

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): March 10, 2006

ACTIVE POWER, INC.

(Exact Name of Registrant as Specified in Its Charter)

000-30939

(Commission File Number)

Delaware
(State of Other Jurisdiction
of Incorporation)

2128 W. Braker Lane, BK12, Austin, Texas
(Address of Principal Executive Offices)

74-2961657
(IRS Employer
Identification No.)

78758
(Zip Code)

(512) 836-6464

(Registrant's Telephone Number, Including Area Code)

N/A

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registration under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01. Entry into a Material Definitive Agreement.

On March 10, 2006, Active Power, Inc. entered into two Stock Issuance Agreements with Jim Clishem, its President and Chief Operating Officer, that set forth the terms and conditions of two separate grants of 50,000 restricted shares of our common stock to Mr. Clishem pursuant to his promotion as our President and Chief Operating Officer in November 2005.

Under the first Stock Issuance Agreement, Mr. Clishem purchased 50,000 restricted shares of our common stock for a purchase price of \$0.001 per share, subject to our right to repurchase those shares. Our repurchase rights shall terminate, and the shares shall vest in full upon Mr. Clishem's completion of one year of service as President and Chief Operating Officer of Active Power on November 4, 2006.

Under the second Stock Issuance Agreement, Mr. Clishem purchased 50,000 restricted shares of our common stock for a purchase price of \$0.001 per share, subject to our right to repurchase those shares. Our repurchase rights shall terminate and the shares shall vest at the sole discretion of the Compensation Committee of our Board of Directors. The Compensation Committee intends for the vesting determination to be made based on Active Power's and Mr. Clishem's performance through November 4, 2006. In the event the Compensation Committee does not elect to vest all or any of the shares by November 4, 2006, Active Power will be entitled to repurchase any unvested shares on such date. Any shares that Active Power has not repurchased by November 5, 2006 will vest in full and our repurchase right will lapse.

Item 9.01. Exhibits and Financial Statements.**(c) Exhibits**

Exhibit 99.1 Stock Issuance Agreement Between Active Power, Inc. and Jim Clishem dated March 10, 2006

Exhibit 99.2 Stock Issuance Agreement Between Active Power, Inc. and Jim Clishem dated March 10, 2006

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ACTIVE POWER, INC.

Dated: March 14, 2006

By: /s/ Joseph F. Pinkerton III

Joseph F. Pinkerton III

Chairman of the Board and Chief Executive Officer

ACTIVE POWER, INC.

STOCK ISSUANCE AGREEMENT

AGREEMENT made this 10th day of March, 2006, by and between Active Power, Inc., a Delaware corporation, and Jim Clishem, a Participant in the Corporation's 2000 Stock Incentive Plan.

All capitalized terms in this Agreement shall have the meaning assigned to them in this Agreement or in the attached Appendix.

A. ISSUANCE OF SHARES

1. **Issuance.** In consideration of services previously rendered, Participant is hereby issued 50,000 shares of Common Stock (the "Purchased Shares") pursuant to the provisions of the Stock Issuance Program of the Plan. Concurrently with the delivery of this Agreement to the Corporation, Participant shall deliver a duly-executed blank Assignment Separate from Certificate (in the form attached hereto as Exhibit I) with respect to the Purchased Shares.

2. **Stockholder Rights.** Until such time as the Corporation exercises the Repurchase Right, Participant (or any successor in interest) shall have all the rights of a stockholder (including voting, dividend and liquidation rights) with respect to the Purchased Shares, subject, however, to the transfer restrictions of this Agreement.

3. **Escrow.** The Corporation shall have the right to hold the Purchased Shares in escrow until those shares have vested in accordance with the Vesting Schedule.

4. **Compliance with Law.** Under no circumstances shall shares of Common Stock or other assets be issued or delivered to Participant pursuant to the provisions of this Agreement unless, in the opinion of counsel for the Corporation or its successors, there shall have been compliance with all applicable requirements of Federal and state securities laws, all applicable listing requirements of any stock exchange (or the Nasdaq National Market, if applicable) on which the Common Stock is at the time listed for trading and all other requirements of law or of any regulatory bodies having jurisdiction over such issuance and delivery.

B. TRANSFER RESTRICTIONS

1. **Restriction on Transfer.** Except for any Permitted Transfer, Participant shall not transfer, assign, encumber or otherwise dispose of any of the Purchased Shares which are subject to the Repurchase Right.

2. **Restrictive Legend.** The stock certificate for the Purchased Shares shall be endorsed with the following restrictive legend:

“The shares represented by this certificate are unvested and subject to certain repurchase rights granted to the Corporation and accordingly may not be sold, assigned, transferred, encumbered, or in any manner disposed of except in conformity with the terms of a written agreement dated March 10, 2006, between the Corporation and the registered holder of the shares (or the predecessor in interest to the shares). A copy of such agreement is maintained at the Corporation’s principal corporate offices.”

