MEMORANDUM

DATE: August 1, 2008
TO: Employees, Shareholders and Other Interested Parties
FROM: Jim Clishem, CEO
RE: Competitive Response to Recent Pentadyne News Release

Pentadyne Power Corporation issued a press release on July 30, 2008, which suggests Active Power has been unseated as the leader in flywheel energy storage. Active Power is committed to high efficiency UPS and power quality solutions that replace less efficient, less reliable and less environmentally sensitive battery based solutions. The *real* competition in the UPS market is incumbent technology and resistance to change. In that spirit, we are happy to see Pentadyne grow. However, attacks on our market leadership are patently untrue, specifically because we own the actual patent on integrated flywheel UPS which is the core focus of our business.

Our Overall Position
Active Power is the established market leader with over 46 million hours of field run time on over 1,950 wheels spinning in over 40 countries worldwide. Our conclusion is Pentadyne is using an uneven comparison based on quantity rather than size of flywheels shipped, which is similar to comparing a passenger car to a commercial 18-wheel truck. A comparison of this type provides no meaningful result to the reader. Pentadyne may well be the leader in number of flywheels shipped for the specified period (first half of 2008 as indicated in the release), but are handily beat on revenue, kilowatt delivered and systems sales, as detailed below.

- Active Power's core business is the integrated flywheel UPS for which we hold the patent. As a result, we have no true competition because we *are* the category. We do not consider Pentadyne a competitor; they provide a simple DC power replacement product, which is a small portion of our overall product line.

- Our solution is an integrated flywheel UPS system, not just a DC energy storage system attached to a random UPS system.

- Our integrated UPS systems are up to 10 percent more efficient than battery based systems, which is the real story as opposed to splitting hairs on the standby energy losses for a DC component only.

- Our maintenance requirements are an annual oil change and a bearing change every three years. Again, the real story is how much less maintenance flywheel systems require as opposed to battery based systems.

- Active Power's reliability is proven – seven times less likely to fail than a legacy UPS system with batteries.

	Active Power	Pentadyne
Integrated Flywheel UPS	yes	no
Year Founded	1992	1993
Flywheels Shipped	1,950	500 *
Field Runtime	46+million	2 million *
MW Power Provided Q1+Q2 2008	31,750kW	16,150kW **
Q1+Q2 2008 Revenue	17.75M	7.6M **

* As of 4/30/08

** Estimated

How Can Pentadyne Make a Claim of Market Leadership?

Each fiscal quarter through our regulatory reporting to the Securities and Exchange Commission (SEC), we disclose number of flywheels shipped in a particular quarter including our average selling prices and product revenues. We provide this data to help substantiate forward guidance to investors and shareholders. As a result, it is relatively easy to extrapolate how many flywheels Active Power ships in the course of a quarter.

We speculate Pentadyne has extrapolated this data from our most recent quarterly earnings call and release (second quarter 2008). We're assuming they took this data and compared it to their flywheel shipments in the same period (first half of 2008 as indicated in the release). Pentadyne is a private company and not required to make any public statements about their financial state. Therefore, it is difficult for us to validate their claim that they have "shipped 34 percent more flywheel systems" than Active Power.

Pentadyne offers two different sizes of flywheel (120 kW and a 190 kW). Comparing only quantity of flywheels shipped is a relatively skewed benchmark given we offer a 250 kW flywheel which delivers 108 percent and 32 percent more power, respectively. A fair comparison would be on total kilowatt power deployed in which we would handily exceed their number.

Additionally, Active Power delivers flywheel UPS systems (CleanSource UPS) and continuous power systems (PowerHouse) and as result is involved in the systems business. Versus Pentadyne who just sells standalone flywheels to be coupled with third party UPS systems. If we assumed their 34 percent higher flywheel volume is correct, we estimate it would put them at 170 Pentadyne flywheels shipped in the first half of 2008.

- Pentadyne published an average selling price of $45,000 for their wheel, which would add up to $7.65 million compared to our $17.75 million for the same period – a 132 percent margin in our favor.

- Based on public information of their agreement to deliver flywheels to Beaver Aerospace, by far their largest customer, we estimate at least half of the flywheels delivered in the first half went to satisfy that demand. That agreement is based on their original 120 kW flywheel.

- On a kilowatt comparison, we would have delivered (127 * 250 kW) 31,750 kW of real power to customers in the first half of 2008. Pentadyne would have delivered (85 * 120kW; 85 * 190kW) 16,150kW of real power to their customers in the same period – a 97 percent margin in our favor.