
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE TO

TENDER OFFER STATEMENT

UNDER

**SECTION 14(d)(1) OR 13(e)(1) OF THE
SECURITIES EXCHANGE ACT OF 1934**

CAPSTONE TURBINE CORPORATION

(Name of Subject Company (Issuer) and Filing Person (Offeror))

**Options to Purchase Common Stock, Par Value \$0.001 Per Share
(Title of Class of Securities)**

14067D102

(CUSIP Number of Class of Securities of Underlying Common Stock)

Susan Cayley

Vice President, General Counsel and Secretary

Capstone Turbine Corporation

21211 Nordhoff Street

Chatsworth, California 91311

(818) 734-5300

**(Name, address and telephone number of person authorized to receive notices and
communications on behalf of filing person)**

Copies to:

Neil Wolff, Esq.

Wilson Sonsini Goodrich & Rosati,

Professional Corporation

650 Page Mill Road

Palo Alto, California 94304-1050

(650) 493-9300

CALCULATION OF FILING FEE

Transaction Valuation*	Amount of Filing Fee
\$991,619.92	\$ 80.22

* Calculated solely for purposes of determining the filing fee. This amount assumes that options to purchase 1,026,013 shares of common stock of Capstone Turbine Corporation having an aggregate value of \$991,619.92 as of June 23, 2003 will be exchanged and/or cancelled pursuant to this offer. The aggregate value of such options was calculated based on the Black-Scholes option pricing model. The amount of the filing fee, calculated in accordance with the Securities Exchange Act of 1934, as amended, equals \$80.90 for each \$1,000,000 of the value of the transaction.

Check the box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Amount Previously Paid: Not applicable.

Form or Registration No.: Not applicable.

Filing Party: Not applicable.

Date Filed: Not applicable.

Check the box if the filing relates solely to preliminary communications made before the commencement of a tender offer.

Check the appropriate boxes below to designate any transactions to which the statement relates:

- third-party tender offer subject to Rule 14d-1.
- issuer tender offer subject to Rule 13e-4.
- going-private transaction subject to Rule 13e-3.
- amendment to Schedule 13D under Rule 13d-2.

Check the following box if the filing is a final amendment reporting the results of the tender offer:

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Item 1. Summary Term Sheet.

The information set forth under the caption "Summary Term Sheet" in the Offer to Exchange Certain Outstanding Options for New Options dated June 25, 2003 ("Offer to Exchange"), a copy of which is attached hereto as Exhibit (a)(1)(i), is incorporated herein by reference.

Item 2. Subject Company Information.

(a) *Name and Address.*

The name of the issuer is Capstone Turbine Corporation, a Delaware corporation ("Capstone" or the "Company"). The address of its principal executive office is 21211 Nordhoff Street, Chatsworth, California 91311. The telephone number at that address is (818) 734-5300.

(b) *Securities.*

This Tender Offer Statement on Schedule TO relates to an offer by the Company to certain eligible persons to exchange options with exercise prices greater than or equal to \$2.00 per share that are currently outstanding under the Capstone Turbine Corporation 1993 Incentive Stock Plan (the "1993 Stock Plan") and 2000 Equity Incentive Plan (the "2000 Equity Plan") to purchase an aggregate of 1,026,013 shares of the Company's Common Stock, par value \$0.001 per share ("Option Shares"), for new options that will be granted under the 2000 Equity Plan (the "New Options"), upon the terms and subject to the conditions set forth under "The Offer" in the Offer to Exchange. Eligible persons are all holders of stock options eligible to be tendered pursuant to the Offer to Exchange who (i) reside in the United States, (ii) hold their options as of the date the Offer to Exchange commences and through the date the tendered options are cancelled and (iii) are non-executive employees of the Company or its subsidiaries. Consultants to the Company, the Company's executive officers, executive management and members of the Company's Board of Directors are not "eligible persons."

As of June 10, 2003, options to purchase 9,851,440 shares of our Common Stock were issued and outstanding, of which options to purchase 1,026,013 shares of our Common Stock, constituting approximately 10.41%, were held by eligible persons and were eligible for exchange in the Offer to Exchange.

The information set forth in the Offer to Exchange under the captions "Summary Term Sheet," "Certain Risks of Participating in the Offer," "The Offer—Eligibility" (Section 1), "The Offer—Number of options; expiration date" (Section 2), "The Offer—Acceptance of options for exchange and issuance of new options" (Section 6), and "The Offer—Source and amount of consideration; terms of new options" (Section 9) is incorporated herein by reference.

(c) *Trading Market and Price.*

The information set forth in the Offer to Exchange under the caption "The Offer—Price range of shares underlying the options" (Section 8) is incorporated herein by reference.

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Item 3. Identity and Background of Filing Person.

(a) *Name and Address.*

The filing person is the issuer. The information set forth under Item 2(a) above is incorporated herein by reference. The information set forth in Schedule A to the Offer to Exchange is incorporated herein by reference.

Item 4. Terms of the Transaction.

(a) *Material Terms.*

The information set forth in the Offer to Exchange under the captions “Summary Term Sheet,” “The Offer–Eligibility” (Section 1), “The Offer–Number of options; expiration date” (Section 2), “The Offer–Procedures for tendering options” (Section 4), “The Offer–Withdrawal rights and change of election” (Section 5), “The Offer–Acceptance of options for exchange and issuance of new options” (Section 6), “The Offer–Conditions of the Offer” (Section 7), “The Offer–Source and amount of consideration; terms of new options” (Section 9), “The Offer–Status of options acquired by us in the Offer; accounting consequences of the Offer” (Section 12), “The Offer–Legal matters; regulatory approvals” (Section 13), “The Offer–Material U.S. federal income tax consequences” (Section 14), and “The Offer–Extension of Offer; termination; amendment” (Section 16) are incorporated herein by reference.

(b) *Purchases.*

The information set forth in the Offer to Exchange under the caption “The Offer–Interests of directors and officers; transactions and arrangements concerning the options” (Section 11) is incorporated herein by reference.

Item 5. Past Contacts, Transactions, Negotiations and Agreements.

(e) *Agreements Involving the Subject Company’s Securities.*

The information set forth in the Offer to Exchange under the caption “The Offer–Interests of directors and officers; transactions and arrangements concerning the options” (Section 11) is incorporated herein by reference. The eligible option plans, option agreements and plan prospectuses attached hereto as Exhibits (d)(1), (d)(2), (d)(3), (d)(4) and (d)(5) contain information regarding the subject securities.

Item 6. Purposes of the Transaction and Plans or Proposals.

(a) *Purposes.*

The information set forth in the Offer to Exchange under the caption “The Offer–Purpose of the Offer” (Section 3) is incorporated herein by reference.

(b) *Use of Securities Acquired.*

The information set forth in the Offer to Exchange under the captions “The Offer–Acceptance of options for Exchange and issuance of new options” (Section 6) and “The Offer–Status of options acquired by us in the Offer; accounting consequences of the Offer” (Section 12) is incorporated herein by reference.

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(c) *Plans.*

The information set forth in the Offer to Exchange under the captions “Certain Risks of Participating in the Offer,” “The Offer–Purpose of the Offer” (Section 3) and “The Offer–Interests of directors and officers; transactions and arrangements concerning the options” (Section 11) is incorporated herein by reference.

Item 7. Source and Amount of Funds or Other Consideration.

(a) *Source of Funds.*

The information set forth in the Offer to Exchange under the captions “The Offer–Source and amount of consideration; terms of new options” (Section 9) and “The Offer–Fees and expenses” (Section 16) is incorporated herein by reference.

(b) *Conditions.*

Not applicable.

(d) *Borrowed Funds.*

Not applicable.

Item 8. Interest in Securities of the Subject Company.

(a) *Securities Ownership.*

The information set forth in the Offer to Exchange under the caption “The Offer–Interests of directors and officers; transactions and arrangements concerning the options” (Section 11) is incorporated herein by reference.

(b) *Securities Transactions.*

The information set forth in the Offer to Exchange under the caption “The Offer–Interests of directors and officers; transactions and arrangements concerning the options” (Section 11) is incorporated herein by reference.

Item 9. Person/Assets, Retained, Employed, Compensated or Used.

(a) *Solicitations or Recommendations.*

Not applicable.

Item 10. Financial Statements.

(a) *Financial Information.*

The information set forth in the Offer to Exchange under the captions “The Offer–Information concerning Capstone Turbine Corporation” (Section 10), “The Offer–Additional information” (Section 17) and “The Offer–Financial information” (Section 18) is incorporated herein by reference. In addition, the

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information (i) on pages 32 through 47 of Capstone's Annual Report on Form 10-K for its fiscal year ended December 31, 2002 and (ii) on pages 3 through 10 of Capstone's Quarterly Report on Form 10-Q for its first fiscal quarter ended March 31, 2003, is incorporated herein by reference, and such filings can be accessed electronically on Capstone's Internet website at <http://www.microturbine.com> and on the Internet website of the Securities and Exchange Commission at <http://www.sec.gov>.

(b) *Pro Forma Information.*

Not applicable.

Item 11. Additional Information.

(a) *Agreements, Regulatory Requirements and Legal Proceedings.*

The information set forth in the Offer to Exchange under the caption "The Offer—Legal matters; regulatory approvals" (Section 13) is incorporated herein by reference.

(b) *Other Material Information.*

Not applicable.

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Item 12. Exhibits.

Exhibit Number	Description
(a)(1)(i)	Offer to Exchange Certain Outstanding Options for New Options, dated June 25, 2003.
(a)(1)(ii)	Letter from Emily Liggett dated June 25, 2003.
(a)(1)(iii)	Election Form.
(a)(1)(iv)	Form of Notice to Withdraw from the Offer.
(a)(1)(v)	Form of Promise to Grant Stock Option(s).
(a)(1)(vi)	Form of E-mail confirmation of receipt of Election Form.
(a)(1)(vii)	Form of E-mail confirmation of receipt of Notice to Withdraw from the Offer.
(a)(1)(viii)	Form of E-mail reminder about Expiration of Offer.
(a)(1)(ix)	Form of E-mail notification of acceptance and cancellation of tendered options.
(a)(1)(x)	Stock Option Exchange Program Presentation.
(a)(1)(xi)	Capstone Turbine Corporation Annual Report on Form 10-K for its fiscal year ended December 31, 2002, previously filed with the Securities and Exchange Corporation on March 31, 2003 and incorporated herein by reference.
(a)(1)(xii)	Capstone Turbine Corporation Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, previously filed with the Securities and Exchange Commission on May 15, 2003 and incorporated herein by reference.
(b)	Not applicable.
(d)(1)	Capstone Turbine Corporation 1993 Incentive Stock Plan, incorporated herein by reference to Exhibit 10.3 to Capstone's registration statement on Form S-1 (File No. 333-33024) filed with the Securities and Exchange Commission on March 22, 2000.
(d)(2)	Form of stock option agreement for Capstone Turbine Corporation 1993 Incentive Stock Plan.
(d)(3)	Capstone Turbine Corporation 2000 Equity Incentive Plan.
(d)(4)	Form of stock option agreement for Capstone Turbine Corporation 2000 Equity Incentive Plan.
(d)(5)	Capstone Turbine Corporation 2000 Equity Incentive Plan Prospectus.
(g)	Not applicable.
(h)	Not applicable.

Item 13. Information Required by Schedule 13E-3.

(a) Not applicable.

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SIGNATURE

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

CAPSTONE TURBINE CORPORATION

By: /s/ Emily Liggett

Emily Liggett
Chief Executive Officer (Interim)

Date: June 25, 2003

INDEX TO EXHIBITS

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(d)(4)	Form of stock option agreement for Capstone Turbine Corporation 2000 Equity Incentive Plan.
(d)(5)	Capstone Turbine Corporation 2000 Equity Incentive Plan Prospectus.