3. **Transferee Obligations.** Each person (other than the Corporation) to whom the Purchased Shares are transferred by means of a Permitted Transfer must, as a condition precedent to the validity of such transfer, acknowledge in writing to the Corporation that such person is bound by the provisions of this Agreement and that the transferred shares are subject to the Repurchase Right to the same extent such shares would be so subject if retained by Participant.

C. **REPURCHASE RIGHT**

1. **Grant.** The Corporation is hereby granted the right (the “Repurchase Right”), exercisable at any time during the ninety (90)-day period following the date Participant ceases for any reason to remain in Service, to repurchase at the Purchase Price all or any portion of the Purchased Shares in which Participant is not, at the time of his cessation of Service, vested in accordance with the Vesting Schedule or the provisions of Paragraph C.3 of this Agreement (such shares to be hereinafter referred to as the “Unvested Shares”).

2. **Exercise of the Repurchase Right.** The Repurchase Right shall be exercisable by written notice delivered to each Owner of the Unvested Shares prior to the expiration of the ninety (90)-day exercise period. The notice shall indicate the number of Unvested Shares to be repurchased and the date on which the repurchase is to be effected, such date to be not more than thirty (30) days after the date of such notice. The certificates representing the Unvested Shares to be repurchased shall be delivered to the Corporation on or before the close of business on the date specified for the repurchase. Concurrently with the receipt of such stock certificates, the Corporation shall pay to Owner, in cash or cash equivalent, an amount equal to the aggregate Purchase Price for the Unvested Shares to be repurchased from Owner.

3. **Termination of the Repurchase Right.** The Repurchase Right shall terminate with respect to any Unvested Shares for which it is not timely exercised under Paragraph C.2. In addition, the Repurchase Right shall terminate and cease to be exercisable with respect to any and all Purchased Shares in which Participant vests in accordance with the following Vesting Schedule: upon Participant’s completion of one (1) year of Service measured from November 4, 2005, Participant shall acquire a vested interest in, and the Repurchase Right shall terminate with respect to, all of the Purchased Shares. Notwithstanding the foregoing, the Repurchase Right shall terminate in its entirety upon the Involuntary Termination of Participant’s Service.

4. **Recapitalization.** Any new, substituted or additional securities or other property (including cash paid other than as a regular cash dividend) which is by reason of any Recapitalization distributed with respect to the Purchased Shares shall be immediately subject to the Repurchase Right and any escrow requirements hereunder, but only to the extent the Purchased Shares are at the time covered by such right or escrow requirements. Appropriate adjustments to reflect such distribution shall be made to the number and/or class of securities subject to this Agreement and to the price per share to be paid upon the exercise of the Repurchase Right in order to reflect the effect of any such Recapitalization upon the Corporation's capital structure; provided, however, that the aggregate purchase price shall remain the same.

5. **Change in Control.**

(a) Immediately prior to the consummation of any Change in Control, the Repurchase Right shall automatically lapse in its entirety and the Purchased Shares shall vest in full.

D. **TAX ISSUES**

1. **Section 83(b) Election.** Under Code Section 83, the excess of the fair market value of the Purchased Shares on the date any forfeiture restrictions applicable to such shares lapse over the amount paid for such shares will be reportable as ordinary income on the lapse date. For this purpose, the term "forfeiture restrictions" includes the right of the Corporation to repurchase the Purchased Shares pursuant to the Repurchase Right. Participant may elect under Code Section 83(b) to be taxed at the time the Purchased Shares are acquired, rather than when and as such Purchased Shares cease to be subject to such forfeiture restrictions. Such election must be filed with the Internal Revenue Service within thirty (30) days after the date of this Agreement. Even if the fair market value of the Purchased Shares on the date of this Agreement equals the amount paid (and thus no tax is payable), the election must be made to avoid adverse tax consequences in the future. **THE FORM FOR MAKING THIS ELECTION IS ATTACHED AS EXHIBIT II HERETO. PARTICIPANT UNDERSTANDS THAT FAILURE TO MAKE THIS FILING WITHIN THE APPLICABLE THIRTY (30)-DAY PERIOD WILL RESULT IN THE RECOGNITION OF ORDINARY INCOME AS THE FORFEITURE RESTRICTIONS LAPSE. PARTICIPANT ACKNOWLEDGES THAT IT IS PARTICIPANT'S SOLE RESPONSIBILITY, AND NOT THE CORPORATION'S, TO FILE A TIMELY ELECTION UNDER CODE SECTION 83(b), EVEN IF PARTICIPANT REQUESTS THE CORPORATION OR ITS REPRESENTATIVES TO MAKE THIS FILING ON HIS OR HER BEHALF.**

2. **Withholding Taxes.** Participant shall make appropriate arrangements with the Corporation (or Parent or Subsidiary employing or retaining Participant) for the satisfaction of all applicable income and employment tax withholding requirements.

