court or any regulatory body, administrative agency or other governmental agency or body applicable to the Purchaser. No consent, approval, authorization or other order of any court, regulatory body, administrative agency or other governmental agency or body is required on the part of the Purchaser for the execution and delivery of this Agreement or the consummation of the transactions contemplated by this Agreement. Upon the execution and delivery of this Agreement, this Agreement shall constitute a legal, valid and binding obligation of the Purchaser, enforceable in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application relating to or the enforcement of creditor's rights and the application of equitable principles relating to the availability of remedies, and except as rights to indemnity or contribution, may be limited by federal or state securities laws or the public policy underlying such laws. There is not in effect any order enjoining or restraining the Purchaser from entering into or engaging in any of the transactions contemplated by this Agreement.

5.3 Short Sales. Since the date the Purchaser first discussed with the Company the sale of the Shares contemplated by this Agreement, the Purchaser has not taken, and prior to the public announcement of the transaction the Purchaser shall not take, any action that has caused or will cause the Purchaser to have, directly or indirectly, sold or agreed to sell any shares of Common Stock, effected any short sale, whether or not against the box, established any "put equivalent position" (as defined in Rule 16a-1(h) under the Exchange Act) with respect to the Common Stock, granted any other right (including, without limitation, any put or call option) with respect to the Common Stock or with respect to any security that includes, relates to or derives any significant part of its value from the Common Stock.

SECTION 6. Closing Conditions. The obligations of the Purchasers hereunder, as to the purchase of the Shares at the Closing shall be subject to the conditions set forth in Section 3 and the following additional conditions:

6.1 Prospectus Supplement; Registration Statement. The Company shall have filed the Prospectus Supplement with the Commission in the manner and within the time period required by Rule 424(b) promulgated under the Securities Act; the Registration Statement shall remain effective; no stop order suspending the effectiveness of the Registration Statement or any part thereof or any amendment thereto shall have been issued and no proceeding for that purpose shall have been initiated or threatened by the Commission; and

6.2 No Trading Suspension. 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, the NASDAQ Global Select Market, the NASDAQ Global Market, the NASDAQ Capital Market or the NYSE Amex; (ii) a suspension or material limitation in trading in the Company's securities on the NASDAQ Global Market.

SECTION 7. Broker's Fee. Each of the parties hereto represents that, on the basis of any actions and agreements by it, there are no brokers or finders entitled to compensation in connection with the sale of the Shares to the Purchasers.

SECTION 8. Independent Nature of Purchasers' Obligations and Rights. The obligations of each Purchaser under this Agreement are several and not joint with the obligations of any other Purchaser, and no Purchaser shall be responsible in any way for the performance of the obligations of any other Purchaser under the Agreement. The decision of each Purchaser to purchase the Shares pursuant to the Agreement has been made by such Purchaser independently of any other Purchaser. Nothing contained in the Agreement, and no action taken by any Purchaser pursuant thereto, shall be deemed to constitute the Purchasers as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Purchasers are in any way acting in concert or as a group with respect to such obligations or the transactions contemplated by the Agreement. Each Purchaser acknowledges that no other Purchaser has acted as agent for such Purchaser in connection with making its investment hereunder and that no Purchaser will be acting as agent of such Purchaser in connection with monitoring its investment in the Shares or enforcing its rights under this Agreement. Each Purchaser shall be entitled to independently protect and enforce its rights, including without limitation the rights arising out of this Agreement, and it shall not be necessary for any other Purchaser to be joined as an additional party in any proceeding for such purpose.

SECTION 9. Notices. All notices, requests, consents and other communications hereunder shall be in writing, shall be mailed by first-class registered or certified airmail, e-mail, confirmed facsimile or nationally recognized overnight express courier postage prepaid, and shall be deemed given when so mailed and shall be delivered as addressed as follows:

if to the Company, to:

Active Power, Inc.
2128 W. Braker Lane, BK12
Austin, Texas 78758
Attention: John K. Penver
Facsimile: (512) 836-4511

with a copy (which copy shall not constitute notice) to:

Wilson Sonsini Goodrich & Rosati, Professional Corporation
900 South Capital of Texas Highway
Las Cimas IV, Fifth Floor
Austin, Texas 78746-5546
Attention: Derek L. Willis, Esq.
Facsimile: (512) 338-5499

or to such other person at such other place as the Company shall designate to the Purchasers in writing; and

if to the Purchasers, at its address as set forth at the end of this Agreement, or at such other address or addresses as may have been furnished to the Company in writing.

SECTION 10. Changes. This Agreement may not be modified or amended, and no provision may be waived, except pursuant to an instrument in writing signed by the Company and each of the Purchasers.

SECTION 11. Headings. The headings of the various sections of this Agreement have been inserted for convenience of reference only and shall not be deemed to be part of this Agreement.

SECTION 12. Severability. In case any provision contained in this Agreement should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.

SECTION 13. Governing Law; Venue; Waiver of Jury Trial. THIS AGREEMENT IS TO BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE FEDERAL LAW OF THE UNITED STATES OF AMERICA AND THE INTERNAL LAWS OF THE STATE OF DELAWARE WITHOUT GIVING EFFECT TO ANY CHOICE OF LAW RULE THAT WOULD CAUSE THE APPLICATION OF THE LAWS OF ANY JURISDICTION OTHER THAN THE INTERNAL LAWS OF THE STATE OF DELAWARE TO THE RIGHTS AND DUTIES OF THE PARTIES. THE COMPANY AND EACH PURCHASER SUBMIT TO THE NONEXCLUSIVE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF DELAWARE AND OF ANY DELAWARE STATE COURT SITTING IN DELAWARE FOR PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY. THE COMPANY AND EACH PURCHASER IRREVOCABLY WAIVE, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT AND ANY CLAIM THAT ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. EACH PARTY HEREBY IRREVOCABLY WAIVES PERSONAL SERVICE OF PROCESS AND CONSENTS TO PROCESS BEING SERVED IN ANY SUCH SUIT, ACTION OR PROCEEDING BY MAILING A COPY THEREOF VIA REGISTERED OR CERTIFIED MAIL OR OVERNIGHT DELIVERY (WITH EVIDENCE OF DELIVERY) TO SUCH PARTY AT THE ADDRESS IN EFFECT FOR NOTICES TO IT UNDER THIS AGREEMENT AND AGREES THAT SUCH SERVICE SHALL CONSTITUTE GOOD AND SUFFICIENT SERVICE OF PROCESS AND NOTICE THEREOF. NOTHING CONTAINED HEREIN SHALL BE DEEMED TO LIMIT IN ANY WAY ANY RIGHT TO SERVE PROCESS IN ANY MANNER PERMITTED BY LAW. THE COMPANY AND EACH PURCHASER HEREBY WAIVE ALL RIGHTS TO A TRIAL BY JURY.

SECTION 14. Counterparts. This Agreement may be executed in counterparts, each of which shall constitute an original, but all of which, when taken together, shall constitute but one instrument, and shall become effective when one or more counterparts have been signed by each party hereto and delivered to the other parties. Facsimile and PDF signatures shall be deemed original signatures.