CAPSTONE TURBINE CORPORATION
OFFER TO EXCHANGE CERTAIN OUTSTANDING OPTIONS FOR NEW OPTIONS

June 25, 2003

This offer to exchange (the "OFFER") and the right to withdraw from this Offer expire at 5:00 p.m., Pacific Time, on July 24, 2003, unless we extend the Offer.

This document constitutes part of a prospectus relating to Capstone Turbine Corporation's 1993 Incentive Stock Plan and its 2000 Equity Incentive Plan covering securities that have been registered under the Securities Act of 1933, as amended (the "SECURITIES ACT").

Capstone Turbine Corporation ("CAPSTONE," "WE" or "US") is offering eligible persons the opportunity to exchange outstanding, unexercised options to purchase shares of Capstone common stock with exercise prices greater than or equal to \$2.00 per share for new options that Capstone will grant under its 2000 Equity Incentive Plan (the "2000 EQUITY PLAN").

"Eligible persons" are all non-executive employees of Capstone (or of any of our subsidiaries). Our directors, executive officers/management and consultants are not eligible to participate in this Offer.

If you elect to exchange an option in the Offer, you will receive a new option to purchase a number of Capstone shares equal to the number of unexercised shares subject to the old option you are tendering.

Eligible persons may only tender options for all or none of the outstanding, unexercised shares subject to an individual option grant.

Subject to the terms and conditions of this Offer, we will grant the new options no earlier than the first business day that is six months and one day after the date on which we cancel the options accepted for exchange (the "NEW OPTION GRANT DATE"). This Offer is currently scheduled to expire at 5:00 p.m., Pacific Time, on July 24, 2003 (the "EXPIRATION DATE"), and we expect to cancel options on July 25, 2003, or as soon as possible thereafter (the "CANCELLATION DATE"). The Offer commenced on June 25, 2003 (the "COMMENCEMENT DATE").

The exercise price per share of the new options will be the closing price of our common stock reported by Nasdaq on the date of grant of the new options. Each new option will be subject to a new vesting schedule that we describe on page 22.

This Offer is not conditioned on a minimum number of options being tendered. Participation in the Offer is voluntary. The Offer is subject to conditions that we describe in Section 7 of this Offer.

Although Capstone's Board of Directors has approved making this Offer, neither Capstone nor the Board of Directors makes any recommendation as to whether you should tender or not tender your options for exchange. READ ALL THE ENCLOSED DOCUMENTS CAREFULLY, ESPECIALLY "CERTAIN RISKS OF PARTICIPATING IN THE OFFER" BEGINNING ON PAGE 8. You must evaluate the risks associated with the Offer and make your own decision whether or not to tender your options.

Capstone common stock trades on the Nasdaq National Market under the symbol "CPST." On June 23, 2003, the closing price of our common stock reported on the Nasdaq National Market was \$1.27 per

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share. WE RECOMMEND THAT YOU EVALUATE CURRENT MARKET QUOTES FOR OUR COMMON STOCK, AMONG OTHER FACTORS, BEFORE DECIDING WHETHER OR NOT TO TENDER YOUR OPTIONS.

You should direct questions about the mechanics of this Offer or requests for additional copies of the documents relating to this Offer to Susan Cayley, General Counsel (telephone: (818) 734-5136; e-mail: scayley@capstoneturbine.com) or Wade Welch, VP Finance (telephone: (818) 734-5555; e-mail: wwelch@capstoneturbine.com). For questions regarding the financial or tax implications of this Offer, you should contact your own financial and tax advisors.

SEE PAGES 15 through 17 FOR INSTRUCTIONS ON HOW TO TENDER YOUR OPTIONS.

THIS OFFER HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION (THE "SEC") OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SEC OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION CONTAINED IN THIS OFFER. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

We are not making this Offer to, and we will not accept any tender of options from or on behalf of, option holders in any jurisdiction in which the Offer or the acceptance of any tender of options would not be in compliance with the laws, rules, regulations or policies of that jurisdiction. However, we may, at our discretion, take any actions necessary for us to make this Offer to option holders in any of these jurisdictions.

WE HAVE NOT AUTHORIZED ANY PERSON TO MAKE ANY RECOMMENDATION ON OUR BEHALF AS TO WHETHER YOU SHOULD TENDER OR NOT TENDER YOUR OPTIONS THROUGH THE OFFER. YOU SHOULD RELY ONLY ON THE INFORMATION IN THIS DOCUMENT OR IN DOCUMENTS TO WHICH WE REFER. WE HAVE NOT AUTHORIZED ANY THIRD PARTY TO GIVE YOU ANY INFORMATION OR TO MAKE ANY REPRESENTATION IN CONNECTION WITH THE OFFER.

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Exhibit (a) (1) (i)

SUMMARY TERM SHEET

The following are answers to some of the questions that you may have about this Offer. We urge you to read carefully this Offer as a whole because the information in this summary is not complete, and additional important information is contained in the remainder of this Offer and the accompanying documents. For your convenience, we have included in this summary page references to the remainder of this Offer where you can find a more complete description of the topics addressed in this summary.

Q1. WHAT SECURITIES IS CAPSTONE OFFERING TO EXCHANGE?

We are offering to exchange outstanding, unexercised options to purchase shares of Capstone common stock with exercise prices equal to or greater than \$2.00 per share issued under our 1993 Incentive Stock Plan or our 2000 Equity Plan in return for new options which we will grant under our 2000 Equity Plan.

Q2. WHO IS ELIGIBLE TO PARTICIPATE?

You are eligible to participate if you are a non-executive employee of Capstone or one of our subsidiaries in the United States and remain a non-executive employee through the Cancellation Date. Members of our board of directors, all of our executive officers, executive management and consultants to Capstone are not eligible to participate. (Page 13)

Q3. MAY ELIGIBLE PERSONS OUTSIDE THE UNITED STATES PARTICIPATE?

No.

Q4. ARE THERE ANY ELIGIBILITY REQUIREMENTS THAT I MUST SATISFY AFTER THE EXPIRATION DATE OF THE OFFER TO RECEIVE THE NEW OPTIONS?

In order to receive any new options, you must have had options cancelled in accordance with this Offer and be an employee of Capstone, one of our subsidiaries or a successor entity on the date the new options are granted. Accordingly, if you are no longer an employee of Capstone, one of our subsidiaries or a successor entity for any reason on the date of grant of the new options, you will not receive any new options or other consideration in

exchange for your tendered options that have been accepted by us for exchange. This means that if you quit for any reason, die, or we terminate your employment arrangement, with or without cause or notice, and you are not an employee on the date we grant the new options, you will not receive anything for the options you tendered and we cancelled. (Pages 8-9 and 13)

Q5. WHY IS CAPSTONE MAKING THE OFFER?

We believe that holding stock options aligns employee and stockholder interests and motivates higher levels of performance. The Offer provides an additional incentive for eligible persons to stay with Capstone. Some of our outstanding options, whether or not they are currently exercisable, have exercise prices that are significantly higher than the current market price of our common stock. We believe these options do not provide adequate incentives because the exercise prices of the options significantly exceed our current market price. By making this offer to exchange outstanding options for new options that will have an exercise price equal to the market value of the shares on the New Option Grant Date, we intend to provide eligible persons with the benefit of owning options that, over time, may have a greater potential to increase in value. We

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believe this will create better performance incentives for eligible persons and thereby enhance stockholder value. (Page 14)

Q6. WHAT ARE THE CONDITIONS TO THE OFFER?

The conditions are described in Section 7 of this Offer. This Offer is not conditioned on a minimum number of options being tendered. Participation in this Offer is voluntary. (Pages 19-21)

Q7. HOW MANY NEW OPTIONS WILL I RECEIVE IN EXCHANGE FOR MY TENDERED OPTIONS?

Tendered options will be exchanged on a one new share-for-one old share basis. The number of new option shares that you receive will also be subject to adjustment for any stock splits, reverse stock splits, subdivisions, combinations, stock dividends and similar events that occur after the Cancellation Date but before the New Option Grant Date. (Page 13)

Q8. WHEN WILL I RECEIVE MY NEW OPTIONS?

The Board of Directors of Capstone intends to grant the new options no earlier than the date that is six months and one day after the Cancellation Date. If we do not extend the Offer, the New Option Grant Date will be January 26, 2004. You must execute a new option agreement before receiving your new option. (Page 13)

Q9. IF I TENDER OPTIONS IN THE OFFER, WILL I BE ELIGIBLE TO RECEIVE OTHER OPTION GRANTS?

If we accept options you tender in the Offer, we will not grant you any other options until at least six months and one day after the Cancellation Date. (Page 13)

Q10. WILL I BE REQUIRED TO GIVE UP ALL MY RIGHTS TO THE CANCELLED OPTIONS?

Yes. Once we have accepted the options that you have tendered, your options will be cancelled and you will no longer have any rights under those options. (Pages 8 and 18)

Q11. WHAT WILL THE EXERCISE PRICE OF THE NEW OPTIONS BE?

The exercise price per share of the new options will be the closing price of our common stock reported by the Nasdaq National Market on the date of grant of the new options. We cannot predict the exercise price of the new options. The new options may have a higher exercise price than some or all of your current options. (Pages 22-23)

Q12. IF I CHOOSE TO TENDER AN OPTION THAT IS ELIGIBLE FOR EXCHANGE, DO I HAVE TO TENDER ALL THE SHARES COVERED BY THAT OPTION?

Yes. We are not accepting partial tenders of options. You may only tender all or none of the unexercised shares covered by each option. However, you may tender the remaining portion of an option that you have partially exercised.

For example, if you hold (i) an option to purchase 1,000 shares at an exercise price of \$29.07 per share, 700 of which you have already exercised, (ii) an option to purchase 1,000 shares at an exercise price of

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\$3.33 per share and (iii) an option to purchase 2,000 shares at an exercise price of \$2.50 per share, you may tender:

- none of your options,
- your first option covering 300 remaining unexercised shares,
- your second option covering 1,000 shares,
- your third option covering 2,000 shares,
- all unexercised shares under any two of your three options, or

- all unexercised shares under all three of your options.

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Q13. WHEN WILL THE NEW OPTIONS VEST?

Each new option will vest based on a new 42-month vesting schedule that will begin on the New Option Grant Date. The new vesting schedule will be as follows:

- 6/48 (or 12.5%) of the shares subject to the new option will be vested on the New Option Grant Date, and
- 1/48 of the shares subject to the new option will vest monthly after the New Option Grant Date, such that each new option will be fully vested on the 42-month anniversary of the New Option Grant Date, subject to your continued employment with us or one of our subsidiaries through each relevant vesting date. (Page 22)

For example, a new option to purchase 2,400 shares of our common stock granted on the scheduled New Option Grant Date of January 26, 2004 will vest as follows:

- 300 of the shares subject to the new option will be vested on January 26, 2004 and
- an additional 50 shares subject to the new option will vest monthly beginning on February 26, 2004.

The vesting of any new options will cease if you are no longer an employee of or providing services to Capstone or one of our subsidiaries. (Page 23)

Q14. WHAT IF CAPSTONE IS ACQUIRED BY ANOTHER COMPANY?