E. GENERAL PROVISIONS

1. **Assignment**. The Corporation may assign the Repurchase Right to any person or entity selected by the Board, including (without limitation) one or more stockholders of the Corporation.

2. **No Employment or Service Contract**. Nothing in this Agreement or in the Plan shall confer upon Participant any right to continue in Service for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Corporation (or any Parent or Subsidiary employing or retaining Participant) or of Participant, which rights are hereby expressly reserved by each, to terminate Participant's Service at any time for any reason, with or without cause and without notice.

3. **Notices**. Any notice required to be given under this Agreement shall be in writing and shall be deemed effective upon personal delivery or upon deposit in the U.S. mail, registered or certified, postage prepaid and properly addressed to the party entitled to such notice at the address indicated below such party's signature line on this Agreement or at such other address as such party may designate by ten (10) days advance written notice under this paragraph to all other parties to this Agreement.

4. **No Waiver**. The failure of the Corporation in any instance to exercise the Repurchase Right shall not constitute a waiver of any other repurchase rights that may subsequently arise under the provisions of this Agreement or any other agreement between the Corporation and Participant. No waiver of any breach or condition of this Agreement shall be deemed to be a waiver of any other or subsequent breach or condition, whether of like or different nature.

5. **Cancellation of Shares**. If the Corporation shall make available, at the time and place and in the amount and form provided in this Agreement, the consideration for the Purchased Shares to be repurchased in accordance with the provisions of this Agreement, then from and after such time, the person from whom such shares are to be repurchased shall no longer have any rights as a holder of such shares (other than the right to receive payment of such consideration in accordance with this Agreement). Such shares shall be deemed purchased in accordance with the applicable provisions hereof, and the Corporation shall be deemed the owner and holder of such shares, whether or not the certificates therefor have been delivered as required by this Agreement.

6. **Participant Undertaking**. Participant hereby agrees to take whatever additional action and execute whatever additional documents the Corporation may deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on either Participant or the Purchased Shares pursuant to the provisions of this Agreement.

7. **Agreement is Entire Contract**. This Agreement constitutes the entire contract between the parties hereto with regard to the subject matter hereof. This Agreement is made pursuant to the provisions of the Plan and shall in all respects be construed in conformity with the terms of the Plan.

EXHIBIT I

ASSIGNMENT SEPARATE FROM CERTIFICATE

FOR VALUE RECEIVED _____ hereby sell(s), assign(s) and transfer(s) unto Active Power, Inc. (the "Corporation"),
() shares of the Common Stock of the Corporation standing in his or her name on the books of the Corporation represented by Certificate(s)
No. _____ herewith and do(es) hereby irrevocably constitute and appoint _____ Attorney to transfer the said stock on the books of the Corporation
with full power of substitution in the premises.

Dated: _____, 200_.

Signature _____

Instruction: Please do not fill in any blanks other than the signature line. Please sign exactly as you would like your name to appear on the issued stock certificate. The purpose of this assignment is to enable the Corporation to exercise the Repurchase Right without requiring additional signatures on the part of Participant.

EXHIBIT II

SECTION 83(b) TAX ELECTION

This statement is being made under Section 83(b) of the Internal Revenue Code, pursuant to Treas. Reg. Section 1.83-2.

(1) The taxpayer who performed the services is:

Name: Jim Clishem

Address: _____

Taxpayer Ident. No.: _____

(2) The property with respect to which the election is being made is 50,000 shares of the common stock of Active Power, Inc.

(3) The property was issued on March __, 2006.

(4) The taxable year in which the election is being made is the calendar year 2006.

(5) The property is subject to a repurchase right pursuant to which the issuer has the right to acquire the property at the original purchase price if for any reason taxpayer's employment with the issuer is terminated. The issuer's repurchase right lapses on [date], 2006.

(6) The fair market value at the time of transfer (determined without regard to any restriction other than a restriction which by its terms will never lapse) is \$ _____ per share.

(7) The amount paid for such property is \$0.001 per share.

(8) A copy of this statement was furnished to Active Power, Inc. for whom taxpayer rendered the services underlying the transfer of property.

(9) This statement is executed on _____, 2006.