SECTION 15. Entire Agreement. This Agreement, the Registration Rights Agreement, the Confidentiality Agreement between the Company and Kinderhook Partners, L.P. dated as of January 18, 2012 (the “**Kinderhook Confidentiality Agreement**”) the Confidentiality Agreement between the Company and Ardsley Partners dated as of February 22, 2012 (the “**Ardsley Confidentiality Agreement**”) and, collectively with the Kinderhook Confidentiality Agreement, the “**Confidentiality Agreements**”) and the instruments referenced herein contain the entire understanding of the parties with respect to the matters covered herein and therein and, except as specifically set forth herein or therein, neither the Company nor any Purchaser makes any representation, warranty, covenant or undertaking with respect to such matters. Each party expressly represents and warrants that it is not relying on any oral or written representations, warranties, covenants or agreements outside of this Agreement and the Confidentiality Agreements. The parties hereby confirm that each Confidentiality Agreement shall be terminated and shall have no further force or effect effective the third business day after the date of this Agreement.

SECTION 16. Fees and Expenses. On the Closing Date, the Company shall pay the reasonable, documented fees and expenses of Latham & Watkins LLP, counsel to one of the Purchasers, related to the transactions contemplated by this Agreement.

SECTION 17. Parties. This Agreement is made solely for the benefit of and is binding upon each Purchaser and the Company and no other person shall acquire or have any right under or by virtue of this Agreement. The term “successor and assigns” shall include any subsequent purchaser, as such purchaser, of the Shares sold to the Purchaser pursuant to this Agreement.

SECTION 18. Further Assurances. Each party agrees to cooperate fully with the other parties and to execute such further instruments, documents and agreements and to give such further written assurance as may be reasonably requested by any other party to evidence and reflect the transactions described herein and contemplated hereby and to carry into effect the intents and purposes of this Agreement.

SECTION 19. Securities Laws Disclosure; Publicity. The Company shall, by 9:00 a.m. New York City time on the first day immediately following the date hereof on which trading is scheduled to take place on the Nasdaq Global Market, issue a press release disclosing all material terms of the transactions contemplated hereby, and by 3:00 p.m. New York City time on the second day following the date hereof on which trading is scheduled to take place on the Nasdaq Global Market, the Company shall file a Current Report on Form 8-K, disclosing the material terms of the transactions contemplated hereby and filing the form of this Agreement as an exhibit in accordance with the applicable Commission rules and regulations. In addition, the Company will make such other filings and notices in the manner and time required by the Commission and the Nasdaq Global Market or any other trading market on which the Common Stock is listed or quoted. The Company may publicly disclose the name of the Purchasers and include the names of the Purchasers in any filing with the Commission or any regulatory agency or the Nasdaq Global Market or other trading.

SECTION 20. Survival. Except as otherwise provided herein, all covenants and agreements made by the Company and the Purchasers herein or in the certificates delivered pursuant hereto shall survive the execution of this Agreement, the delivery to the Purchasers of the Shares being purchased and the payment therefor. Notwithstanding any investigation made by any party to this Agreement, all representations and warranties made by the Company and the Purchasers herein or in the certificates delivered pursuant hereto shall survive the execution of this Agreement, the delivery to the Purchasers of the Shares being purchased and the payment therefor.

[Remainder of Page Left Intentionally Blank]

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized representatives as of the day and year first above written.

Active Power, Inc.

By: /s/ J. Douglas Milner

J. Douglas Milner,

President and Chief Executive Officer

[Signature Page to Securities Purchase Agreement]

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized representatives as of the day and year first above written.

Purchaser

Ardsley Renewable Energy Offshore Fund, Ltd.

Name of Purchaser
(Individual or Institution)

British Virgin Islands

Jurisdiction of Purchaser's Executive Offices

Steve Napoli

Name and Title of Individual representing
Purchaser (if an Institution)

Signature of Individual Purchaser or Individual representing Purchaser (if an
Institution)

Address: C/O Ardsley Partner

262 Harbor Drive, 4th fl Stamford CT 06902

Telephone: 203-355-0700

Facsimile: 203-355-0715

E-mail: steve@ardsley.com

Number of Shares: 164,705

Purchase Price per Share: \$ 0.68

Aggregate Purchase Price: \$ 111,999.40

[Signature Page to Securities Purchase Agreement]

APPENDIX I

ACTIVE POWER, INC.

SUMMARY INSTRUCTION SHEET FOR PURCHASER

(to be read in conjunction with the entire
Securities Purchase Agreement)

A. Complete the following items on the Securities Purchase Agreement (*Sign two originals*):

1. Signature Page:

- (i) Name of Purchaser (Individual or Institution)
- (ii) Name of Individual representing Purchaser (if an Institution)
- (iii) Title of Individual representing Purchaser (if an Institution)
- (iv) Signature of Individual Purchaser or Individual representing Purchaser

2. Appendix I - Stock Certificate Questionnaire:

Provide the information requested by the Stock Certificate Questionnaire.

3. Return the properly completed and signed Securities Purchase Agreement including the properly completed Appendix I to (initially by facsimile with original by overnight delivery):

Wilson Sonsini Goodrich & Rosati, Professional Corporation
900 South Capital of Texas Highway
Las Cimas IV, Fifth Floor
Austin, Texas 78746-5546
Attention: Derek L. Willis, Esq.
Facsimile: (512) 338-5499

B. Instructions regarding the transfer of funds for the purchase of Shares will be sent by facsimile to the Purchaser by the Company at a later date.

[Signature Page to Securities Purchase Agreement]

ACTIVE POWER, INC.

STOCK CERTIFICATE QUESTIONNAIRE

Pursuant to Section 3 of the Agreement, please provide us with the following information:

1. The exact name that your Shares are to be registered in (this is the name that will appear on your stock certificate(s)). You may use a nominee name if appropriate: Ardsley Renewable Energy Offshore Fund, Ltd.
2. The relationship between the Purchaser of the Shares and the Registered Holder listed in response to item 1 above: Self
3. The mailing address of the Registered Holder listed in response to item 1 above:
C/O Ardsley Partners
262 Harbor Drive, 4th fl Stamford CT 06902

4. The Social Security Number or Tax Identification Number of the Registered Holder listed in response to item 1 above: N/A

[Signature Page to Securities Purchase Agreement]

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized representatives as of the day and year first above written.

Purchaser

Ardley Offshore Fund, Ltd.

Name of Purchaser
(Individual or Institution)

British Virgin Islands

Jurisdiction of Purchaser's Executive Offices

Steve Napoli

Name and Title of Individual representing
Purchaser (if an Institution)

Signature of Individual Purchaser or Individual representing Purchaser (if an Institution)

Address: C/O Ardley Partner

262 Harbor Drive, 4th fl Stamford CT 06902

Telephone: 203-355-0700

Facsimile: 203-355-0715

E-mail: steve@ardsley.com

Number of Shares: 386,911

Purchase Price per Share: \$ 0.68

Aggregate Purchase Price: \$ 263,099.48

[Signature Page to Securities Purchase Agreement]

APPENDIX I

ACTIVE POWER, INC.

SUMMARY INSTRUCTION SHEET FOR PURCHASER

(to be read in conjunction with the entire
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1. Signature Page:

- (i) Name of Purchaser (Individual or Institution)
- (ii) Name of Individual representing Purchaser (if an Institution)
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- (iv) Signature of Individual Purchaser or Individual representing Purchaser

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Wilson Sonsini Goodrich & Rosati, Professional Corporation
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Austin, Texas 78746-5546
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ACTIVE POWER, INC.

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1. The exact name that your Shares are to be registered in (this is the name that will appear on your stock certificate(s)). You may use a nominee name if appropriate: Ardsley Offshore Fund, Ltd.
2. The relationship between the Purchaser of the Shares and the Registered Holder listed in response to item 1 above: Self
3. The mailing address of the Registered Holder listed in response to item 1 above: C/O Ardsley Partners
262 Harbor Drive, 4th fl Stamford CT 06902

4. The Social Security Number or Tax Identification Number of the Registered Holder listed in response to item 1 above: N/A

[Signature Page to Securities Purchase Agreement]

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized representatives as of the day and year first above written.