It is possible that, prior to the grant of the new options, Capstone might be acquired by another company. The Promise to Grant Stock Option(s) which we will provide to you promptly after the cancellation of any options you tender for exchange is a binding commitment, and any successor to Capstone will be legally obligated by that commitment, subject to you meeting the conditions for receiving a new option. If

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Capstone is acquired by another company for stock before the new options are granted, any new stock options you receive would be for the purchase of the acquiring company's stock (as opposed to Capstone's) based on the exchange ratio established in connection with the acquisition, with an exercise price equal to the fair market value of the acquiring company's stock on the grant date of the new options, subject to you meeting the conditions for receiving the new options. If Capstone is acquired by another company solely for cash, the treatment of the options would be similar to a stock acquisition; however, the number of shares subject to the new options that you would receive would be based on the number of shares of the acquiring company's stock that you would have been able to purchase if you had received the cash paid to Capstone's stockholders for all of the shares subject to your cancelled options. If Capstone is acquired by another company whose stock is not publicly traded, then any new stock options granted by the private company would likely be exercisable for stock that is not publicly traded, which could be difficult to sell. Depending on the structure of the transaction, an acquisition of Capstone could potentially result in a greater financial benefit for those option holders who opted not to participate in this Offer and who instead retained their original options. (Page 19)

If we are acquired by another company, that company may decide to terminate some or all of our employees before granting new options, which would mean that those terminated employees would not receive the new options or any other consideration for their options that were cancelled. **TERMINATION OF YOUR EMPLOYMENT (OR MODIFICATION OF YOUR RELATIONSHIP FROM AN EMPLOYMENT ARRANGEMENT TO A CONSULTING ARRANGEMENT) FOR THIS OR ANY OTHER REASON BEFORE THE NEW OPTIONS ARE GRANTED MEANS THAT YOU WILL RECEIVE NEITHER NEW OPTIONS, NOR ANY OTHER COMPENSATION FOR YOUR CANCELLED OPTIONS.** (Pages 8-9)

Q15. ARE THERE CIRCUMSTANCES WHERE I WOULD NOT BE GRANTED NEW OPTIONS?

Yes. If, for any reason, you are no longer an employee of Capstone, one of our subsidiaries or a successor entity on the date when new options are granted (whether because you quit for any reason, die, are terminated by us (or our subsidiaries or successor, as applicable) or your relationship changes from an employment arrangement to a consulting arrangement), you will not receive any new options. Your employment with Capstone or one of our subsidiaries remains "at will" and can be terminated by you or Capstone or one of our subsidiaries at any time, with or without notice. (Pages 8-9)

Even if we accept your tendered options, we will not grant new options to you if we are prohibited by applicable laws, rules, regulations or policies from doing so. (Pages 26-27)

Q16. WHAT HAPPENS TO OPTIONS THAT I CHOOSE NOT TO TENDER OR THAT ARE NOT ACCEPTED FOR EXCHANGE?

Options that are eligible for exchange that you choose not to tender for exchange or that we do not accept for exchange remain outstanding until you exercise them or they expire by their terms, and they will retain their current exercise price and vesting schedule.

Q17. WILL I HAVE TO PAY U.S. TAXES IF I EXCHANGE MY OPTIONS IN THE OFFER?

You should not be required under current law to recognize income for U.S. federal income tax purposes at the time of the exchange or at the grant date of the new options. (Page 27-28)

WE RECOMMEND THAT YOU CONSULT WITH YOUR OWN TAX ADVISOR TO DETERMINE THE PERSONAL TAX CONSEQUENCES TO YOU OF PARTICIPATING IN THE EXCHANGE OFFER.

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Q18. WILL MY NEW OPTIONS BE INCENTIVE STOCK OPTIONS OR NON-STATUTORY STOCK OPTIONS?

Regardless of whether your exchanged options under the 1993 Incentive Stock Plan or the 2000 Equity Plan are incentive stock options or non-statutory stock options, your new option grant will be a non-statutory stock option. We recommend that you read the tax discussion in this Offer and discuss the personal tax consequences of non-statutory stock options with your legal, tax and financial advisors (Pages 27-28).

Q19. WHEN WILL MY NEW OPTIONS EXPIRE?

Your new options will expire ten years from the date of grant of the new options. However, if your employment or consulting relationship with Capstone or one of our subsidiaries terminates, the option will expire earlier. Note that the terms of the Offer require that you continue to be an employee (and not a consultant) through the New Option Grant Date in order to receive the new options; however, once you receive the new option, it is possible that your employment arrangement with Capstone may change to a consulting arrangement without triggering the expiration of your new option. That is because the terms of your new option (and not the terms of this Offer) will dictate the expiration of that option, and most new options will continue to vest as long as you remain a service provider to Capstone, whether as an employee, consultant or director. (Pages 22-24)

Q20. WHEN DOES THE OFFER EXPIRE? CAN THE OFFER BE EXTENDED, AND IF SO, HOW WILL I BE NOTIFIED IF IT IS EXTENDED?

The Offer expires on July 24, 2003, at 5:00 p.m., Pacific Time, unless we extend it. We may, in our sole discretion, extend the Offer at any time, but we cannot assure you that the Offer will be extended or, if extended, for how long. If the Offer is extended, we will make a public announcement of the extension no later than 6:00 a.m., Pacific Time, on the next business day following the previously scheduled expiration of the Offer period. (Pages 28-29)

Q21. HOW DO I TENDER MY OPTIONS?

If you decide to tender your options, you must deliver, by 5:00 p.m., Pacific Time, on July 24, 2003 (or such later date and time as we may extend the expiration of the Offer), a properly completed and executed Election Form and any other documents required by the Election Form via facsimile or hand delivery to Debbie Bernard in Human Resources at Capstone, whose contact information is provided on Page 15. E-mail responses are not acceptable.

This is a one-time offer, and we will not accept late tenders of options under any circumstances. We reserve the right to reject any or all tenders of options that we determine are not in appropriate form or that we determine are unlawful to accept. Subject to our rights to extend, terminate and amend the Offer, we presently expect that promptly after the expiration of the Offer, we will accept all properly tendered options. (Pages 18-19)

Q22. MAY I WITHDRAW PREVIOUSLY TENDERED OPTIONS?

You may withdraw your tendered options at any time before the Offer expires at 5:00 p.m., Pacific Time, on July 24, 2003. If we extend the Offer beyond that time, you may withdraw your tendered options at any time until the extended expiration of the Offer. To withdraw tendered options, you must deliver to us via facsimile or hand delivery a signed Notice to Withdraw from the Offer, with the required information while

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you still have the right to withdraw the tendered options. Once you have withdrawn options, you may re-tender options only by again following the delivery procedures described above prior to the expiration of the Offer. The Notice to Withdraw should be delivered to Debbie Bernard in Human Resources at Capstone, whose contact information is provided on Page 15. (Pages 17-18)

PLEASE NOTE THAT IF YOU SUBMIT A NOTICE TO WITHDRAW FROM THE OFFER, YOU WILL NO LONGER PARTICIPATE IN THE OFFER. IF YOU DO NOT WISH TO WITHDRAW ALL YOUR TENDERED OPTIONS FROM THE OFFER, YOU SHOULD NOT SUBMIT A NOTICE TO WITHDRAW FROM THE OFFER. IF YOU WISH TO CHANGE YOUR MIND ABOUT WHICH OPTIONS TO TENDER, YOU MUST SUBMIT A NEW ELECTION FORM. PLEASE READ THE FOLLOWING QUESTION AND ANSWER REGARDING A CHANGE IN ELECTION.

Q23. CAN I CHANGE MY ELECTION REGARDING PARTICULAR TENDERED OPTIONS?

Yes, you may change your election regarding particular tendered options at any time before the Offer expires at 5:00 p.m., Pacific Time, on July 24, 2003. If we extend the Offer beyond that time, you may change your election regarding particular tendered options at any time until the extended expiration of the Offer. In order to change your election and still participate in the Offer, you

must deliver to us a new Election Form via facsimile or hand delivery, which includes the information regarding your new election, and is signed and clearly dated after the date of your original Election Form. In order to change your election and cease to participate in the Offer, you must deliver to us a Notice to Withdraw from the Offer via facsimile or hand delivery, which is signed and clearly dated after the date of your most recently submitted Election Form. Once we receive a new Election Form or a Notice to Withdraw from the Offer submitted by you, your previously submitted Election Form will be disregarded. A new Election Form or a Notice to Withdraw from the Offer should be delivered to Debbie Bernard in Human Resources at Capstone, whose contact information is provided on Page 15. (Page 17-18)

Q24. WHY WAIT AT LEAST SIX MONTHS AND ONE DAY AFTER THE DATE WE CANCEL OPTIONS TO GRANT THE NEW OPTIONS? WHY CAN'T CAPSTONE JUST REPRICE MY OPTIONS, AS I HAVE SEEN DONE AT OTHER COMPANIES?

Published rules of the Financial Accounting Standards Board require options granted within six months of cancelled options to be treated as a variable expense to earnings. This means that we would be required to record the non-cash accounting impact of increases in our stock price as a compensation expense if we issued new options immediately. We would have to continue this variable accounting for these new options until they were exercised, forfeited or terminated. The higher the market value of our shares, the greater the compensation expense we would have to record. By deferring the grant of the new options for at least six months and one day, we believe that we will not have to treat the new options as variable awards. We believe that many companies, including many of our peer companies that have exchanged options, have followed the same process of applying the six month and one day waiting period before granting new options.

Q25. IS THIS A REPRICING?

No. Instead of repricing old options, this Offer is called a cancel and regrant which includes at least a six month and one day waiting period before obtaining a new fair market value grant. The Financial Accounting Standards Board has adopted rules that result in unfavorable accounting consequences for companies that reprice options. If we repriced your options, our potential for profitability in the future would be significantly reduced because we would be required to record a charge against earnings with respect to any future appreciation of the repriced options.

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Q26. WHY CAN'T I JUST BE GRANTED ADDITIONAL OPTIONS?

Because of the large number of options with exercise prices that exceed our current market price, a grant of additional options to holders of such options would potentially dilute our stockholders by increasing our number of outstanding shares and, in any quarter in which we are profitable, would lower our diluted earnings per share.

Q27. WOULDN'T IT BE EASIER TO JUST TERMINATE MY EMPLOYMENT WITH CAPSTONE AND THEN GET REHIRED?

No. The accounting rules we follow look through any change in the legal form of your relationship with Capstone and still require a six month and one day minimum waiting period to receive new options.

Q28. WHY WILL MY NEW OPTIONS TAKE LONGER TO FULLY VEST THAN MY OLD OPTIONS?

This is intended to balance the interests of the eligible persons and our stockholders. Eligible persons are being offered an opportunity to exchange old options with high exercise prices for new options with exercise prices equal to the fair market value of our common stock at the time of grant of the new options. The extended vesting provides the Company and our stockholders with an additional employee retention incentive.

Q29. WHAT DO CAPSTONE AND THE BOARD OF DIRECTORS THINK OF THE OFFER?

Although our Board of Directors has approved the Offer, neither we nor our Board of Directors makes any recommendation as to whether you should tender or not tender your options. You must make an independent decision on whether or not to tender options. We strongly urge you to read "Certain Risks of Participating in the Offer" beginning on page 8 of this Offer. For questions regarding tax implications or other investment-related questions, you should talk to your own legal counsel, and financial and tax advisors.

Q30. TO WHOM CAN I TALK IF I HAVE QUESTIONS ABOUT THE OFFER?

For additional information or assistance on the mechanics of the Offer, you should contact Susan Cayley, General Counsel (telephone: (818) 734-5136; e-mail: scayley@capstoneturbine.com) or Wade Welch, VP Finance (telephone: (818) 734-5555; e-mail: wwelch@capstoneturbine.com). For questions regarding the financial or tax implications of this Offer, you should contact your own legal, financial and tax advisors.

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Participation in the Offer involves a number of potential risks, including those described below. This list and the risk factors under the heading "Business Risks" in Capstone's annual report on Form 10-K for the year ended December 31, 2002 and in our quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2003, both filed with the SEC, highlight the material risks of participating in this Offer. Eligible participants should carefully consider these risks and are encouraged to speak with their legal, financial and tax advisors before deciding whether to participate in the Offer.

ECONOMIC RISKS

IF OUR STOCK PRICE INCREASES AFTER THE DATE YOUR TENDERED OPTIONS ARE CANCELLED, YOUR CANCELLED OPTIONS MIGHT HAVE BEEN WORTH MORE THAN THE NEW OPTIONS THAT YOU RECEIVE IN EXCHANGE FOR THEM.