Spouse (if any)

Taxpayer

This election must be filed with the Internal Revenue Service Center with which taxpayer files his or her Federal income tax returns and must be made within thirty (30) days after the execution date of the Stock Issuance Agreement. This filing should be made by registered or certified mail, return receipt requested. Participant must retain two (2) copies of the completed form for filing with his or her Federal and state tax returns for the current tax year and an additional copy for his or her records.

APPENDIX

The following definitions shall be in effect under the Agreement:

A. **Agreement** shall mean this Stock Issuance Agreement.

B. **Board** shall mean the Corporation's Board of Directors.

C. **Change in Control** shall mean a change in ownership or control of the Corporation effected through any of the following transactions:

1. a merger, consolidation or reorganization approved by the Corporation's stockholders, unless securities representing more than fifty percent (50%) of the total combined voting power of the voting securities of the successor corporation are immediately thereafter beneficially owned, directly or indirectly and in substantially the same proportion, by the persons who beneficially owned the Corporation's outstanding voting securities immediately prior to such transaction.

2. any stockholder-approved transfer or other disposition of all or substantially all of the Corporation's assets, or

3. the acquisition, directly or indirectly by any person or related group of persons (other than the Corporation or a person that directly or indirectly controls, is controlled by, or is under common control with, the Corporation), of beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities pursuant to a tender or exchange offer made directly to the Corporation's stockholders which the Board recommends such stockholders to accept.

D. **Code** shall mean the Internal Revenue Code of 1986, as amended.

E. **Common Stock** shall mean the Corporation's common stock.

F. **Corporation** shall mean Active Power, Inc., a Delaware corporation.

G. **Involuntary Termination** shall mean the termination of Participant's Service which occurs by reason of:

1. Participant's involuntary dismissal or discharge by the Corporation for reasons other than Misconduct; or

2. Participant's voluntary resignation following (A) a change in Participant's position with the Corporation that materially reduces Participant's level of responsibility, other than changes in responsibilities resulting from the retention of one or more new officers approved by the Board; (B) a reduction in Participant's level of cash compensation by more than fifteen percent (15%), other than a reduction in Participant's cash compensation which, by resolution of the Board, is applicable to all executive officers of the Corporation generally or

which Participant, in his sole and absolute discretion, accepts voluntarily; or (C) a relocation of Participant's place of provision of services by more than 50 miles, provided and only if such change, reduction or relocation is effected by the Corporation without Participant's consent.

H. **Misconduct** shall mean:

1. the willful or continuing failure to perform substantially Participant's duties which is not cured following written notice;
2. the commission of, or plea of guilty or no contest to a (x) felony or (y) crime involving moral turpitude;
3. any intentional act, behavior or conduct by Participant which could reasonably be expected to have a material adverse effect on the Corporation's or an affiliate's business or is demonstrably injurious to the Corporation;
4. a breach of a material term(s) of any written confidentiality or nondisclosure agreement including, without limitation, any non-competition, non-solicitation or confidentiality provisions; and
5. the commission of any act of gross negligence, corporate waste, disloyalty or unfaithfulness to the Corporation which, in the sole discretion of the Board, adversely affects the business of the Corporation.

I. **Owner** shall mean Participant and all subsequent holders of the Purchased Shares who derive their chain of ownership through a Permitted Transfer from Participant.

J. **Parent** shall mean any corporation (other than the Corporation) in an unbroken chain of corporations ending with the Corporation, provided each corporation in the unbroken chain (other than the Corporation) owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

K. **Participant** shall mean the person to whom the Purchased Shares are issued under the Stock Issuance Program.

L. **Permitted Transfer** shall mean (i) a gratuitous transfer of the Purchased Shares, provided and only if Participant obtains the Corporation's prior written consent to such transfer, (ii) a transfer of title to the Purchased Shares effected pursuant to Participant's will or the laws of intestate succession following Participant's death or (iii) a transfer to the Corporation in pledge as security for any purchase-money indebtedness incurred by Participant in connection with the acquisition of the Purchased Shares.

M. **Plan** shall mean the Corporation's 2000 Stock Incentive Plan.

N. **Plan Administrator** shall mean either the Board or a committee of the Board acting in its administrative capacity under the Plan.

O. **Purchase Price** shall mean \$0.001 per share.

P. **Purchased Shares** shall have the meaning assigned to such term in Paragraph A.1.

Q. **Recapitalization** shall mean any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the Corporation's outstanding Common Stock as a class without the Corporation's receipt of consideration.

R. **Repurchase Right** shall mean the right granted to the Corporation in accordance with Article C.

S. **Service** shall mean the Participant's performance of services for the Corporation (or any Parent or Subsidiary) in the capacity of an employee, subject to the control and direction of the employer entity as to both the work to be performed and the manner and method of performance, a non-employee member of the board of directors or a consultant.