Purchaser

Ardley Partners Renewable Energy Fund, L.P.

Name of Purchaser
(Individual or Institution)

Stamford, Connecticut

Jurisdiction of Purchaser's Executive Offices

Steve Napoli

Name and Title of Individual representing
Purchaser (if an Institution)

Signature of Individual Purchaser or Individual representing Purchaser (if an Institution)

Address: 262 Harbor Drive, 4th fl Stamford CT 06902

Telephone: 203-355-0700

Facsimile: 203-355-0715

E-mail: steve@ardsley.com

Number of Shares: 1,673,529

Purchase Price per Share: \$ 0.68

Aggregate Purchase Price: \$ 1,137,999.72

[Signature Page to Securities Purchase Agreement]

APPENDIX I

ACTIVE POWER, INC.

SUMMARY INSTRUCTION SHEET FOR PURCHASER

(to be read in conjunction with the entire
Securities Purchase Agreement)

A. Complete the following items on the Securities Purchase Agreement (*Sign two originals*):

1. Signature Page:

- (i) Name of Purchaser (Individual or Institution)
- (ii) Name of Individual representing Purchaser (if an Institution)
- (iii) Title of Individual representing Purchaser (if an Institution)
- (iv) Signature of Individual Purchaser or Individual representing Purchaser

2. Appendix I - Stock Certificate Questionnaire:

Provide the information requested by the Stock Certificate Questionnaire.

3. Return the properly completed and signed Securities Purchase Agreement including the properly completed Appendix I to (initially by facsimile with original by overnight delivery):

Wilson Sonsini Goodrich & Rosati, Professional Corporation
900 South Capital of Texas Highway
Las Cimas IV, Fifth Floor
Austin, Texas 78746-5546
Attention: Derek L. Willis, Esq.
Facsimile: (512) 338-5499

B. Instructions regarding the transfer of funds for the purchase of Shares will be sent by facsimile to the Purchaser by the Company at a later date.

[Signature Page to Securities Purchase Agreement]

ACTIVE POWER, INC.

STOCK CERTIFICATE QUESTIONNAIRE

Pursuant to Section 3 of the Agreement, please provide us with the following information:

1. The exact name that your Shares are to be registered in (this is the name that will appear on your stock certificate(s)). You may use a nominee name if appropriate: Ardsley Partners Renewable Energy Fund, L.P.
2. The relationship between the Purchaser of the Shares and the Registered Holder listed in response to item 1 above: Self
3. The mailing address of the Registered Holder listed in response to item 1 above: C/O Ardsley Partners
262 Harbor Drive, 4th fl Stamford CT 06902

4. The Social Security Number or Tax Identification Number of the Registered Holder listed in response to item 1 above: 11-3780097

[Signature Page to Securities Purchase Agreement]

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized representatives as of the day and year first above written.

Purchaser

Ardley Partners Fund II, L.P.

Name of Purchaser
(Individual or Institution)

Stamford, Connecticut

Jurisdiction of Purchaser's Executive Offices

Steve Napoli

Name and Title of Individual representing
Purchaser (if an Institution)

Signature of Individual Purchaser or Individual representing Purchaser (if an Institution)

Address: 262 Harbor Drive, 4th fl Stamford CT 06902

Telephone: 203-355-0700

Facsimile: 203-355-0715

E-mail: steve@ardsley.com

Number of Shares: 3,288,235

Purchase Price per Share: \$ 0.68

Aggregate Purchase Price: \$ 2,235,999.80

[Signature Page to Securities Purchase Agreement]

APPENDIX I

ACTIVE POWER, INC.

SUMMARY INSTRUCTION SHEET FOR PURCHASER

(to be read in conjunction with the entire
Securities Purchase Agreement)

A. Complete the following items on the Securities Purchase Agreement (*Sign two originals*):

1. Signature Page:

- (i) Name of Purchaser (Individual or Institution)
- (ii) Name of Individual representing Purchaser (if an Institution)
- (iii) Title of Individual representing Purchaser (if an Institution)
- (iv) Signature of Individual Purchaser or Individual representing Purchaser

2. Appendix I - Stock Certificate Questionnaire:

Provide the information requested by the Stock Certificate Questionnaire.

3. Return the properly completed and signed Securities Purchase Agreement including the properly completed Appendix I to (initially by facsimile with original by overnight delivery):

Wilson Sonsini Goodrich & Rosati, Professional Corporation
900 South Capital of Texas Highway
Las Cimas IV, Fifth Floor
Austin, Texas 78746-5546
Attention: Derek L. Willis, Esq.
Facsimile: (512) 338-5499

B. Instructions regarding the transfer of funds for the purchase of Shares will be sent by facsimile to the Purchaser by the Company at a later date.

[Signature Page to Securities Purchase Agreement]

ACTIVE POWER, INC.

STOCK CERTIFICATE QUESTIONNAIRE

Pursuant to Section 3 of the Agreement, please provide us with the following information:

1. The exact name that your Shares are to be registered in (this is the name that will appear on your stock certificate(s)). You may use a nominee name if appropriate: Ardsley Partners Fund II, L.P.
2. The relationship between the Purchaser of the Shares and the Registered Holder listed in response to item 1 above: Self
3. The mailing address of the Registered Holder listed in response to item 1 above: C/O Ardsley Partners
262 Harbor Drive, 4th fl Stamford CT 06902

4. The Social Security Number or Tax Identification Number of the Registered Holder listed in response to item 1 above: 13-3476175

[Signature Page to Securities Purchase Agreement]

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized representatives as of the day and year first above written.

Purchaser

KINDERHOOK PARTNERS, LP

By: Kinderhook GP, LLC

By: _____

Name: Tushar Shah

Title: Managing Member

Address:

2 Executive Drive, Suite 585

Fort Lee, New Jersey 07024

Telephone: (201) 461-0955

Facsimile: (201) 461-7793

E-mail: tshah@kinderhookpartners.com

Number of Shares: 8,823,529

Purchase Price per Share: \$0.68

Aggregate Purchase Price: \$5,999,999.72

[Signature Page to Securities Purchase Agreement]

APPENDIX I

ACTIVE POWER, INC.

SUMMARY INSTRUCTION SHEET FOR PURCHASER

(to be read in conjunction with the entire
Securities Purchase Agreement)

A. Complete the following items on the Securities Purchase Agreement (*Sign two originals*):

1. Signature Page:

- (i) Name of Purchaser (Individual or Institution)
- (ii) Name of Individual representing Purchaser (if an Institution)
- (iii) Title of Individual representing Purchaser (if an Institution)
- (iv) Signature of Individual Purchaser or Individual representing Purchaser

2. Appendix I - Stock Certificate Questionnaire:

Provide the information requested by the Stock Certificate Questionnaire.

3. Return the properly completed and signed Securities Purchase Agreement including the properly completed Appendix I to (initially by facsimile with original by overnight delivery):

Wilson Sonsini Goodrich & Rosati, Professional Corporation
900 South Capital of Texas Highway
Las Cimas IV, Fifth Floor
Austin, Texas 78746-5546
Attention: Derek L. Willis, Esq.
Facsimile: (512) 338-5499

B. Instructions regarding the transfer of funds for the purchase of Shares will be sent by facsimile to the Purchaser by the Company at a later date.

ACTIVE POWER, INC.