We cannot predict the exercise price of new options. Because we will not grant the new options for at least six months and one day after the Cancellation Date, the new options may have a higher exercise price than some or all of your current options.

We may engage in transactions in the future with business partners or other companies which could significantly change our structure, ownership, organization or management or the composition of our Board of Directors, and which could significantly affect the price of our shares. If we engage in such a transaction or transactions before the date we grant the new options, our shares could increase (or decrease) in value, and the exercise price of the new options could be higher (or lower) than the exercise price of options you elect to tender and that are cancelled by us in connection with this Offer.

IF YOU ARE NO LONGER AN EMPLOYEE OF CAPSTONE, ONE OF OUR SUBSIDIARIES OR A SUCCESSOR ENTITY FOR ANY REASON ON THE DATE OF GRANT OF THE NEW OPTIONS, INCLUDING AS THE RESULT OF A REDUCTION-IN-FORCE, A CHANGE IN YOUR POSITION FROM AN EMPLOYEE TO A CONSULTANT OR ANOTHER COMPANY'S ACQUISITION OF US, YOU WILL NEITHER RECEIVE A NEW OPTION NOR HAVE ANY OF YOUR CANCELLED OPTIONS RETURNED TO YOU.

Once we cancel the options that you elect to exchange, all of your rights under those options terminate. Accordingly, if you are no longer an employee of Capstone, one of our subsidiaries or a successor entity for any reason on the date of grant of the new options, you will not receive any new options or other consideration in exchange for your tendered options that have been accepted by us for exchange. This means that if you quit for any reason, die, or we terminate your employment arrangement, with or without cause or notice, and are not an employee on the date we grant the new options, you will not receive anything for the options you tendered and we cancelled.

If you tender options in the Offer, and, after the Cancellation Date but before the New Option Grant Date, your relationship with Capstone changes from an employment relationship to a consulting relationship, you will not receive anything for the options you tendered and we cancelled, because you will have ceased to be an employee of Capstone between the Cancellation Date and the New Option Grant Date.

If you tender options in the Offer, and, after the Cancellation Date but prior to the New Option Grant Date, you are promoted to an executive management position at Capstone, you will remain eligible to receive new options in exchange for your tendered options in accordance with the terms of the Offer (even though

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you would not have been an eligible person on the Cancellation Date had you held that position as of that date).

This Offer is not a guarantee of employment for any period. Your employment relationship with Capstone (or one of our subsidiaries or a successor entity, as applicable) may be terminated at any time by either you or us, with or without cause or notice.

If the economic conditions in our end-markets remain stagnant or worsen, the Company may undertake various additional measures to reduce its expenses including, but not limited to, a further reduction-in-force of its employees. Should your employment relationship be terminated as part of any such reduction-in-force, you will not have the benefit of the cancelled option or any new option.

If Capstone is acquired by another company, that company may, as part of the transaction or otherwise, decide to terminate some or all of our employees prior to the grant of new options under this option exchange program. If you do not have an employment relationship with Capstone (or one of our subsidiaries, or a successor entity, as applicable) due to our being acquired, or for any other reason on the date of grant of the new options, you will neither receive the new option, nor will you receive any other consideration for the options that were cancelled.

OUR NASDAQ LISTING MAY BE ADVERSELY AFFECTED IF OUR STOCK PRICE DROPS AND WE ARE UNABLE TO MEET NASDAQ'S LISTING REQUIREMENTS THROUGH OTHER ACTIONS.

In order to continue to be listed on Nasdaq, we must meet specific quantitative standards, including a minimum bid price. On two occasions, we have received notice from Nasdaq that the price of our stock had closed below the minimum \$1.00 per share requirement for 30 consecutive trading days. However, we have been able to regain compliance on both occasions. If we should fail to meet this listing requirement again and we fail to regain compliance, we may apply for listing on the Nasdaq SmallCap Market (where we may have up to an additional

nine months to comply with the minimum bid price requirements for continued listing) or we may pursue alternative strategies to allow our common stock to continue to be listed. If we fail to meet the continuing listing standards for Nasdaq (and, should we be listed on the Nasdaq SmallCap Market, if we fail to meet its continuing listing standards), our stock may be delisted. The delisting of our common stock would adversely affect the liquidity and trading price of our securities, including the common stock obtainable upon exercise of our stock options.

OUR STOCKHOLDERS HAVE AUTHORIZED OUR BOARD OF DIRECTORS TO IMPLEMENT A REVERSE STOCK SPLIT IF NEEDED TO REGAIN COMPLIANCE WITH NASDAQ'S LISTING REQUIREMENTS, BUT THE EFFECT OF A REVERSE STOCK SPLIT ON THE PRICE OF OUR COMMON STOCK (AND THEREFORE ON THE NEW OPTIONS) IS UNCERTAIN. ALSO, A REVERSE STOCK SPLIT CAN POTENTIALLY HAVE AN ANTI-TAKEOVER EFFECT BY MAKING IT MORE DIFFICULT FOR ANOTHER COMPANY TO ACQUIRE CONTROL OF US.

At our 2003 annual meeting of stockholders, our stockholders authorized our Board of Directors to implement a reverse stock split at any time on or before May 30, 2004 in a ratio in the range from one-for-five to one-for-twenty, with the exact ratio to be established by our Board. One of the primary purposes of the reverse stock split would be to increase our common stock price in order to regain compliance with Nasdaq's minimum price listing requirements and avoid being delisted, as discussed above.

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If we fail to meet Nasdaq's listing requirements again, our Board may decide to implement a reverse stock split. If the Board decides to implement a reverse stock split before the date that the new options are granted, the number of shares subject to your new option will be appropriately adjusted to reflect the reverse stock split. However, it is uncertain whether a reverse stock split would have an additional effect (beyond the initial proportional increase in our stock price) on the market price of our common stock following its implementation. The market price per new share of our common stock after the reverse stock split may rise or fall due to the market's response to the terms and timing of the reverse stock split, due to an increased interest in our common stock by institutional investors and investment funds as a result of the higher stock price or due to any number of other factors unrelated to the reverse stock split. If the reverse stock split occurs before the date that the new options are granted, our common stock price, and therefore the exercise price of the new options, could increase as a result of the reverse stock split. In addition, a reverse stock split could cause our common stock price eventually to fall to a price less than the exercise price of the new options. We cannot predict the effect that a reverse stock split will have upon the price of our common stock beyond the initial proportional increase that occurs immediately as part of the reverse stock split.

The increased proportion of unissued authorized shares to issued shares resulting from the reverse stock split could, under certain circumstances, have an anti-takeover effect (for example, by permitting issuances that would dilute the stock ownership of a person seeking to change the composition of our Board of Directors or trying to conduct a tender offer or other transaction with the goal of merging Capstone with another company). However, that potential anti-takeover effect is an ancillary result of adopting a reverse stock split, which we proposed for reasons primarily related to our current stock price. The reverse stock split was not proposed in response to any effort by a third party to accumulate our common stock or obtain control of Capstone.

PARTICIPATION IN THE OFFER WILL MAKE YOU INELIGIBLE TO RECEIVE ANY NEW OPTION GRANTS UNTIL JANUARY 26, 2004, AT THE EARLIEST.

You are generally eligible to receive option grants at any time that the Board of Directors or a Committee appointed by the Board chooses to make them. However, if you participate in the Offer, you will not be eligible to receive any additional option grants until January 26, 2004, at the earliest.

IF CAPSTONE IS ACQUIRED BY OR MERGES WITH ANOTHER COMPANY, THAT TRANSACTION COULD HAVE THE EFFECT OF INCREASING OUR STOCK PRICE BEFORE THE NEW OPTIONS ARE GRANTED OR CHANGING THE NATURE OF THE SECURITIES OR OTHER CONSIDERATION UNDERLYING THE NEW OPTIONS.

Capstone's merger with or sale to another company could have substantial effects on our stock price, including potentially substantial appreciation in the price of our stock. Depending on the structure and terms of such a transaction, tendering option holders might be deprived of any further price appreciation in the stock associated with the new options. For example, if our common stock is acquired in a cash merger before the new options are granted, the fair market value of our common stock, and hence the price at which new options would be granted, could be at a price at or near the cash price being paid for our common stock in the transaction, yielding limited or no financial benefit to a recipient of the new options for that transaction.

In addition, if Capstone is acquired by another company for stock before the new options are granted, then any new stock options you receive would be for the purchase of the acquiring company's stock (as opposed to Capstone's) based on the exchange ratio in the acquisition, with an exercise price equal to the fair market value of the acquiring company's stock on the grant date of the new options, subject to you meeting

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the conditions for receiving the new options. If Capstone is acquired by another company solely for cash, the treatment of the options would be similar to a

stock acquisition, however the number of shares subject to the new options that you would receive would be based on the number of shares of the acquiring company's stock that you would have been able to purchase if you had received the cash paid to Capstone's stockholders for all of the shares subject to your cancelled options. If Capstone is acquired by another company whose stock is not publicly traded, then any new stock options granted by the private company would likely be exercisable for stock that is not publicly traded which could be difficult to sell. Option holders who do not tender their options in the Offer will have their outstanding options treated in accordance with the terms of the plan they are granted under, and if their options are assumed by a successor to our company, those options would be priced in accordance with the terms of that transaction. This could potentially result in a greater financial benefit for those option holders who decided not to participate in this Offer and who instead retain their original options.

As outlined in Section 9 of this Offer, the exercise price of any new options granted to you in return for your tendered options will be the fair market value of the underlying shares on the date of grant of such new options. You will be at risk of any such increase in our share price before the grant date of the new options for these or any other reasons.

WE WILL NOT GRANT NEW OPTIONS TO YOU IF WE ARE PROHIBITED BY APPLICABLE LAWS OR REGULATIONS.

Even if we accept your tendered options, we will not grant new options to you if we are prohibited by applicable laws, rules, regulations or policies from doing so. Such a prohibition could result from, among other things, changes in U.S. laws, SEC or other similar regulatory authority's rules, regulations or policies or Nasdaq National Market listing requirements, any delisting of our common stock or if you move to a jurisdiction in which we are prohibited or prevented from granting options.

BUSINESS-RELATED RISKS

For a description of risks related to Capstone's business, please see the discussion of risks associated with our business under Item 5 of Part II ("Other Information-Business Risks") in Capstone's quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2003, filed with the SEC.

TAX-RELATED RISKS FOR U.S. RESIDENTS

YOUR NEW OPTION WILL BE A NON-STATUTORY STOCK OPTION, WHEREAS YOUR CANCELLED OPTION MAY HAVE BEEN AN INCENTIVE STOCK OPTION.

Regardless of whether your exchanged options under the 1993 Incentive Stock Plan or the 2000 Equity Incentive Plan are incentive stock options or non-statutory stock options, your new option grant will be a non-statutory stock option. In general, non-statutory stock options may be less favorable to you from a tax perspective. We recommend that you read the tax discussion in this Offer in Section 14 and discuss the personal tax consequences of non-statutory stock options with your legal, tax and financial advisors.

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EVEN IF YOU ELECT NOT TO PARTICIPATE IN THE OPTION EXCHANGE PROGRAM, YOUR INCENTIVE STOCK OPTIONS MAY BE AFFECTED.

You should note, if you are subject to the tax laws of the United States, that there is a risk that any of your incentive stock options that are eligible for exchange may be affected, even if you do not participate in the exchange. However, we believe that you will not be subject to current U.S. federal income tax if you do not elect to participate in the option exchange program, even if you hold eligible options. We also believe that the option exchange program will not change the U.S. federal income tax treatment of subsequent grants and exercises of your incentive stock options (and sales of shares acquired upon exercises of such options) if you do not participate in this Offer.