T. **Stock Issuance Program** shall mean the Stock Issuance Program under the Plan.

U. **Subsidiary** shall mean any corporation (other than the Corporation) in an unbroken chain of corporations beginning with the Corporation, provided each corporation (other than the last corporation) in the unbroken chain owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

V. **Vesting Schedule** shall mean the vesting schedule specified in Paragraph C.3, subject to acceleration (if any) in connection with a Change in Control.

W. **Unvested Shares** shall have the meaning assigned to such term in Paragraph C.1.

ACTIVE POWER, INC.

STOCK ISSUANCE AGREEMENT

AGREEMENT made this 10th day of March, 2006, by and between Active Power, Inc., a Delaware corporation, and Jim Clishem, a Participant in the Corporation's 2000 Stock Incentive Plan.

All capitalized terms in this Agreement shall have the meaning assigned to them in this Agreement or in the attached Appendix.

A. ISSUANCE OF SHARES

1. **Issuance.** In consideration of services previously rendered, Participant is hereby issued 50,000 shares of Common Stock (the "Purchased Shares") pursuant to the provisions of the Stock Issuance Program of the Plan. Concurrently with the delivery of this Agreement to the Corporation, Participant shall deliver a duly-executed blank Assignment Separate from Certificate (in the form attached hereto as Exhibit I) with respect to the Purchased Shares.

2. **Stockholder Rights.** Until such time as the Corporation exercises the Repurchase Right, Participant (or any successor in interest) shall have all the rights of a stockholder (including voting, dividend and liquidation rights) with respect to the Purchased Shares, subject, however, to the transfer restrictions of this Agreement.

3. **Escrow.** The Corporation shall have the right to hold the Purchased Shares in escrow until those shares have vested in accordance with the Vesting Schedule.

4. **Compliance with Law.** Under no circumstances shall shares of Common Stock or other assets be issued or delivered to Participant pursuant to the provisions of this Agreement unless, in the opinion of counsel for the Corporation or its successors, there shall have been compliance with all applicable requirements of Federal and state securities laws, all applicable listing requirements of any stock exchange (or the Nasdaq National Market, if applicable) on which the Common Stock is at the time listed for trading and all other requirements of law or of any regulatory bodies having jurisdiction over such issuance and delivery.

B. TRANSFER RESTRICTIONS

1. **Restriction on Transfer.** Except for any Permitted Transfer, Participant shall not transfer, assign, encumber or otherwise dispose of any of the Purchased Shares which are subject to the Repurchase Right.

2. **Restrictive Legend.** The stock certificate for the Purchased Shares shall be endorsed with the following restrictive legend:

“The shares represented by this certificate are unvested and subject to certain repurchase rights granted to the Corporation and accordingly may not be sold, assigned, transferred, encumbered, or in any manner disposed of except in conformity with the terms of a written agreement dated March 10, 2006, between the Corporation and the registered holder of the shares (or the predecessor in interest to the shares). A copy of such agreement is maintained at the Corporation’s principal corporate offices.”

3. **Transferee Obligations.** Each person (other than the Corporation) to whom the Purchased Shares are transferred by means of a Permitted Transfer must, as a condition precedent to the validity of such transfer, acknowledge in writing to the Corporation that such person is bound by the provisions of this Agreement and that the transferred shares are subject to the Repurchase Right to the same extent such shares would be so subject if retained by Participant.

C. **REPURCHASE RIGHT**

1. **Grant.** The Corporation is hereby granted the right (the “Repurchase Right”), exercisable upon the earlier to occur of (i) at any time during the ninety (90)-day period following the date Participant ceases for any reason to remain in Service or (ii) on November 4, 2006, to repurchase at the Purchase Price all or any portion of the Purchased Shares in which Participant is not, at the time of his cessation of Service, vested in accordance with the Vesting Schedule or the provisions of Paragraph C.3 of this Agreement (such shares to be hereinafter referred to as the “Unvested Shares”).

2. **Exercise of the Repurchase Right.** The Repurchase Right shall be exercisable by written notice delivered to each Owner of the Unvested Shares prior to the expiration of the ninety (90)-day exercise period. The notice shall indicate the number of Unvested Shares to be repurchased and the date on which the repurchase is to be effected, such date to be not more than thirty (30) days after the date of such notice. The certificates representing the Unvested Shares to be repurchased shall be delivered to the Corporation on or before the close of business on the date specified for the repurchase. Concurrently with the receipt of such stock certificates, the Corporation shall pay to Owner, in cash or cash equivalent, an amount equal to the aggregate Purchase Price for the Unvested Shares to be repurchased from Owner.