STOCK CERTIFICATE QUESTIONNAIRE

Pursuant to Section 3 of the Agreement, please provide us with the following information:

1. The exact name that your Shares are to be registered in (this is the name that will appear on your stock certificate(s)). You may use a nominee name if appropriate: Kinderhook Partners, L.P.
 2. The relationship between the Purchaser of the Shares and the Registered Holder listed in response to item 1 above: N/A
 3. The mailing address of the Registered Holder listed in response to item 1 above: Kinderhook Partners, LP
2 Executive Drive, Suite 585
Fort Lee, NJ 07024
 4. The Social Security Number or Tax Identification Number of the Registered Holder listed in response to item 1 above: 14-1870126
-

RESALE REGISTRATION RIGHTS AGREEMENT

RESALE REGISTRATION RIGHTS AGREEMENT (this "**Agreement**"), dated as of March 7, 2012, by and among **Active Power, Inc.**, a Delaware corporation (the "**Company**"), and **Kinderhook Partners, LP** (together with its affiliates, the "**Initial Holder**").

WHEREAS:

A. In connection with that certain Securities Purchase Agreement of even date herewith by and among the Company and purchasers named therein (the "**Purchase Agreement**"), the Company has agreed, upon the terms and subject to the conditions contained therein, to issue and sell to the Initial Holder, and the Initial Purchaser has agreed to purchase from the Company, shares of the Company's Common Stock, par value \$0.001 per share ("**Common Stock**").

B. To induce the Initial Holder to execute and deliver the Purchase Agreement, the Company has agreed to provide certain registration rights under the Securities Act of 1933, as amended, and the rules and regulations thereunder, or any similar successor statute (collectively, the "**Securities Act**"), and applicable state securities laws.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Initial Holder hereby agree as follows:

1. DEFINITIONS.

a. As used in this Agreement, the following terms shall have the following meanings:

(i) "**Holders**" means the Initial Holder and any transferees or assignees who agree to become bound by the provisions of this Agreement in accordance with Section 9 hereof.

(ii) "**register**," "**registered**," and "**registration**" refer to a registration effected by preparing and filing a Registration Statement or Statements in compliance with the Securities Act and pursuant to Rule 415 under the Securities Act or any successor rule providing for offering securities on a continuous basis ("**Rule 415**"), and the declaration or ordering of effectiveness of such Registration Statement by the United States Securities and Exchange Commission (the "**SEC**").

(iii) "**Registrable Securities**" means the Common Stock held by the Initial Purchaser on the date hereof and the Common Stock acquired by the Initial Holder on the date hereof pursuant to the Purchase Agreement, and any shares of capital stock issued or issuable, from time to time (with any adjustments), as a distribution on or in exchange for or otherwise with respect or pursuant to any of such Common Stock, but excluding Common Stock sold under the Registration Statement filed pursuant to this Agreement or under Rule 144 under the Securities Act.

(iv) "**Registration Statement**" means a registration statement of the Company under the Securities Act filed pursuant to this Agreement.

b. Capitalized terms used herein and not otherwise defined herein shall have the respective meanings set forth in the Purchase Agreement.

2. REGISTRATION.

a. Mandatory Registration. The Company shall prepare promptly and file with the SEC as soon as practicable, but in no event later than May 1, 2012 (the "**Filing Date**"), a Registration Statement on Form S-3 (or, if Form S-3 is not then available, on such form of Registration Statement as is then available to effect a registration of all of the Registrable Securities) covering the resale by the Holders of the Registrable Securities. The Registration Statement (and each amendment or supplement thereto, and each request for acceleration of effectiveness thereof) shall be provided to the Initial Holder and its counsel prior to its filing or other submission. The Company shall cause the Registration Statement required to be filed pursuant to Section 2(a) hereof to become effective as soon as practicable, but in no event later than July 31, 2012 (the "**Registration Deadline**"). At the time of effectiveness, the Company shall ensure that such Registration Statement covers all of the Registrable Securities.

b. Default. If (i) the Registration Statement required to be filed by the Company pursuant to Section 2(a) hereof is not filed with the SEC prior to the Filing Date or declared effective by the SEC on or before the Registration Deadline or (ii) if, after any such Registration Statement has been declared effective by the SEC, sales of any of the Registrable Securities required to be covered by such Registration Statement cannot be made pursuant to such Registration Statement (by reason of a stop order, the Company's failure to update the Registration Statement as required hereby or any other failure of such Registration Statement to be effective or by reason of the Company exercising its rights under Section 3(p) hereof) (any such event, being a "**Default**"), then the Company shall, for each such day, pay each Holder with respect to any such failure, as liquidated damages and not as a penalty, an amount per 30-day period equal to 2.0% (accruing daily) of the purchase price paid pursuant to the Purchase Agreement by the Initial Holder for such shares; and for any such 30-day period (or a portion thereof), such payment shall be made no later than three (3) business days following such 30-day period (or the day the Registration Statement becomes effective). If such Holder shall be prohibited from selling Registrable Securities under the Registration Statement as a result of a Suspension of more than thirty (30) consecutive days or more than forty-five (45) days in any calendar year, then for each day on which a Suspension is in effect that exceeds the maximum allowed period for a Suspension, but not including any day on which a Suspension is lifted, the Company shall pay each Holder, as liquidated damages and not as a penalty, an amount per 30-day period equal to 2.0% (accruing daily) of the purchase price paid pursuant to the Purchase Agreement by the Initial Holder for such shares, and for any such 30-day period (or a portion thereof), such payment shall be made no later than three (3) business days following such 30-day period (or the day the Suspension is lifted). For purposes of this Section 2(a), a Suspension shall be deemed lifted on the date that notice that the Suspension has been lifted is delivered to such Holder. Any payments made pursuant to this Section 2(a) shall constitute such Holder's exclusive remedy for such events. Notwithstanding the foregoing provisions, the liquidated damages payable to such Holder shall not exceed 24% of the aggregate purchase price paid by the Initial Holder for the shares purchased under the Securities Purchase Agreement. Such payments shall be made to the Holders in cash. If the Company fails to pay any liquidated damages pursuant to this Section in full within seven (7) days after the date of written demand therefor, the Company will pay interest thereon at a rate of 10% per annum (or such lesser maximum amount that is permitted to be paid by applicable law) to such Holder, accruing daily from the date such liquidated damages are due until such amounts, plus all interest thereon, are paid in full.

c. Eligibility for Form S-3. The Company represents and warrants that it meets the requirements for the use of Form S-3 for registration of the sale by the Initial Holder and any other Holder of the Registrable Securities and the Company shall file all reports required to be filed by the Company with the SEC in a timely manner so as to maintain such eligibility for the use of Form S-3.