However, the IRS may characterize this Offer as a "modification" of those incentive stock options, even if you decline to participate. A successful assertion by the IRS of this position could extend the options' holding period to qualify for favorable tax treatment. In such case, if you dispose of your incentive stock option shares before the end of this longer holding period (which would be two years from the date the new options are granted and one year from exercise), your incentive stock option could be taxed as a non-statutory stock option.

In 1991, the IRS issued a private letter ruling in which another company's option exchange program was characterized as a "modification" of all of the incentive stock options that could be exchanged. This does not necessarily mean that our Offer will be viewed the same way. Private letter rulings given by the IRS contain the IRS's opinion regarding only the specific facts presented by a specific person or company. The person or company receiving the letter may rely on it, but no other person or company may rely on the letter ruling, nor may they assume the same opinion would apply to their situation, even if the facts at issue are similar. While such letters do not provide certainty, they may indicate how the IRS will view a similar situation. We therefore do not know if the IRS will assert the position that our Offer constitutes a "modification" of all of the incentive stock options eligible for exchange.

YOU SHOULD REVIEW SECTION 14 CAREFULLY FOR A MORE DETAILED DISCUSSION OF THE POTENTIAL FEDERAL INCOME TAX CONSEQUENCES OF PARTICIPATING IN THIS OFFER. WE RECOMMEND THAT YOU CONSULT WITH YOUR PERSONAL LEGAL, FINANCIAL AND TAX ADVISORS BEFORE DECIDING WHETHER TO PARTICIPATE IN THE OFFER WITH RESPECT TO THE LEGAL AND TAX CONSEQUENCES RELATING TO YOUR SPECIFIC CIRCUMSTANCES.

THE OFFER

1. Eligibility.

Eligible persons may participate in this Offer. "Eligible persons" are all holders of stock options eligible to be tendered pursuant to this Offer who (i) reside in the United States, (ii) hold their options as of the Commencement Date and through the Cancellation Date and (iii) are non-executive employees of Capstone or its subsidiaries (i.e., our directors, executive officers, executive management and consultants are not eligible to participate in this Offer).

IN ORDER TO RECEIVE A NEW OPTION, YOU MUST BE AN ELIGIBLE PERSON AS OF THE CANCELLATION DATE WHO HAD OPTION(S) CANCELLED IN ACCORDANCE WITH THIS OFFER AND MUST CONTINUE TO BE AN EMPLOYEE OF CAPSTONE, ONE OF OUR SUBSIDIARIES OR A SUCCESSOR ENTITY ON THE DATE THE NEW OPTIONS ARE GRANTED, WHICH WILL NOT BE BEFORE THE FIRST BUSINESS DAY THAT IS AT LEAST SIX MONTHS AND ONE DAY AFTER THE CANCELLATION DATE. IF, FOR ANY REASON, YOU DO NOT MEET THESE CONDITIONS ON THE DATE WE GRANT THE NEW OPTIONS, YOU WILL NOT RECEIVE ANY NEW OPTIONS OR OTHER CONSIDERATION IN EXCHANGE FOR YOUR TENDERED OPTIONS THAT WE HAVE ACCEPTED FOR EXCHANGE AND CANCELLED. If Capstone does not extend the Offer, the new options will be granted on January 26, 2004.

Only outstanding, unexercised options granted with exercise prices greater than or equal to \$2.00 per share may be tendered for exchange by eligible persons.

Eligible persons may only tender options for all or none of the outstanding, unexercised shares subject to an individual option grant. IF YOU WERE GRANTED TWO OPTIONS ON THE SAME DAY IN ORDER TO DIVIDE A GRANT INTO AN INCENTIVE STOCK OPTION AND A NON-STATUTORY STOCK OPTION, YOU MUST TENDER EITHER BOTH OR NEITHER OF THOSE OPTIONS. If you participate in the Offer, you will not be eligible to receive any additional option grants until January 26, 2004, at the earliest.

As of June 10, 2003, options to purchase 9,851,440 shares of our common stock were issued and outstanding. Of the total options issued and outstanding, options to purchase 1,026,013 of our shares, constituting approximately 10.41% of the options outstanding, are eligible to be tendered in the Offer.

2. Number of options; expiration date.

If you are an eligible person and elect to exchange an option in the Offer, you will receive a new option to purchase a number of Capstone shares equal to the number of unexercised shares subject to the old option you are tendering, subject to your employment status on the date of grant of the new option. This ratio is subject to adjustments for any future stock splits, stock dividends and similar events.

The Expiration Date is 5:00 p.m., Pacific Time, on July 24, 2003, unless and until we, in our sole discretion, have extended the period of time during which the Offer will remain open, in which event the term "Expiration Date" refers to the latest time and date at which the Offer, as so extended, expires. See Section 15 of this Offer for a description of our rights to extend, delay, terminate or amend the Offer.

We will publish notice or otherwise inform you in writing if we:

- increase or decrease the amount of consideration offered for the options, or

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- increase or decrease in the number of options eligible to be tendered in the Offer.

If the Offer is scheduled to expire at any time earlier than the tenth business day from, and including, the date that notice of any increase or decrease of the kind described above is first published, sent or given in the manner specified in Section 15 of this Offer, we will extend the Offer so that the Offer is open at least ten business days following the publication, sending or giving of such notice.

We will also notify you of any other material change in the information contained in this Offer in the manner required by applicable law.

For purposes of the Offer, a "business day" means any day other than a Saturday, Sunday or United States federal holiday and consists of the time period from 12:01 a.m. through 12:00 midnight, Eastern Time.

3. Purpose of the Offer.

We issued the options outstanding to:

- provide our eligible persons with additional incentive and to promote the success of our business,

- encourage our eligible persons to continue their employment with us, and
- align employee and stockholder interests.

Many of our outstanding options, whether or not they are currently exercisable, have exercise prices that are significantly higher than the current market price of our shares. By making this offer to exchange certain outstanding options for new options that will have an exercise price equal to the fair market value of the shares on the grant date of the new options, we intend to provide our eligible persons with the benefit of owning options that over time may have a greater potential to increase in value, creating better performance and retention incentives for eligible persons and thereby maximizing stockholder value.

Except as otherwise disclosed in this Offer or in our filings with the SEC (including disclosure in this Offer and in our SEC filings concerning the reverse stock split approved by our stockholders at the 2003 annual meeting of stockholders and the risks related to potential delisting of our common stock), we presently have no plans or proposals that relate to or would result in:

- any extraordinary transaction, such as a merger, consolidation, reorganization or liquidation, involving us or any of our material subsidiaries;
- any purchase, sale or transfer of a material amount of our assets or any of our subsidiaries;
- any material change in our present dividend rate or policy, or our indebtedness or capitalization;
- any change in our present Board of Directors or management, including a change in the number or term of directors or to fill any existing board vacancies or to change any

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executive officer's material terms of employment (other than (a) the anticipated resignation of John G. McDonald from our Board of Directors on or before September 30, 2003 due to additional responsibilities and time constraints imposed upon him by his employment and other professional activities, (b) the anticipated appointment of a new member to our Board of Directors and (c) when we hire a new Chief Executive Officer, the expected addition of that person to our Board as well);

- any other material change in our corporate structure or business;
- our common stock being delisted from a national securities exchange or not being authorized for quotation in an automated quotation system operated by a national securities association;
- our common stock becoming eligible for termination of registration pursuant to Section 12(g)(4) of the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT");
- the suspension of our obligation to file reports pursuant to Section 15(d) of the Exchange Act;
- the acquisition by any person of an amount of our securities or the disposition of an amount of any of our securities; or
- any change in our charter or bylaws, or any actions which may impede the acquisition of control of us by any person.

Neither Capstone nor Capstone's Board of Directors makes any recommendation as to whether you should tender or not tender your options, nor have we authorized any person to make any such recommendation. You are urged to evaluate carefully all of the information in this Offer and to consult your own legal, financial and tax advisors. You must make an independent decision whether or not to tender your options for exchange.

4. Procedures for tendering options.

Proper Tender of Options.

To validly tender your options through the Offer, you must, in accordance with the terms of the Election Form, properly complete, execute and deliver the Election Form to us via facsimile or hand delivery (e-mail is not sufficient) to:

Capstone Turbine Corporation
 Attention: Debbie Bernard
 21211 Nordhoff Street
 Chatsworth, California 91311
 Ph: (818) 734-5431
 Fax: (818) 734-5381

We must receive all of the required documents before 5:00 p.m., Pacific Time, on July 24, 2003, unless we extend the Offer period.

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The Election Form must be signed and dated and must specify:

- the name of the option holder who tendered the options,
- the grant number of all options to be tendered,
- the grant date of all options to be tendered,
- the exercise price of all options to be tendered, and
- the total number of unexercised option shares subject to each option to be tendered.

Except as described in the following sentences, the Election Form must be executed by the option holder who tendered the options exactly as the option holder's name appears on the option agreement or agreements evidencing the options. If the option holder's name has legally been changed since the signing of the option agreement, the option holder must submit proof of the legal name change. If the signature is by an attorney-in-fact or another person acting in a fiduciary or representative capacity, the signer's full title and proper evidence of the authority of such person to act in that capacity must be indicated on the Election Form.

YOU MAY WITHDRAW YOUR TENDERED OPTIONS AT ANY TIME PRIOR TO THE EXPIRATION DATE, IN ACCORDANCE WITH SECTION 5 OF THIS OFFER. THE DELIVERY OF ALL DOCUMENTS, INCLUDING ELECTION FORMS, ANY NOTICES TO WITHDRAW FROM THE OFFER AND ANY OTHER REQUIRED DOCUMENTS, IS AT YOUR SOLE RISK. IN ALL CASES, YOU SHOULD ALLOW SUFFICIENT TIME TO ENSURE TIMELY DELIVERY. WE INTEND TO CONFIRM RECEIPT OF YOUR ELECTION FORM AND ANY NOTICE TO WITHDRAW FROM THE OFFER VIA E-MAIL WITHIN TWO BUSINESS DAYS OF RECEIPT. IF YOU DO NOT RECEIVE CONFIRMATION OF RECEIPT, IT IS YOUR RESPONSIBILITY TO ENSURE THAT WE HAVE RECEIVED YOUR ELECTION FORM AND ANY NOTICE TO WITHDRAW FROM THE OFFER.

Determination of Validity; Rejection of Options; Waiver of Defects; No Obligation to Give Notice of Defects.

We will determine, in our sole discretion, all questions as to the form of documents and the validity, form, eligibility (including time of receipt) and acceptance of any tender of options. Our determination of these matters will be final and binding on all parties. We reserve the right to reject any or all tenders of options that we determine are not in appropriate form or that we determine are unlawful to accept. We also reserve the right to waive any of the conditions of the Offer or any defect or irregularity in any tender of any particular options or for any particular option holder. No tender of options will be deemed to have been properly made until all defects or irregularities have been cured by the tendering option holder or waived by us. Neither we nor any other person is obligated to give notice of any defects or irregularities in tenders, nor will anyone incur any liability for failure to give any notice. This is a one-time offer, and we will strictly enforce the Offer period.

Our Acceptance Constitutes an Agreement.

Your tender of options pursuant to the procedures described above constitutes your acceptance of the terms and conditions of the Offer. OUR ACCEPTANCE FOR EXCHANGE OF YOUR OPTIONS TENDERED BY YOU THROUGH THE OFFER WILL CONSTITUTE A BINDING AGREEMENT BETWEEN CAPSTONE AND YOU UPON THE TERMS OF THE OFFER AND SUBJECT TO THE CONDITIONS OF THE OFFER.

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Subject to our rights to extend, terminate and amend the Offer, discussed in Section 15 of this Offer, we currently expect that we will accept promptly after the expiration of the Offer all properly tendered options that have not been validly withdrawn.