3. **Termination of the Repurchase Right.** The Repurchase Right shall terminate with respect to any Unvested Shares for which it is not timely exercised under Paragraph C.2. In addition, the Repurchase Right shall terminate and cease to be exercisable with respect to the any and all Purchased Shares in which Participant vests as determined by the Compensation Committee of the Board of Directors of the Corporation, in its sole discretion. To the extent the Compensation Committee has not vested the shares as of November 4, 2006 and to the extent the Corporation has not exercised its Repurchase Right as of November 4, 2006, all Purchased Shares shall vest on November 5, 2006. Notwithstanding the foregoing, the Repurchase Right shall terminate in its entirety upon the Involuntary Termination of Participant’s Service.

4. **Recapitalization.** Any new, substituted or additional securities or other property (including cash paid other than as a regular cash dividend) which is by reason of any Recapitalization distributed with respect to the Purchased Shares shall be immediately subject to the Repurchase Right and any escrow requirements hereunder, but only to the extent the Purchased Shares are at the time covered by such right or escrow requirements. Appropriate adjustments to reflect such distribution shall be made to the number and/or class of securities subject to this Agreement and to the price per share to be paid upon the exercise of the Repurchase Right in order to reflect the effect of any such Recapitalization upon the Corporation's capital structure; provided, however, that the aggregate purchase price shall remain the same.

5. **Change in Control.**

(a) Immediately prior to the consummation of any Change in Control, the Repurchase Right shall automatically lapse in its entirety and the Purchased Shares shall vest in full, except to the extent the Repurchase Right is assigned to the successor corporation (or parent thereof) or otherwise continues in full force and effect pursuant to the terms of the Change in Control.

D. **TAX ISSUES**

1. **Section 83(b) Election.** Under Code Section 83, the excess of the fair market value of the Purchased Shares on the date any forfeiture restrictions applicable to such shares lapse over the amount paid for such shares will be reportable as ordinary income on the lapse date. For this purpose, the term "forfeiture restrictions" includes the right of the Corporation to repurchase the Purchased Shares pursuant to the Repurchase Right. Participant may elect under Code Section 83(b) to be taxed at the time the Purchased Shares are acquired, rather than when and as such Purchased Shares cease to be subject to such forfeiture restrictions. Such election must be filed with the Internal Revenue Service within thirty (30) days after the date of this Agreement. Even if the fair market value of the Purchased Shares on the date of this Agreement equals the amount paid (and thus no tax is payable), the election must be made to avoid adverse tax consequences in the future. **THE FORM FOR MAKING THIS ELECTION IS ATTACHED AS EXHIBIT II HERETO. PARTICIPANT UNDERSTANDS THAT FAILURE TO MAKE THIS FILING WITHIN THE APPLICABLE THIRTY (30)-DAY PERIOD WILL RESULT IN THE RECOGNITION OF ORDINARY INCOME AS THE FORFEITURE RESTRICTIONS LAPSE. PARTICIPANT ACKNOWLEDGES THAT IT IS PARTICIPANT'S SOLE RESPONSIBILITY, AND NOT THE CORPORATION'S, TO FILE A TIMELY ELECTION UNDER CODE SECTION 83(b), EVEN IF PARTICIPANT REQUESTS THE CORPORATION OR ITS REPRESENTATIVES TO MAKE THIS FILING ON HIS OR HER BEHALF.**

2. **Withholding Taxes.** Participant shall make appropriate arrangements with the Corporation (or Parent or Subsidiary employing or retaining Participant) for the satisfaction of all applicable income and employment tax withholding requirements.

E. GENERAL PROVISIONS

1. **Assignment**. The Corporation may assign the Repurchase Right to any person or entity selected by the Board, including (without limitation) one or more stockholders of the Corporation.

2. **No Employment or Service Contract**. Nothing in this Agreement or in the Plan shall confer upon Participant any right to continue in Service for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Corporation (or any Parent or Subsidiary employing or retaining Participant) or of Participant, which rights are hereby expressly reserved by each, to terminate Participant's Service at any time for any reason, with or without cause and without notice.

3. **Notices**. Any notice required to be given under this Agreement shall be in writing and shall be deemed effective upon personal delivery or upon deposit in the U.S. mail, registered or certified, postage prepaid and properly addressed to the party entitled to such notice at the address indicated below such party's signature line on this Agreement or at such other address as such party may designate by ten (10) days advance written notice under this paragraph to all other parties to this Agreement.

4. **No Waiver**. The failure of the Corporation in any instance to exercise the Repurchase Right shall not constitute a waiver of any other repurchase rights that may subsequently arise under the provisions of this Agreement or any other agreement between the Corporation and Participant. No waiver of any breach or condition of this Agreement shall be deemed to be a waiver of any other or subsequent breach or condition, whether of like or different nature.