3. OBLIGATIONS OF THE COMPANY.

In connection with the registration of the Registrable Securities, the Company shall have the following obligations:

a. The Company shall respond promptly to any and all comments made by the staff of the SEC to the Registration Statement required by Section 2(a), and shall submit to the SEC before the close of business on the business day immediately following the business day on which the Company learns (either by telephone or in writing) that no review of such Registration Statement will be made by the SEC or that the staff of the SEC has no further comments on such Registration Statement, as the case may be, a request for acceleration of the effectiveness of such Registration Statement to a time and date as soon as practicable. The Company shall keep such Registration Statement effective pursuant to Rule 415 at all times until such date as the date on which the Registrable Securities are no longer outstanding (the "**Registration Period**"), which Registration Statement (including any amendments or supplements thereto and prospectuses contained therein and all documents incorporated by reference therein) (i) shall comply in all material respects with the requirements of the Securities Act and the rules and regulations of the SEC promulgated thereunder and (ii) shall not contain any 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. The financial statements of the Company included in the Registration Statement or incorporated by reference therein will comply as to form in all material respects with the applicable accounting requirements and the published rules and regulations of the SEC applicable with respect thereto. Such financial statements will be prepared in accordance with U.S. generally accepted accounting principles, consistently applied, during the periods involved (except (i) as may be otherwise indicated in such financial statements or the notes thereto, or (ii) in the case of unaudited interim statements, to the extent they may not include footnotes or may be condensed on summary statements and fairly present in all material respects the consolidated financial position of the Company and its consolidated subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end adjustments).

b. The Company shall prepare and file with the SEC such amendments (including post-effective amendments) and supplements to the Registration Statement and the prospectus used in connection with the Registration Statement as may be necessary to keep the Registration Statement effective at all times during the Registration Period, and, during such period, comply with the provisions of the Securities Act with respect to the disposition of all Registrable Securities of the Company covered by the Registration Statement until such time as all of such Registrable Securities have been disposed of in accordance with the intended methods of disposition by the seller or sellers thereof as set forth in the Registration Statement.

c. The Company shall furnish to each Holder whose Registrable Securities are included in the Registration Statement and its legal counsel (i) promptly after the same is prepared and publicly distributed, filed with the SEC, or received by the Company, one copy of the Registration Statement and any amendment thereto, each preliminary prospectus and prospectus and each amendment or supplement thereto, and each letter written by or on behalf of the Company to the SEC or the staff of the SEC (including, without limitation, any request to accelerate the effectiveness of the Registration Statement or amendment thereto), and each item of correspondence from the SEC or the staff of the SEC, in each case relating to the Registration Statement (other than any portion, if any, thereof which contains information for which the Company has sought confidential treatment), (ii) on the date of effectiveness of the Registration Statement or any amendment thereto, a notice stating that the Registration Statement or amendment has been declared effective, and (iii) such number of copies of a prospectus, including a preliminary prospectus, and all amendments and supplements thereto and such other documents as such Holder may reasonably request in order to facilitate the disposition of the Registrable Securities owned by such Holder.

d. The Company shall use its reasonable best efforts to (i) register and qualify the Registrable Securities covered by the Registration Statement under such other securities or "blue sky" laws of such jurisdictions in the United States as each Holder who holds Registrable Securities being offered reasonably requests, (ii) prepare and file in those jurisdictions such amendments (including post-effective amendments) and supplements to such registrations and qualifications as may be necessary to maintain the effectiveness thereof during the Registration Period, (iii) take such other actions as may be necessary to maintain such registrations and qualifications in effect at all times during the Registration Period, and (iv) take all other actions reasonably necessary or advisable to qualify the Registrable Securities for sale in such jurisdictions; provided, however, that the Company shall not be required in connection therewith or as a condition thereto to (a) qualify to do business in any jurisdiction where it would not otherwise be required to qualify but for this Section 3(d), (b) subject itself to general taxation in any such jurisdiction, (c) file a general consent to service of process in any such jurisdiction, (d) provide any undertakings that cause the Company undue expense or burden, or (e) make any change in its charter or bylaws, which in each case the Board of Directors of the Company determines to be contrary to the best interests of the Company and its stockholders.

e. As promptly as practicable after becoming aware of such event, the Company shall notify each Holder by electronic mail with a copy by facsimile of the happening of any event, of which the Company has knowledge, as a result of which the prospectus included in the Registration Statement, as then in effect, includes an untrue statement of a material fact or omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading or as a result of which a post-effective amendment to the Registration Statement is required, and use its best efforts promptly to prepare a supplement or amendment to the Registration Statement to correct such untrue statement or omission and/or effect the required post-effective amendment, and deliver such number of copies of such supplement or amendment to each Holder as such Holder may reasonably request.

f. The Company shall use commercially reasonable efforts (i) to prevent the issuance of any stop order or other suspension of effectiveness of a Registration Statement, and, if such an order is issued, to obtain the withdrawal of such order at the earliest practicable moment (including in each case by amending or supplementing such Registration Statement) and (ii) to notify each Holder who holds Registrable Securities being sold (or, in the event of an underwritten offering, the managing underwriters) of the issuance of such order and the resolution thereof (and if such Registration Statement is supplemented or amended, deliver such number of copies of such supplement or amendment to each Holder as such Holder may reasonably request).

g. The Company shall permit a single firm of counsel designated by the Initial Holder to review the Registration Statement and all amendments and supplements thereto a reasonable period of time prior to its filing with the SEC, and not file any document in a form to which such counsel reasonably and promptly objects.

h. The Company shall make generally available to its security holders as soon as practical, but not later than ninety (90) days after the close of the period covered thereby, an earnings statement (in form complying with the provisions of Rule 158 under the Securities Act) covering a twelve-month period beginning not later than the first day of the Company's fiscal quarter next following the effective date of the Registration Statement.

i. The Company shall hold in confidence and not make any disclosure of information concerning a Holder provided to the Company unless (i) disclosure of such information is necessary to comply with federal or state securities laws, (ii) the disclosure of such information is necessary to avoid or correct a misstatement or omission in any Registration Statement, (iii) the release of such information is ordered pursuant to a subpoena or other order from a court or governmental body of competent jurisdiction, (iv) such information has been made generally available to the public other than by disclosure in violation of this or any other agreement, or (v) such Holder consents to the form and content of any such disclosure. The Company agrees that it shall, upon learning that disclosure of such information concerning a Holder is sought in or by a court or governmental body of competent jurisdiction or through other means, give prompt notice to such Holder prior to making such disclosure, and allow the Holder, at its expense, to undertake appropriate action to prevent disclosure of, or to obtain a protective order for, such information. Notwithstanding the foregoing, the Initial Holder acknowledges and agrees that the Purchase Agreement, this Agreement and that certain letter agreement regarding director designation rights of even date herewith between the Company and the Initial Holder shall be filed with the SEC.

j. The Company shall use its reasonable best efforts to promptly cause all of the Registrable Securities covered by the Registration Statement to be listed on the New York Stock Exchange, the Nasdaq Global Market, the NYSE AMEX or another national securities exchange and on each additional national securities exchange on which securities of the same class or series issued by the Company are then listed, if any, if the listing of such Registrable Securities is then permitted under the rules of such exchange.

k. The Company shall provide a transfer agent and registrar, which may be a single entity, for the Registrable Securities not later than the effective date of the Registration Statement.

l. The Company shall cooperate with the Holders who hold Registrable Securities being offered to facilitate the timely preparation and delivery of certificates (not bearing any restrictive legends) representing Registrable Securities to be offered pursuant to the Registration Statement and enable such certificates to be in such denominations or amounts, as the case may be, or the Holders may reasonably request and registered in such names as the Holders may request, and, within three (3) business days after the Registration Statement that includes Registrable Securities is ordered effective by the SEC, the Company shall notify the transfer agent for the Registrable Securities (with copies to the Holders whose Registrable Securities are included in such Registration Statement), of the effectiveness of the Registration Statement. The Company will cooperate with the Holders in coordinating with the Company's transfer agent the approval of a form of letter pursuant to which a Holder will represent that Registrable Securities were sold pursuant to a Registration Statement and that such Holder complied with applicable prospectus delivery requirements and which letter shall be relied upon by the transfer agent for delivery of certificates not bearing restrictive legends.

m. The Company shall comply with all applicable laws related to a Registration Statement and offering and sale of securities and all applicable rules and regulations of governmental authorities in connection therewith (including, without limitation, the Securities Act and the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated by the SEC.)