5. Withdrawal rights and change of election.

You may only withdraw your tendered options or change your election in accordance with the provisions of this Section 5 of this Offer.

You may withdraw your tendered options at any time before 5:00 p.m., Pacific Time, on July 24, 2003. If we extend the Offer beyond that time, you may withdraw your tendered options at any time until the extended expiration of the Offer.

If we have not accepted your tendered options by 5:00 p.m., Pacific Time, on July 24, 2003, you may withdraw your tendered options at any time thereafter.

To validly withdraw tendered options, you must deliver via facsimile or hand delivery, in accordance with the procedures listed in Section 4 above, a signed and dated Notice to Withdraw from the Offer, with the required information, while you still have the right to withdraw the tendered options.

To validly change your election regarding the tender of particular options, you must deliver a new Election Form via facsimile or hand delivery, in accordance with the procedures listed in Section 4 above.

If you deliver a new Election Form that is properly signed and dated, it will replace any previously submitted Election Form, which will be disregarded. The new Election Form must be signed and dated and must specify:

- the name of the option holder who tendered the options,
- the grant number of all options tendered,
- the grant date of all options tendered,

- the exercise price of all options tendered, and
- the total number of unexercised option shares subject to each option tendered.

Except as described in the following sentences, the Notice to Withdraw from the Offer and any new or amended Election Form must be signed by the option holder who tendered the options to be withdrawn exactly as the option holder's name appears on the option agreement or agreements evidencing the options. If the option holder's name has legally been changed since the signing of the option agreement, the option holder must submit proof of the legal name change. If the signature is by an attorney-in-fact or another person acting in a fiduciary or representative capacity, the signer's full title and proper evidence of the authority of such person to act in that capacity must be indicated on the notice of withdrawal or the new election.

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You may not rescind any withdrawal. If you change your mind again, you must re-tender those options before the Expiration Date by following the procedures described in Section 4 of this Offer.

Neither we nor any other person is obligated to give notice of any defects or irregularities in any Notice to Withdraw from the Offer or any new or amended Election Form, nor will anyone incur any liability for failure to give any notice. We will determine, in our sole discretion, all questions as to the form and validity, including time of receipt, of Notices to Withdraw from the Offer and new or amended Election Forms. Our determination of these matters will be final and binding.

THE DELIVERY OF ALL DOCUMENTS, INCLUDING ELECTION FORMS, ANY NOTICES TO WITHDRAW FROM THE OFFER AND ANY OTHER REQUIRED DOCUMENTS, IS AT YOUR SOLE RISK. IN ALL CASES, YOU SHOULD ALLOW SUFFICIENT TIME TO ENSURE TIMELY DELIVERY. WE INTEND TO CONFIRM RECEIPT OF YOUR ELECTION FORM AND ANY NOTICE TO WITHDRAW FROM THE OFFER VIA E-MAIL WITHIN TWO BUSINESS DAYS OF RECEIPT. IF YOU DO NOT RECEIVE CONFIRMATION OF RECEIPT, IT IS YOUR RESPONSIBILITY TO ENSURE THAT WE HAVE RECEIVED YOUR ELECTION FORM AND ANY NOTICE TO WITHDRAW FROM THE OFFER.

6. Acceptance of options for exchange and issuance of new options.

Upon the terms and conditions of the Offer and promptly following the Expiration Date, we will accept for exchange and cancel eligible options properly tendered for exchange and not withdrawn before the Expiration Date. If your options are properly tendered by you for exchange and accepted by us, your options will be cancelled as of the date of our acceptance, which we anticipate will be July 25, 2003. Our Board of Directors intends to grant the new options on the New Option Grant Date. If we accept and cancel options properly tendered for exchange after July 25, 2003, the period in which the new options will be granted will be similarly delayed. Promptly after the date we accept and cancel options tendered for exchange, we will issue to you a Promise to Grant Stock Option(s), which will evidence our binding commitment to grant stock options to you in accordance with the terms of this Offer on the New Option Grant Date, provided that you are an employee of Capstone, one of our subsidiaries or a successor entity on the date on which the grant is made. We will defer any grant to you of other options, such as annual, bonus or promotional options, until at least the grant date of your new options.

It is possible that, prior to the grant of the new options, Capstone might be acquired by another company. The Promise to Grant Stock Option(s) which we will provide to you promptly after the cancellation of any options you tender for exchange is a binding commitment, and any successor to Capstone will be legally obligated by that commitment, subject to you meeting the conditions for receiving a new option.

All eligible persons who meet the conditions for receiving new options will receive non-statutory stock options.

We will not accept partial tenders of an unexercised portion of an eligible option grant. However, you may tender the remaining portion of an option that you have partially exercised. Accordingly, eligible persons may tender one or more of their option grants, but may only tender all of the unexercised shares subject to that option or none of those shares. If you were granted two options on the same day in order to divide a grant into an incentive stock option and a non-statutory stock option, you must tender either both or neither of those options.

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If Capstone is acquired by another company for stock, the acquiring company would be obligated to grant you a new stock option on the New Option Grant Date (assuming that Capstone does not extend the Offer), subject to you being an employee of Capstone, one of our subsidiaries or a successor entity on the date the new options are granted. Such a stock option would be for the purchase of the acquiring company's stock (as opposed to Capstone's) and as a result, the number of shares subject to your new option would be adjusted based on the exchange ratio that was used in the merger. Your new option to purchase such acquiring company's stock would have an exercise price equal to the fair market value of the acquiring company's stock on the grant date of the new options. If Capstone is acquired by another company solely for cash, the treatment of the options would be similar to a stock acquisition; however, the number of shares subject to the new options that you would receive would be

based on the number of shares of the acquiring company's stock that you would have been able to purchase if you had received the cash paid to Capstone's stockholders for all of the shares subject to your cancelled options. If Capstone is acquired by another company whose stock is not publicly traded, then any new stock options granted by the private company would likely be exercisable for stock that is not publicly traded and which could be difficult to sell.

Within two business days of the receipt of your Election Form or your Notice to Withdraw from the Offer, Capstone intends to e-mail a confirmation of receipt to you. However, this is not by itself an acceptance of your options for exchange. For purposes of the Offer, we will be deemed to have accepted options for exchange that are validly tendered and not properly withdrawn as of the time when we give oral or written notice to the option holders of our acceptance for exchange of such options, which notice may be made by press release, inter-office memorandum or e-mail.

7. *Conditions of the Offer.*

Notwithstanding any other provision of the Offer, we will not be required to accept any options tendered for exchange, and we may terminate or amend the Offer, or postpone our acceptance and cancellation of any options tendered for exchange, in each case subject to Rule 13e-4(f)(5) under the Exchange Act, if at any time on or after the Commencement Date, and prior to the Expiration Date, any of the following events has occurred, or has been determined by us to have occurred:

- there shall have been threatened or instituted or be pending any action, proceeding or litigation seeking to enjoin, make illegal or delay completion of the Offer or otherwise relating in any manner to the Offer;
 - any order, stay, judgment or decree is issued by any court, government, governmental authority or other regulatory or administrative authority and is in effect, or any statute, rule, regulation, governmental order or injunction shall have been proposed, enacted, enforced or deemed applicable to the Offer, any of which might restrain, prohibit or delay completion of the Offer or impair the contemplated benefits of the Offer to us;
 - there shall have occurred:
 - any general suspension of trading in, or limitation on prices for, securities on any national securities exchange or in the over-the-counter market in the United States;
 - the declaration of a banking moratorium or any suspension of payments in respect of banks in the United States;
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- any limitation, whether or not mandatory, by any governmental, regulatory or administrative agency or authority on, or any event that, in our reasonable judgment, might affect the extension of credit to us by banks or other lending institutions in the United States;
 - in our reasonable judgment, any extraordinary or material adverse change in U.S. financial markets generally, including, without limitation, a decline of at least 10% in either the Dow Jones Industrial Average, the Nasdaq Market Index or the Standard & Poor's 500 Index from the date of commencement of the Offer;
 - the commencement of a war or other national or international calamity directly or indirectly involving the United States, which would reasonably be expected to affect materially or adversely, or to delay materially, the completion of the Offer; or
 - if any of the situations described above existed at the time of commencement of the Offer and that situation, in our reasonable judgment, deteriorates materially after commencement of the Offer;
- - as the term "group" is used in Section 13(d)(3) of the Exchange Act:
- any person, entity or group acquires more than 5% of our outstanding shares of common stock, other than a person, entity or group which had publicly disclosed such ownership with the SEC prior to the Commencement Date;
 - any such person, entity or group which had publicly disclosed such ownership prior to such date shall acquire additional common stock constituting more than 2% of our outstanding shares; or
 - any new group shall have been formed that beneficially owns more than 5% of our outstanding shares of common stock that in our judgment in any such case, and regardless of the circumstances, makes it inadvisable to proceed with the Offer or with such acceptance for exchange of eligible options;
- - there shall have occurred any change, development, clarification or position taken in generally accepted accounting standards that could or would require us to record for financial reporting purposes compensation

expense against our earnings in connection with the Offer;

- - a tender or exchange offer, other than this Offer by us, for some or all of our shares of outstanding common stock, or a merger, acquisition or other business combination proposal involving us, shall have been proposed, announced or made by another person or entity or shall have been publicly disclosed;
- - any event or events occur that have resulted or may result, in our reasonable judgment, in an actual or threatened material adverse change in our business, financial condition, assets, income, operations, prospects or stock ownership; or
- - any event or events occur that have resulted or may result, in our reasonable judgment, in a material impairment of the contemplated benefits of the Offer to us.

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If any of the above events occur, we may:

- terminate the Offer and promptly return all tendered eligible options to tendering holders;
- complete and/or extend the Offer and, subject to your withdrawal rights, retain all tendered eligible options until the extended Offer expires;
- amend the terms of the Offer; or
- waive any unsatisfied condition and, subject to any requirement to extend the period of time during which the Offer is open, complete the Offer.

The conditions to the Offer are for Capstone's benefit. We may assert them in our sole discretion regardless of the circumstances giving rise to them before the Expiration Date. We may waive them, in whole or in part, at any time and from time to time prior to the Expiration Date, in our discretion, whether or not we waive any other condition to the Offer. Our failure at any time to exercise any of these rights will not be deemed a waiver of any such rights. The waiver of any of these rights with respect to particular facts and circumstances will not be deemed a waiver with respect to any other facts and circumstances. Any determination we make concerning the events described in this Section 7 will be final and binding upon all persons.

8. Price range of shares underlying the options.

The shares underlying your options are currently traded on the Nasdaq National Market under the symbol "CPST." The following table shows, for the periods indicated, the high and low closing sales prices per share of our common stock as reported by the Nasdaq National Market.

<TABLE>
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	HIGH	LOW
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<S>	<C>	<C>
FISCAL YEAR 2003		
Quarter ended March 31, 2003 ...	\$ 1.18	\$ 0.71
FISCAL YEAR 2002		
Quarter ended December 31, 2002	\$ 1.26	\$ 0.56
Quarter ended September 30, 2002	\$ 1.74	\$ 0.59
Quarter ended June 30, 2002 ...	\$ 3.82	\$ 1.52
Quarter ended March 31, 2002 ...	\$ 5.98	\$ 2.76
FISCAL YEAR 2001		
Quarter ended December 31, 2001	\$ 6.55	\$ 3.20
Quarter ended September 30, 2001	\$ 23.53	\$ 4.45
Quarter ended June 30, 2001 ...	\$ 38.25	\$ 18.50
Quarter ended March 31, 2001 ...	\$ 47.38	\$ 21.68

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As of June 10, 2003, the last reported sale price during regular trading hours of our common stock, as reported by the Nasdaq National Market, was \$1.40 per share.