5. **Cancellation of Shares**. If the Corporation shall make available, at the time and place and in the amount and form provided in this Agreement, the consideration for the Purchased Shares to be repurchased in accordance with the provisions of this Agreement, then from and after such time, the person from whom such shares are to be repurchased shall no longer have any rights as a holder of such shares (other than the right to receive payment of such consideration in accordance with this Agreement). Such shares shall be deemed purchased in accordance with the applicable provisions hereof, and the Corporation shall be deemed the owner and holder of such shares, whether or not the certificates therefor have been delivered as required by this Agreement.

6. **Participant Undertaking**. Participant hereby agrees to take whatever additional action and execute whatever additional documents the Corporation may deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on either Participant or the Purchased Shares pursuant to the provisions of this Agreement.

7. **Agreement is Entire Contract**. This Agreement constitutes the entire contract between the parties hereto with regard to the subject matter hereof. This Agreement is made pursuant to the provisions of the Plan and shall in all respects be construed in conformity with the terms of the Plan.

8. **Governing Law.** This Agreement shall be governed by, and construed in accordance with, the laws of the State of Texas without resort to that State's conflict-of-laws rules.

9. **Successors and Assigns.** The provisions of this Agreement shall inure to the benefit of, and be binding upon, the Corporation and its successors and assigns and upon Participant, Participant's assigns and the legal representatives, heirs and legatees of Participant's estate, whether or not any such person shall have become a party to this Agreement and have agreed in writing to join herein and be bound by the terms hereof.

IN WITNESS WHEREOF, the parties have executed this Agreement on the day and year first indicated above.

ACTIVE POWER, INC.

By: /s/ Joseph F. Pinkerton, III
Name: Joseph F. Pinkerton, III
Title: Chairman of the Board and Chief Executive Officer

Address: 2128 W. Braker Lane, BK12
Austin, Texas 78758

PARTICIPANT

/s/ Jim Clishem
Jim Clishem
Address: _____

EXHIBIT I

ASSIGNMENT SEPARATE FROM CERTIFICATE

FOR VALUE RECEIVED _____ hereby sell(s), assign(s) and transfer(s) unto Active Power, Inc. (the "Corporation"), () shares of the Common Stock of the Corporation standing in his or her name on the books of the Corporation represented by Certificate(s) No. _____ herewith and do(es) hereby irrevocably constitute and appoint _____ Attorney to transfer the said stock on the books of the Corporation with full power of substitution in the premises.

Dated: _____, 200_.

Signature _____

Instruction: Please do not fill in any blanks other than the signature line. Please sign exactly as you would like your name to appear on the issued stock certificate. The purpose of this assignment is to enable the Corporation to exercise the Repurchase Right without requiring additional signatures on the part of Participant.

EXHIBIT II

SECTION 83(b) TAX ELECTION

This statement is being made under Section 83(b) of the Internal Revenue Code, pursuant to Treas. Reg. Section 1.83-2.

- (1) The taxpayer who performed the services is:
Name: Jim Clishem
Address: _____
Taxpayer Ident. No.: _____
- (2) The property with respect to which the election is being made is 50,000 shares of the common stock of Active Power, Inc.
- (3) The property was issued on March _____, 2006.
- (4) The taxable year in which the election is being made is the calendar year 2006.
- (5) The property is subject to a repurchase right pursuant to which the issuer has the right to acquire the property at the original purchase price if for any reason taxpayer's employment with the issuer is terminated. The issuer's repurchase right lapses on [date], 2006.
- (6) The fair market value at the time of transfer (determined without regard to any restriction other than a restriction which by its terms will never lapse) is \$ _____ per share.
- (7) The amount paid for such property is \$0.001 per share.
- (8) A copy of this statement was furnished to Active Power, Inc. for whom taxpayer rendered the services underlying the transfer of property.
- (9) This statement is executed on _____, 2006.

Spouse (if any)

Taxpayer

This election must be filed with the Internal Revenue Service Center with which taxpayer files his or her Federal income tax returns and must be made within thirty (30) days after the execution date of the Stock Issuance Agreement. This filing should be made by registered or certified mail, return receipt requested. Participant must retain two (2) copies of the completed form for filing with his or her Federal and state tax returns for the current tax year and an additional copy for his or her records.