n. From and after the date of this Agreement, the Company shall not, and shall not agree to, allow the holders of any securities of the Company to include any of their securities that are not Registrable Securities in the Registration Statement under Section 2(a) hereof or any amendment or supplement thereto under Section 3(b) hereof without the consent of the Holders of a majority in interest of the Registrable Securities.

o. Notwithstanding any provisions of this Agreement to the contrary, the Company may, by written notice to the Holders, suspend the Registration Statement after effectiveness and/or require that the Holders immediately cease sales of shares pursuant to the Registration Statement (a “**Suspension**”), in the event that the Company is engaged in any activity that the Company desires to keep confidential for business reasons, if the Company determines in good faith that the public disclosure requirements imposed on the Company under the Securities Act in connection with the Registration Statement would require disclosure of such activity; provided that the Company may not exercise this right for more than thirty (30) consecutive days or for more than sixty (60) days in any twelve (12) month period. If the Company suspends the Registration Statement or requires the Holders to cease sales of shares pursuant to this paragraph, the Company shall, as promptly as practicable following the termination of the circumstance which entitled the Company to do so, take such actions as may be necessary to reinstate the effectiveness of the Registration Statement and/or give written notice to all Holders authorizing them to resume sales pursuant to the Registration Statement. If as a result thereof the prospectus included in the Registration Statement has been amended or supplemented to comply with the requirements of the Securities Act, the Company shall enclose such revised prospectus with the notice to Holders given pursuant to this paragraph, and the Holders shall make no offers or sales of shares pursuant to the Registration Statement other than by means of such revised prospectus.

4. OBLIGATIONS OF THE HOLDERS.

In connection with the registration of the Registrable Securities, the Holders shall have the following obligations:

a. It shall be a condition precedent to the obligations of the Company to effect the registration pursuant to this Agreement with respect to the Registrable Securities of a particular Holder that such Holder shall furnish to the Company such information regarding itself, the Registrable Securities held by it and the intended method of disposition of the Registrable Securities held by it as shall be reasonably required to effect the registration of such Registrable Securities. At least five trading days prior to the first anticipated filing date of the Registration Statement, the Company shall notify each Holder of the information the Company requires from each such Holder.

b. Each Holder agrees to cooperate with the Company as reasonably requested by the Company in connection with the preparation and filing of the Registration Statement hereunder, unless such Holder has notified the Company in writing of such Holder's election to exclude all of such Holder's Registrable Securities from such Registration Statement.

c. Each Holder agrees that, upon receipt of any notice from the Company of the happening of any event of the kind described in Sections 3(e) or 3(f) or 3(o) (a “**Suspension Notice**”), such Holder will discontinue disposition of Registrable Securities pursuant to the Registration Statement covering such Registrable Securities until such Holder's receipt of notice from the Company that it may resume disposition of Registrable Securities pursuant to the Registration Statement and, if applicable, the copies of the supplemented or amended prospectus contemplated by Sections 3(e) or 3(f) or 3(o) and, if so directed by the Company, such Holder shall deliver to the Company (at the expense of the Company) or destroy (and deliver to the Company a certificate of destruction) all copies in such Holder's possession, of the prospectus covering such Registrable Securities current at the time of receipt of such notice. Notwithstanding anything to the contrary, subject to compliance with applicable laws, the Company shall cause the transfer agent for the Registrable Securities to deliver unlegended shares of Common Stock to a transferee of a Holder in connection with any sale of Registrable Securities pursuant to the Registration Statement with respect to which such Holder has entered into a contract for sale prior to receipt of a Suspension Notice and for which such Holder has not yet settled.

d. No Holder may participate in any underwritten distribution hereunder unless such Holder (i) agrees to sell such Holder's Registrable Securities on the basis provided in any underwriting arrangements in usual and customary form entered into by the Company, (ii) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents reasonably required under the terms of such underwriting arrangements, (iii) agrees to pay its pro rata share of all underwriting discounts and commissions and any expenses of Holder in excess of those payable by the Company pursuant to Section 5 below, and (iv) complies with all applicable laws in connection therewith. Notwithstanding anything in this Section 4(d) to the contrary, this Section 4(d) is not intended to limit a Holder's rights under Sections 2(a) hereof.

5. EXPENSES OF REGISTRATION. All expenses incurred by the Company in connection with registrations, filings or qualifications pursuant to this Agreement, including, without limitation, all registration, listing and qualifications fees, printers and accounting fees, the fees and disbursements of counsel for the Company, along with the fees and disbursements (not to exceed \$20,000) of one counsel selected by the Holders, but excluding the underwriting discounts and commissions related to the shares sold by the Holders, shall be borne by the Company. In addition, the Company shall pay all of the Holders' reasonable costs and expenses (including reasonable legal fees) incurred in connection with the enforcement of the rights of the Holders hereunder.

6. INDEMNIFICATION. In the event any Registrable Securities are included in a Registration Statement under this Agreement:

a. To the extent permitted by law, the Company will indemnify, hold harmless and defend (i) each Holder who holds such Registrable Securities, and (ii) the directors, officers, partners, members, employees and agents of such Holder and each person who controls any Holder within the meaning of Section 15 of the Securities Act or Section 20 of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), if any, (each, an "**Indemnified Person**"), against any joint or several losses, claims, damages, liabilities or expenses (collectively, together with actions, proceedings or inquiries by any regulatory or self-regulatory organization, whether commenced or threatened, in respect thereof, "**Claims**") to which any of them may become subject insofar as such Claims arise out of or are based upon: (i) any untrue statement or alleged untrue statement of a material fact in a Registration Statement or the omission or alleged omission to state therein a material fact required to be stated or necessary to make the statements therein not misleading, (ii) any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus if used prior to the effective date of such Registration Statement, or contained in the final prospectus (as amended or supplemented, if the Company files any amendment thereof or supplement thereto with the SEC) or the omission or alleged omission to state therein any material fact necessary to make the statements made therein, in light of the circumstances under which the statements therein were made, not misleading, or (iii) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any other law, including, without limitation, any state securities law, or any rule or regulation thereunder relating to the offer or sale of the Registrable Securities (the matters in the foregoing clauses (i) through (iii) being, collectively, "**Violations**"). The Company shall reimburse the Holders and each other Indemnified Person, promptly as such expenses are incurred and are due and payable, for any reasonable legal fees or other reasonable expenses incurred by them in connection with investigating or defending any such Claim. Notwithstanding anything to the contrary contained herein, the indemnification agreement contained in this Section 6(a): (i) shall not apply to a Claim arising out of or based upon a Violation that occurs in reliance upon and in conformity with information furnished in writing to the Company by a Holder expressly for use in the Registration Statement or any such amendment thereof or supplement thereto; and (ii) shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of the Company, which consent shall not be unreasonably withheld. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Indemnified Person and shall survive the transfer of the Registrable Securities by the Holders pursuant to Section 9 hereof.

b. In connection with any Registration Statement in which a Holder is participating, each such Holder agrees severally and not jointly to indemnify, hold harmless and defend, to the same extent and in the same manner set forth in Section 6(a), the Company, each of its directors, each of its officers who signs the Registration Statement, its employees, agents and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, and any other stockholder selling securities pursuant to the Registration Statement or any of its directors or officers or any person who controls such stockholder within the meaning of the Securities Act or the Exchange Act (collectively, and together with an Indemnified Person, an "**Indemnified Party**"), against any Claim to which any of them may become subject, under the Securities Act, the Exchange Act or otherwise, insofar as such Claim arises out of or is based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished to the Company by such Holder expressly for use in connection with such Registration Statement; and, subject to Section 6(c), such Holder will reimburse any legal or other expenses (promptly as such expenses are incurred and are due and payable) reasonably incurred by them in connection with investigating or defending any such Claim; provided, however, that the indemnity agreement contained in this Section 6(b) shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of such Holder, which consent shall not be unreasonably withheld; provided, further, however, that the Holder shall be liable under this Agreement (including this Section 6(b) and Section 7) for only that amount as does not exceed the net proceeds actually received by such Holder as a result of the sale of Registrable Securities pursuant to such Registration Statement. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such Indemnified Party and shall survive the transfer of the Registrable Securities by the Holders pursuant to Section 9 hereof.