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WE RECOMMEND THAT YOU EVALUATE CURRENT MARKET QUOTES FOR OUR COMMON STOCK, AMONG OTHER FACTORS, BEFORE DECIDING WHETHER OR NOT TO TENDER YOUR OPTIONS.

9. Source and amount of consideration; terms of new options.

Consideration.

If we receive and accept tenders from eligible persons of all options eligible to be tendered, subject to the terms and conditions of this Offer, we will grant new options to purchase a total of 1,026,013 shares of common stock. The shares issuable upon exercise of these new options would equal approximately

1.26% of the total shares of our common stock outstanding as of June 10, 2003.

Terms of New Options.

For every new option granted, a new option agreement will be entered into between Capstone and each option holder who has tendered options in the Offer. You must sign the new option agreement before receiving your new options. The terms and conditions of the new options may vary from the terms and conditions of the options that you tendered for exchange, but such changes generally will not substantially and adversely affect your rights. However, (a) the exercise price of your new option will be the closing price of our common stock reported by the Nasdaq National Market on the date of grant, (b) your new option will be a non-statutory stock option, even if your tendered option was an incentive stock option and (c) the vesting schedule of your new option will differ from the vesting schedule of your old option. Each new option will vest based on a new 42-month vesting schedule that will begin on the New Option Grant Date. The new vesting schedule will be as follows:

- 12.5% of the shares subject to the new option will be vested on the New Option Grant Date, and
- 1/48 of the shares subject to the new option will vest monthly after the New Option Grant Date, such that each new option will be fully vested on the 42-month anniversary of the New Option Grant Date, subject to your continued employment with us or one of our subsidiaries through each relevant vesting date.

DESCRIPTION OF 2000 EQUITY PLAN.

Our statements in this Offer concerning our 2000 Equity Plan and the new options are merely summaries. To receive a copy of our 2000 Equity Plan and the form of option agreement, please contact Debbie Bernard in Human Resources at Capstone, whose contact information is provided on Page 15. We will promptly furnish you copies of these documents at our expense.

Number and Type of Shares in Plan.

The maximum number of shares reserved for issuance through the exercise of options granted under our 2000 Equity Plan is 6,200,000 shares of common stock, plus the number of shares previously authorized and remaining available under our 1993 Incentive Stock Plan, plus any shares covered by options granted under the 1993 Incentive Stock Plan that are forfeited or expire unexercised. Our 2000 Equity Plan permits the granting of incentive stock options and non-statutory stock options.

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Administration.

The 2000 Equity Plan is administered by the Board of Directors or a committee appointed by the Board of Directors (the "ADMINISTRATOR"). Subject to the other provisions of the 2000 Equity Plan, the Administrator has the power to determine the terms and conditions of the options granted, including the exercise price, the number of shares subject to the option and the exercisability of the options.

Term.

Options generally have a term of ten years. Incentive stock options granted to an employee who, at the time the incentive stock option is granted, owns stock representing more than 10% of the voting rights of all classes of stock of Capstone or an affiliate company have a term of no more than five years.

Termination.

Unless your option agreement otherwise provides, your options will terminate following the termination of your employment or consulting relationship, unless the options are exercised within the time frame permitted by your stock option agreement, which is typically within three months following your termination. In the event that the termination of your employment or consulting relationship is by reason of permanent or total disability or death, you, or your executors, administrators, legatees or distributees of your estate, may exercise any option held by you at the date of your termination, to the extent that it was exercisable before such termination, generally within 12 months following your death or disability.

Your option may terminate, together with our stock option plans and all other outstanding options issued to other employees and consultants, following the occurrence of certain corporate events, as described in "Adjustments Upon Certain Events" below.

Exercise Price.

Generally, the Administrator determines the exercise price at the time the option is granted. For all eligible persons, the exercise price per share for the new options will equal the fair market value of our common stock on the date of grant, as determined by the closing price reported by the Nasdaq National Market on the date of grant.

Vesting.

The vesting of any new options will cease if you are no longer an employee

or consultant of Capstone, one of our subsidiaries or a successor entity.

Adjustments Upon Certain Events.

Under the terms of the 1993 Incentive Stock Plan and the 2000 Equity Plan, in the event there is a sale of all or substantially all of our assets, or if we merge with or into another corporation, the successor corporation may assume each outstanding option or substitute equivalent options, without accelerating the vesting of the outstanding options. If the successor corporation does not assume or substitute for outstanding options, then (i) with respect to participants whose status as an employee, director or consultant has not terminated prior to the merger or asset sale, the vesting of awards will be accelerated and made fully exercisable and all restrictions on those awards shall lapse at least ten days before the merger or asset sale

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closes, and (ii) with respect to other participants, outstanding awards will terminate if not exercised before the merger or asset sale closes. In the event that the successor corporation does assume or substitute for outstanding awards, and, within nine months after the merger or asset sale, the successor corporation terminates a participant's employee or director status without cause or an employee terminates employment either because the employee's principal work location moves more than 50 miles from the existing work location or because there is a material reduction in the employee's responsibilities, then that participant's awards shall become immediately fully vested and exercisable.

If there is a change in our capitalization, such as a stock split, reverse stock split, stock dividend or other similar event, and the change results in an increase or decrease in the number of issued shares without receipt of consideration by us, an appropriate adjustment will be made to the price of each option and the number of shares subject to each option.

If Capstone liquidates or dissolves, your outstanding options will terminate immediately prior to the consummation of the liquidation or dissolution. The Administrator may, however, provide for the acceleration of the exercisability of any outstanding option.

Transferability of Options.

New options may not be transferred, other than by will or the laws of descent and distribution. In the event of your death, options may be exercised by a person who acquires the right to exercise the option by bequest or inheritance.

Registration of Option Shares.

All the shares issuable upon exercise of all new options to be granted by Capstone pursuant to this Offer will be registered under the Securities Act.

10. Information concerning Capstone Turbine Corporation.

Our principal executive offices are located at 21211 Nordhoff Street, Chatsworth, California 91311, and our telephone number is (818) 734-5300. Questions regarding the mechanics of this option exchange should be directed to Susan Cayley, our General Counsel (telephone: (818) 734-5136; e-mail: scayley@capstoneturbine.com) or Wade Welch, our VP Finance (telephone: (818) 734-5555; e-mail: wwelch@capstoneturbine.com). For questions regarding the legal, financial or tax implications of this Offer, you should contact your own legal, financial and tax advisors.

Capstone develops, manufactures and markets microturbine technology for use in stationary distributed power generation applications such as combined heat and power, resource recovery and power quality and reliability, as well as hybrid electric vehicles. We sell complete microturbine units, subassemblies and components and perform limited service work, such as product refurbishments. The primary stationary markets to which we have sold products include (i) micro-cogeneration/combined heat and power, (ii) resource recovery, (iii) power quality and reliability, including back-up and standby power/peak shaving and (iv) developing countries and other stationary power applications.

Please review our Annual Report on Form 10-K for the fiscal year ended December 31, 2002 and our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2003, both of which are being delivered to eligible persons with this Offer for important financial and other information about us. Also, see

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"Additional information" in Section 17 of this Offer for instructions on how you can obtain copies of our SEC filings, including filings that contain our financial statements.

11. Interests of directors and officers; transactions and arrangements concerning the options.

A list of our directors and executive officers is attached to this Offer as Schedule A. As of June 10, 2003, options to purchase 4,935,749 of our shares, which represented approximately 50% of the shares subject to all options outstanding as of that date (including options granted under the eligible plans and options granted outside of the eligible plans), were owned by certain of our directors and executive officers. Our directors and executive officers are not eligible to participate in the Offer.

The table below sets forth the beneficial ownership of each of our executive officers and directors of options under (i) the eligible plans and (ii) the eligible option agreements issued outside of the plans, in each case outstanding as of June 10, 2003. The percentages in the table below are based on the total number of outstanding options (i.e., whether or not eligible for exchange) to purchase shares of our common stock under the eligible plans and eligible agreements, which was 5,661,440 as of June 10, 2003. None of the executive officers or directors listed in the following table are eligible to participate in the Offer.

<TABLE>
<CAPTION>

NAME	POSITION	NUMBER OF SHARES COVERED BY OUTSTANDING OPTIONS GRANTED UNDER THE ELIGIBLE PLANS	PERCENTAGE OF TOTAL OUTSTANDING OPTIONS UNDER THE ELIGIBLE PLANS
<S>	<C>	<C>	<C>
Emily Liggett(1)	Chief Executive Officer (Interim)	0	*
Susan Cayley	Vice President, General Counsel and Secretary	125,000	2.21%
Karen Clark(2)	Chief Financial Officer	50,000	*
Harol Koyama	Senior Vice President of Sales and Marketing	235,000	4.15%
Jeffrey Willis	Senior Vice President of Engineering	93,937	1.66%
David McShane	Vice President of Quality and Service	73,812	1.30%
Eliot Protsch	Chairman of the Board	31,600	*
Richard Donnelly	Director	31,600	*
John Jagers	Director	31,600	*
Jean-Rene Marcoux	Director	31,600	*
John McDonald	Director	10,000	*
Eric Young	Director	31,600	*

</TABLE>

* Less than 1%

- (1) Ms. Liggett holds options to purchase 3,840,000 shares of our common stock, which options were not granted under either our 1993 Incentive Stock Plan or our 2000 Equity Plan and are therefore not reported in the table above.
- (2) Ms. Clark holds options to purchase an additional 350,000 shares of our common stock, which options were not granted under either our 1993 Incentive Stock Plan or our 2000 Equity Plan and are therefore not reported in the table above.

Except as described below, neither we, nor, to the best of our knowledge, any of our directors or executive officers, nor any affiliates of ours, engaged in transactions involving options to purchase our

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common stock under the plans, or in transactions involving our common stock, during the past 60 days before and including June 10, 2003:

- On May 30, 2003, Eliot Protsch, Richard Donnelly, John Jagers, Jean-Rene Marcoux, John McDonald and Eric Young were each granted a stock option to purchase 10,000 shares of our common stock at an exercise price of \$1.40 per share.
- We granted options under our 2000 Equity Plan to purchase an aggregate of 9,500 shares of our common stock with exercise prices ranging from \$0.90 to \$1.48.
- Individuals exercised options under our 1993 Incentive Stock Plan and our 2000 Equity Plan to acquire an aggregate of 11,446 shares of our common stock with an average exercise price per share of \$1.27.
- We cancelled options under our 1993 Incentive Stock Plan and our 2000 Equity Plan to purchase an aggregate of 144,176 shares of our common stock with an average exercise price per share of \$10.30.

Our Board of Directors is currently seeking to hire a permanent Chief Executive Officer for the Company. When we hire a permanent Chief Executive Officer, it is anticipated that the individual selected will also be appointed as a member of our Board of Directors.

12. Status of options acquired by us in the Offer; accounting consequences of the Offer.

Options we acquire through the Offer will be cancelled, and the shares subject to those options will be returned to the pool of shares available for grants of options under our 2000 Equity Plan. To the extent the number of shares subject to options cancelled pursuant to the Offer exceeds the number of shares subject to the new options to be granted in connection with the Offer, the excess shares will be available for future awards to employees, consultants and other eligible plan participants without further stockholder action, except as required by applicable law or the rules of the Nasdaq National Market or any other securities quotation system or any stock exchange on which our shares are then quoted or listed.

We believe that we will not incur any employee compensation expense solely as a result of the transactions contemplated by the Offer because:

- we will grant new options no earlier than the first business day that is six months and one day after the date that we cancel options tendered for exchange, and
- the exercise price of all new options will equal the fair market value of the shares of common stock on the date we grant the new options.