APPENDIX

The following definitions shall be in effect under the Agreement:

A. **Agreement** shall mean this Stock Issuance Agreement.

B. **Board** shall mean the Corporation's Board of Directors.

C. **Change in Control** shall mean a change in ownership or control of the Corporation effected through any of the following transactions:

1. a merger, consolidation or reorganization approved by the Corporation's stockholders, unless securities representing more than fifty percent (50%) of the total combined voting power of the voting securities of the successor corporation are immediately thereafter beneficially owned, directly or indirectly and in substantially the same proportion, by the persons who beneficially owned the Corporation's outstanding voting securities immediately prior to such transaction.

2. any stockholder-approved transfer or other disposition of all or substantially all of the Corporation's assets, or

3. the acquisition, directly or indirectly by any person or related group of persons (other than the Corporation or a person that directly or indirectly controls, is controlled by, or is under common control with, the Corporation), of beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities pursuant to a tender or exchange offer made directly to the Corporation's stockholders which the Board recommends such stockholders to accept.

D. **Code** shall mean the Internal Revenue Code of 1986, as amended.

E. **Common Stock** shall mean the Corporation's common stock.

F. **Corporation** shall mean Active Power, Inc., a Delaware corporation.

G. **Involuntary Termination** shall mean the termination of Participant's Service which occurs by reason of:

1. Participant's involuntary dismissal or discharge by the Corporation for reasons other than Misconduct; or

2. Participant's voluntary resignation following (A) a change in Participant's position with the Corporation that materially reduces Participant's level of responsibility, other than changes in responsibilities resulting from the retention of one or more new officers approved by the Board; (B) a reduction in Participant's level of cash compensation by more than fifteen percent (15%), other than a reduction in Participant's cash compensation which, by resolution of the Board, is applicable to all executive officers of the Corporation generally or

which Participant, in his sole and absolute discretion, accepts voluntarily; or (C) a relocation of Participant's place of provision of services by more than 50 miles, provided and only if such change, reduction or relocation is effected by the Corporation without Participant's consent.

H. **Misconduct** shall mean:

1. the willful or continuing failure to perform substantially Participant's duties which is not cured following written notice;
2. the commission of, or plea of guilty or no contest to a (x) felony or (y) crime involving moral turpitude;
3. any intentional act, behavior or conduct by Participant which could reasonably be expected to have a material adverse effect on the Corporation's or an affiliate's business or is demonstrably injurious to the Corporation;
4. a breach of a material term(s) of any written confidentiality or nondisclosure agreement including, without limitation, any non-competition, non-solicitation or confidentiality provisions; and
5. the commission of any act of gross negligence, corporate waste, disloyalty or unfaithfulness to the Corporation which, in the sole discretion of the Board, adversely affects the business of the Corporation.

I. **Owner** shall mean Participant and all subsequent holders of the Purchased Shares who derive their chain of ownership through a Permitted Transfer from Participant.

J. **Parent** shall mean any corporation (other than the Corporation) in an unbroken chain of corporations ending with the Corporation, provided each corporation in the unbroken chain (other than the Corporation) owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

K. **Participant** shall mean the person to whom the Purchased Shares are issued under the Stock Issuance Program.

L. **Permitted Transfer** shall mean (i) a gratuitous transfer of the Purchased Shares, provided and only if Participant obtains the Corporation's prior written consent to such transfer, (ii) a transfer of title to the Purchased Shares effected pursuant to Participant's will or the laws of intestate succession following Participant's death or (iii) a transfer to the Corporation in pledge as security for any purchase-money indebtedness incurred by Participant in connection with the acquisition of the Purchased Shares.

M. **Plan** shall mean the Corporation's 2000 Stock Incentive Plan.

N. **Plan Administrator** shall mean either the Board or a committee of the Board acting in its administrative capacity under the Plan.

O. **Purchase Price** shall mean \$0.001 per share.

P. **Purchased Shares** shall have the meaning assigned to such term in Paragraph A.1.

Q. **Recapitalization** shall mean any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the Corporation's outstanding Common Stock as a class without the Corporation's receipt of consideration.

R. **Repurchase Right** shall mean the right granted to the Corporation in accordance with Article C.

S. **Service** shall mean the Participant's performance of services for the Corporation (or any Parent or Subsidiary) in the capacity of an employee, subject to the control and direction of the employer entity as to both the work to be performed and the manner and method of performance, a non-employee member of the board of directors or a consultant.

T. **Stock Issuance Program** shall mean the Stock Issuance Program under the Plan.

U. **Subsidiary** shall mean any corporation (other than the Corporation) in an unbroken chain of corporations beginning with the Corporation, provided each corporation (other than the last corporation) in the unbroken chain owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

V. **Vesting Schedule** shall mean the vesting schedule specified in Paragraph C.3, subject to acceleration (if any) in connection with a Change in Control.

W. **Unvested Shares** shall have the meaning assigned to such term in Paragraph C.1.