c. Promptly after receipt by an Indemnified Person or Indemnified Party under this Section 6 of notice of the commencement of any action (including any governmental action), such Indemnified Person or Indemnified Party shall, if a Claim in respect thereof is made or to be made against any indemnifying party under this Section 6, deliver to the indemnifying party a written notice of the commencement thereof, and the indemnifying party shall have the right to participate in and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume control of the defense thereof with counsel mutually satisfactory to the indemnifying party and the Indemnified Person or the Indemnified Party, as the case may be; provided, however, that such indemnifying party shall not be entitled to assume such defense and an Indemnified Person or Indemnified Party shall have the right to retain its own counsel with the reasonable fees and expenses to be paid by the indemnifying party, if, in the reasonable opinion of counsel retained by the indemnifying party, the representation by such counsel of the Indemnified Person or Indemnified Party and the indemnifying party would be inappropriate due to actual or potential conflicts of interest between such Indemnified Person or Indemnified Party and any other party represented by such counsel in such proceeding or the actual or potential defendants in, or targets of, any such action include both the Indemnified Person or the Indemnified Party and the indemnifying party and any such Indemnified Person or Indemnified Party reasonably determines that there may be legal defenses available to such Indemnified Person or Indemnified Party that are in conflict with those available to such indemnifying party. The indemnifying party shall pay for only one separate legal counsel for the Indemnified Persons or the Indemnified Parties, as applicable, and such legal counsel shall be selected by Holders holding a majority-in-interest of the Registrable Securities included in the Registration Statement to which the Claim relates (with the approval of the Initial Holder if it holds Registrable Securities included in such Registration Statement), if the Holders are entitled to indemnification hereunder, or by the Company, if the Company is entitled to indemnification hereunder, as applicable. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall not relieve such indemnifying party of any liability to the Indemnified Person or Indemnified Party under this Section 6, except to the extent that the indemnifying party is actually prejudiced in its ability to defend such action. The indemnification required by this Section 6 shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as such expense, loss, damage or liability is incurred and is due and payable.

7. CONTRIBUTION. To the extent any indemnification by an indemnifying party is prohibited or limited by law, the indemnifying party agrees to make the maximum contribution with respect to any amounts for which it would otherwise be liable under Section 6 to the fullest extent permitted by law as is appropriate to reflect the relative fault of the indemnifying party, on the one hand, and the Indemnified Person or Indemnified Party, as the case may be, on the other hand, with respect to the Violation giving rise to the applicable Claim; provided, however, that (i) no contribution shall be made under circumstances where the maker would not have been liable for indemnification under the fault standards set forth in Section 6, (ii) no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any seller of Registrable Securities who was not guilty of such fraudulent misrepresentation, and (iii) contribution (together with any indemnification or other obligations under this Agreement) by any seller of Registrable Securities shall be limited in amount to the net amount of proceeds received by such seller from the sale of such Registrable Securities.

8. REPORTS UNDER THE EXCHANGE ACT. With a view to making available to the Holders the benefits of Rule 144 promulgated under the Securities Act or any other similar rule or regulation of the SEC that may at any time permit the Holders to sell securities of the Company to the public without registration ("**Rule 144**"), the Company agrees to:

a. file with the SEC in a timely manner all reports and other documents required of the Company under the Exchange Act so long as the Company remains subject to such requirements and the filing of such reports and other documents is required for the applicable provisions of Rule 144; and

b. furnish to each Holder so long as such Holder owns, Registrable Securities, promptly upon request, (i) a written statement by the Company that it has complied with the reporting requirements of Rule 144 and the Exchange Act, (ii) a copy of the most recent annual or quarterly report of the Company so filed by the Company, and (iii) such other information as may be reasonably requested to permit the Holders to sell such securities under Rule 144 without registration.

9. ASSIGNMENT OF REGISTRATION RIGHTS. The rights of the Holders hereunder, including the right to have the Company register Registrable Securities pursuant to this Agreement, may be assigned by each Holder to any transferee of all or any portion of the Registrable Securities, other than purchasers of Registrable Securities under the Registration Statement or under Rule 144, provided the transferee acknowledges in writing to the Company its agreement to be bound by the applicable provisions of this Agreement as a Holder. In addition, and notwithstanding anything to the contrary contained in this Agreement or the Purchase Agreement, the Registrable Securities may be pledged, and all rights of the Holders under this Agreement or any other agreement or document related to the transactions contemplated hereby may be assigned, without further consent of the Company, to a bona fide pledgee in connection with a Holder's margin or brokerage account, provided such pledgee acknowledges in writing to the Company its agreement to be bound by the applicable provisions of this Agreement as a Holder.

10. AMENDMENT OF REGISTRATION RIGHTS. Provisions of this Agreement may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only with written consent of the Company and each Holder.

11. MISCELLANEOUS.

a. A person or entity is deemed to be a holder of Registrable Securities whenever such person or entity owns of record such Registrable Securities. If the Company receives conflicting instructions, notices or elections from two or more persons or entities with respect to the same Registrable Securities, the Company shall act upon the basis of instructions, notice or election received from the registered owner of such Registrable Securities.

b. Any notices required or permitted to be given under the terms of this Agreement shall be sent by certified or registered mail (return receipt requested) or delivered personally or by courier or by confirmed telecopy, and shall be effective five (5) days after being placed in the mail, if mailed, or upon receipt or refusal of receipt, if delivered personally or by courier or confirmed telecopy, in each case addressed to a party. The addresses for such communications shall be:

If to the Company:

Active Power, Inc.
2128 W. Braker Lane, BK12
Austin, Texas 78758
Attention: John K. Penver
Facsimile: (512) 836-4511

with a copy to:

Wilson Sonsini Goodrich & Rosati, Professional Corporation
900 South Capital of Texas Highway
Las Cimas IV, Fifth Floor
Austin, Texas 78746-5546
Attention: Derek L. Willis, Esq.
Facsimile: (512) 338-5499

and if to any Holder, at such address as such Holder shall have provided in writing to the Company, or at such other address as each such party furnishes by notice given in accordance with this Section 11(b).

c. Failure of any party to exercise any right or remedy under this Agreement or otherwise, or delay by a party in exercising such right or remedy, shall not operate as a waiver thereof.

d. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware applicable to contracts made and to be performed in the State of Delaware, without regard to conflicts of laws principles. The Company irrevocably consents to the jurisdiction of the United States federal courts and the state courts located in the State of Delaware in any suit or proceeding based on or arising under this Agreement and irrevocably agrees that all claims in respect of such suit or proceeding may be determined in such courts. The Company irrevocably waives the defense of an inconvenient forum to the maintenance of such suit or proceeding. The Company further agrees that service of process upon the Company, sent in accordance with Section 11(b) above, shall be deemed in every respect effective service of process upon the Company in any such suit or proceeding. Nothing herein shall affect the Holders' right to serve process in any other manner permitted by law. The Company agrees that a final judgment, after exhaustion of available appeals, in any such suit or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on such judgment or in any other lawful manner.

e. This Agreement and the Purchase Agreement (including all schedules and exhibits thereto) constitute the entire agreement among the parties hereto with respect to the subject matter hereof and thereof. There are no restrictions, promises, warranties or undertakings relating to the subject matter hereof and thereof, other than those set forth or referred to herein and therein. This Agreement and the Purchase Agreement supersede all prior agreements and understandings among the parties hereto with respect to the subject matter hereof and thereof.

f. Subject to the requirements of Section 9 hereof, this Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties hereto.

g. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

h. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement. This Agreement, once executed by a party, may be delivered to the other party hereto by facsimile transmission of a copy of this Agreement bearing the signature of the party so delivering this Agreement.

i. Subject to Section 10, all consents, approvals and other determinations to be made by the Holders pursuant to this Agreement shall be made by the Holders holding a majority in interest of the Registrable Securities held by all Holders.

j. Each party to this Agreement has participated in the negotiation and drafting of this Agreement. As such, the language used herein shall be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction will be applied against any party to this Agreement.

k. For purposes of this Agreement, the term "business day" means any day other than a Saturday or Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law, regulation or executive order to close, and the term "trading day" means any day on which the principal securities exchange or trading market where the Common Stock is then listed or traded, is open for trading.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed as of the date first above written.

ACTIVE POWER, INC.

By: /s/ Doug Milner
Name: Doug Milner
Its: _____

KINDERHOOK PARTNERS, LP

By: KINDERHOOK GP, LLC

By: /S/ Tushar Shah
Tushar Shah
Managing Member



March 7, 2012

Kinderhook Partners, LP
2 Executive Drive, Suite 585
Fort Lee, New Jersey 07024
Attn: Tushar Shah

Re: Director Designation Right

Gentlemen:

Reference is hereby made to that certain Securities Purchase Agreement dated on or about the date hereof by and between Active Power, Inc., a Delaware corporation (the "**Company**"), Kinderhook Partners, L.P. ("**Kinderhook**") and the other signatories thereto (the "**Purchase Agreement**"). In connection with Kinderhook's purchase of shares of the Company's common stock pursuant to the Purchase Agreement, the Company and Kinderhook hereby agree as follows:

1. Board Designation Right. Effective as of the closing of the transactions contemplated by the Purchase Agreement (the "**Closing**"), subject to the terms and conditions of this agreement, Kinderhook is hereby granted the right to designate one member of the Company's board of directors (the "**Board**"). For the avoidance of doubt, nothing in this agreement shall require the Company or the Board to appoint the Kinderhook designee to any of the committees of the Board.
 2. Company Obligations. Subject to Section 3 below, the Company shall use its reasonable best efforts to cause to be appointed any designee of Kinderhook to the Board within 10 days after the Company receives written notice of such designation. During the term of this agreement, the Company shall use its reasonable best efforts to include the Kinderhook designee in the Company's annual proxy statement as a nominee for election to the Board by the Company's stockholders in any year in which such inclusion is required by the Company's governing documents or applicable law, in accordance with such designee's class, which will be determined by the Board in its sole discretion.
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3. **Board Observer Right.** If during any time after the Closing and prior to the expiration of the term or earlier termination of this Agreement there is no Kinderhook designee serving as a member of the Board in accordance with this agreement, then the Company shall invite a representative of Kinderhook to attend all meetings of its Board in a nonvoting observer capacity and, in this respect, shall give such representative copies of all notices, minutes, consents, and other materials that it provides to its directors at the same time and in the same manner as provided to such directors; provided however, that the Company reserves the right to withhold any information and to exclude such representative from any meeting or portion thereof if (i) access to such information or attendance at such meeting could adversely affect the attorney-client privilege between the Company and its counsel; (ii) access to such information or attendance at such meeting could result in disclosure of trade secrets to Kinderhook or its representative; or (iii) Kinderhook or its representative is a direct competitor of the Company. Kinderhook agrees, and any representative of Kinderhook will agree, to hold in confidence and trust and to act in a fiduciary manner with respect to all information provided to it in connection with its observer rights under this agreement, except to the extent otherwise required by law and any other regulatory process to which Kinderhook is subject.

4. **Qualifications.** The Company shall not be required to appoint to the Board any designee of Kinderhook who, in the reasonable discretion of the Board, fails to qualify as an "Independent Director" under the Nasdaq Listing Rules, or the rules under any other exchange on which the Company's shares are then being traded, or if the Kinderhook designee fails to provide the Company with the necessary documentation to make such a determination, including the timely completion of an annual director's and officer's questionnaire on the Company's standard form and any other documentation as may be reasonably requested by the Company. Further, the Board shall not be required to appoint any individual to the Board about whom any disclosure would be required by the Company in its filings with the Securities and Exchange Commission pursuant to Item 401(f)(2) – (8) of Regulation S-K.

5. **Indemnification.** The Kinderhook designee shall be entitled to enter into with the Company the standard form of indemnification agreement previously approved by the Board, and shall be entitled to indemnification rights and be subject to director and officer insurance protection no less favorable than other non-employee directors of the Company and in any event no less favorable than as in effect on the date hereof.

6. **Designee Acknowledgement.** Any designee of Kinderhook will be required to execute an acknowledgement of this agreement in the form attached hereto as Exhibit A in order to serve as a member of the Board.

7. **Waiver of Jury Trial.** EACH OF THE PARTIES HERETO IRREVOCABLY WAIVES ANY AND ALL RIGHTS TO TRIAL BY JURY IN ANY ACTION ARISING OUT OF OR RELATED TO THIS AGREEMENT OR ANY OTHER AGREEMENT ENTERED INTO BY THE PARTIES ON THE DATE HEREOF OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

8. **Governing Law.** This agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, as they apply to contracts entered into and to be wholly performed within the State of Delaware by residents of such state.

9. Termination. Kinderhook's rights under this agreement shall terminate and be of no further force and effect as of the earliest to occur of the following: (i) the date that is three years following the Closing; (ii) the time at which Kinderhook no longer holds at least 12% of the outstanding capital stock of the Company; or (iii) the consummation of a merger or consolidation of the Company which would result in the transfer of voting equity securities of the Company representing more than fifty percent (50%) of all voting securities of the Company immediately prior to such transaction that is effected for purposes other than (A) the reincorporation of the Company in a different state or (B) the formation of a holding company that will be owned exclusively by the Company's stockholders and will hold all of the outstanding shares of capital stock of the Company's successor. The confidentiality provisions contained herein will survive any termination of this agreement.

[Signature page follows]

Kinderhook Partners, L.P.
March 7, 2012
Page 4

Sincerely,

Active Power, Inc.

By: /s/ Doug Milner

Name: Doug Milner

Title: _____

Agreed and Acknowledged:

Kinderhook Partners, LP

By: Kinderhook GP, LLC

By: /s/ Tushar Shah

Name: Tushar Shah

Title: Managing Member

Signature Page to Letter Agreement

Exhibit A

Designee Acknowledgement

The undersigned hereby acknowledges that the undersigned has been designated by Kinderhook Partners, L.P. ("**Kinderhook**") to be appointed to the Board of Directors (the "**Board**") of Active Power, Inc. (the "**Company**") pursuant to that certain letter agreement between the Company and Kinderhook dated as of March 7, 2012 (the "**Letter Agreement**"). The undersigned hereby covenants and agrees that the undersigned will resign from the Board immediately upon the expiration of the term or termination of the Letter Agreement or at any time at which the undersigned fails to meet the qualifications described in Section 3 of the Letter Agreement, as described in the Letter Agreement.

Agreed and Acknowledged:

Print Name: _____

Signature: _____