13. Legal matters; regulatory approvals.

We are not aware of any license or regulatory permit that appears to be material to our business that might be adversely affected by our exchange of options and issuance of new options as contemplated by the Offer, or of any approval or other action by any government or governmental, administrative or regulatory authority or agency, domestic or foreign, that would be required for the acquisition or ownership of our

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options as contemplated herein. Should any such approval or other action be required, we intend to seek such approval or take such other action. We cannot assure you that any such approval or other action, if needed, could be obtained or what the conditions imposed in connection with such approvals would entail or whether the failure to obtain any such approval or other action would result in adverse consequences to our business. Our obligation under the Offer to accept tendered options for exchange and to issue new options for tendered options is subject to the conditions described in Section 7 of this Offer.

If we are prohibited by applicable laws, rules, regulations or policies from granting new options on the New Option Grant Date, we will not grant any new options. Such a prohibition could result from, among other things, changes in applicable laws, SEC or other similar securities regulatory authority's rules, regulations or policies or Nasdaq National Market listing requirements or if you move to a jurisdiction in which we are prohibited or prevented from granting new options. We will use reasonable efforts to effect the grant, but if the grant is prohibited throughout the period, we will not grant any new options and you will not receive any other consideration for the options you tendered.

14. Material U.S. federal income tax consequences.

The following is a general summary of the material U.S. federal income tax consequences of the exchange of options pursuant to the Offer. This discussion is based on the Internal Revenue Code, its legislative history, Treasury Regulations thereunder and administrative and judicial interpretations thereof as of the date of the Offer, all of which are subject to change, possibly on a retroactive basis. This summary does not discuss all of the tax consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of option holders.

Option holders who exchange outstanding options for new options should not be required to recognize income for federal income tax purposes at the time of the exchange. We believe that the exchange will be treated as a non-taxable exchange. WE STRONGLY ADVISE ALL OPTION HOLDERS CONSIDERING EXCHANGING THEIR OPTIONS TO MEET WITH THEIR OWN LEGAL, FINANCIAL AND TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES OF PARTICIPATING IN THE OFFER, AS THE TAX CONSEQUENCES TO YOU OF PARTICIPATING IN THE OFFER DEPEND ON YOUR INDIVIDUAL TAX CIRCUMSTANCES.

All new options will be granted as non-statutory stock options. Under current law, as with an incentive stock option, an option holder will not realize taxable income upon the grant of an option at fair market value on the date of the grant of a non-statutory stock option. However, when an option holder exercises the option, the difference between (a) the exercise price of the option and (b) the fair market value of the shares subject to the option on the date of exercise, will be compensation income taxable to the option holder and is subject to withholding if the option holder is an employee. We will be entitled to a deduction equal to the amount of compensation income taxable to the option holder if we comply with eligible reporting requirements.

The tax treatment of non-statutory stock options is different from the treatment of incentive stock options in several ways. One difference is that an option holder generally will not incur taxable income upon the exercise of an incentive stock option, though an option holder's alternative minimum taxable income will be increased by the amount that the aggregate fair market value of the shares underlying the option (generally determined as of the date of exercise) exceeds the aggregate exercise price of the option. Instead, the holder of an incentive stock option is taxed upon the disposition of the option shares, with the tax treatment depending upon compliance with certain holding periods. Another difference is that we are not entitled to a

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deduction in connection with the grant of an incentive stock option unless the option shares are sold without complying with the holding periods referred to in the preceding sentence.

THE OPTIONS YOU CURRENTLY HOLD MAY BE INCENTIVE STOCK OPTIONS, BUT ALL NEW OPTIONS WILL BE NON-STATUTORY STOCK OPTIONS. THE TAX TREATMENT OF NON-STATUTORY STOCK OPTIONS DIFFERS IN CERTAIN RESPECTS FROM THE TAX TREATMENT OF INCENTIVE STOCK OPTIONS, INCLUDING, BUT NOT LIMITED TO, THE DIFFERENCES DESCRIBED IN THE PRECEDING PARAGRAPH. WE RECOMMEND THAT YOU CONSULT YOUR OWN LEGAL, FINANCIAL AND

TAX ADVISORS WITH RESPECT TO THE FEDERAL, STATE AND LOCAL TAX CONSEQUENCES OF PARTICIPATING IN THE OFFER, AS THE TAX CONSEQUENCES TO YOU OF PARTICIPATING IN THE OFFER ARE DEPENDENT ON YOUR INDIVIDUAL TAX SITUATION.

15. Extension of Offer; termination; amendment.

We expressly reserve the right, in our sole discretion, at any time and from time to time, and regardless of whether or not any event listed in Section 7 of this Offer has occurred or is deemed by us to have occurred, to extend the period of time during which the Offer is open and thereby delay the acceptance for exchange of any options by giving oral or written notice of such extension to the option holders or making a public announcement thereof.

We also expressly reserve the right, in our reasonable judgment, prior to the Expiration Date to terminate or amend the Offer and to postpone our acceptance and cancellation of any options tendered for exchange, regardless of whether any event listed in Section 7 of this Offer has occurred or is deemed by us to have occurred, by giving oral or written notice of such termination or postponement to you or by making a public announcement thereof. Our reservation of the right to delay our acceptance and cancellation of options tendered for exchange is limited by Rule 13e-4(f) (5) under the Exchange Act, which requires that we must pay the consideration offered or return the options tendered promptly after termination or withdrawal of a tender offer.

Subject to compliance with applicable law, we further reserve the right, in our sole discretion, and regardless of whether any event listed in Section 7 of this Offer has occurred or is deemed by us to have occurred, to amend the Offer in any respect, including, without limitation, by decreasing or increasing the consideration offered in the Offer to option holders or by decreasing or increasing the number of options being sought in the Offer.

Amendments to the Offer may be made at any time and from time to time by publicly announcing the amendment or otherwise communicating the amendment in writing to all eligible participants. In the case of an extension, the amendment must be issued no later than 6:00 a.m., Pacific Time, on the next business day after the last previously scheduled or announced expiration date. Any announcement made through the Offer will be disseminated promptly to option holders in a manner reasonably designated to inform option holders of the change. Without limiting the manner in which we may choose to make a public announcement, except as required by applicable law, we have no obligation to publish, advertise or otherwise communicate any such public announcement other than by disseminating a press release through a national wire service.

If we materially change the terms of the Offer or the information concerning the Offer, or if we waive a material condition of the Offer, we will extend the Offer to the extent required by Rules 13e-4(d) (2) and 13e-4(e) (3) under the Exchange Act. These rules require that the minimum period during which an offer must remain open following material changes in the terms of the Offer or information concerning the Offer, other

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than a change in price or a change in percentage of securities sought, will depend on the facts and circumstances, including the relative materiality of such terms or information.

If we decide to take any of the following actions, we will publish notice or otherwise inform you in writing of these actions:

- we increase or decrease the amount of consideration offered for the options, or
- we increase or decrease the number of options eligible to be tendered in the Offer.

If the Offer is scheduled to expire at any time earlier than the tenth (10th) business day from, and including, the date that notice of any increase or decrease of the kind described above is first published, sent or given in the manner specified in this Section 15, we will extend the Offer so that the Offer is open at least ten (10) business days following the publication, sending or giving of notice.

For purposes of the Offer, a "business day" means any day other than a Saturday, Sunday or U.S. federal holiday and consists of the time period from 12:01 a.m. through 12:00 midnight, Eastern Time.

16. Fees and expenses.

We will not pay any fees or commissions to any broker, dealer or other person for soliciting tenders of options pursuant to this Offer.

17. Additional information.

This Offer is part of a Tender Offer Statement on Schedule TO that we have filed with the SEC. This Offer does not contain all of the information contained in the Schedule TO and the exhibits to the Schedule TO. We recommend that you review the Schedule TO, including its exhibits, and the following materials that we have filed with the SEC before making a decision on whether to tender your options:

1. Capstone's annual report on Form 10-K for our fiscal year ended

December 31, 2002, filed with the SEC on March 31, 2003.

2. Capstone's quarterly report on Form 10-Q for our fiscal quarter ended March 31, 2003, filed with the SEC on May 15, 2003.

3. Capstone's definitive proxy statement on Schedule 14A for our 2003 annual meeting of stockholders, filed with the SEC on April 28, 2003.

4. Any document that we filed with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this Offer and before the expiration of this Offer. Information in these filings will be deemed to be incorporated by reference as of the date we make the filing.

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These filings, our other annual, quarterly and current reports, our proxy statements and our other SEC filings may be examined, and copies may be obtained, at the following SEC public reference rooms:

450 Fifth Street, N.W.
Room 1024
Washington, D.C. 20549

500 West Madison Street
Suite 1400
Chicago, Illinois 60661

You may obtain information on the operation of the public reference rooms by calling the SEC at 1-800-SEC-0330.

Our SEC filings are also available to the public on the SEC's Internet site at <http://www.sec.gov>.

Our common stock is quoted on the Nasdaq National Market under the symbol "CPST" and our SEC filings can be read at the following Nasdaq address:

Nasdaq Operations
1735 K Street, N.W.
Washington, D.C. 20006

Each person to whom a copy of this Offer is delivered may obtain a copy of any or all of the documents to which we have referred you, other than exhibits to such documents (unless such exhibits are specifically incorporated by reference into such documents) at no cost, by writing to us or telephoning the individual listed in Section 4.

As you read the foregoing documents, you may find some inconsistencies in information from one document to another. If you find inconsistencies between the documents, or between a document and this Offer, you should rely on the statements made in the most recent document.

The information contained in this Offer about Capstone should be read together with the information contained in the documents to which we have referred you, in making your decision as to whether or not to participate in this Offer.

18. Financial information.

Please review our Annual Report on Form 10-K for the fiscal year ended December 31, 2002 and our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2003, both of which are being delivered to eligible persons with this Offer for important financial and other information about us. Also, see "Additional information" in Section 17 of this Offer for instructions on how you can obtain copies of our SEC filings, including filings that contain our financial statements. 19. Miscellaneous.

This Offer and our SEC reports referred to above include "forward-looking statements." When used in this Offer, the words "anticipate," "believe," "estimate," "expect," "intend" and "plan" as they relate to Capstone or our management are intended to identify these forward-looking statements. All statements by us regarding our expected future financial position and operating results, our business strategy, our financing plans and expected capital requirements, forecasted trends relating to our services or the markets in which we

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operate and similar matters are forward-looking statements. The documents we file with the SEC discuss some of the risks that could cause our actual results to differ from those contained or implied in the forward-looking statements. These risks include, but are not limited, to the risk factors set forth under Item 5 of Part II ("Other Information-Business Risks") in Capstone's quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2003.

We are not aware of any jurisdiction where the making of the Offer is not in compliance with applicable law. If we become aware of any jurisdiction where the making of the Offer is not in compliance with any valid applicable law, rule, regulation or policy, we will make a good faith effort to comply with such

law. If, after such good faith effort, we cannot comply with such law, the Offer will not be made to, nor will tenders be accepted from or on behalf of, the option holders residing in such jurisdiction.

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SCHEDULE A

INFORMATION CONCERNING THE EXECUTIVE OFFICERS AND DIRECTORS OF CAPSTONE TURBINE CORPORATION

The executive officers and directors of Capstone Turbine Corporation and their positions as of June 10, 2003 are set forth in the following table:

NAME -----	POSITION -----
Emily Liggett*	Chief Executive Officer (Interim)
Karen Clark*	Chief Financial Officer
Susan Cayley*	Vice President, General Counsel and Secretary
Harol Koyama*	Senior Vice President of Sales and Marketing
Jeffrey Willis*	Senior Vice President of Engineering
David McShane*	Vice President of Quality and Service
Eliot Protsch	Chairman of the Board of Directors
Richard Donnelly	Director
John Jaggars	Director
Jean-Rene Marcoux	Director
John McDonald	Director
Eric Young	Director

* Corporate officer

The address of each executive officer and director is: c/o Capstone Turbine Corporation, 21211 Nordhoff Street, Chatsworth, California 91311.

None of the directors or executive officers listed on this Schedule A are eligible to participate in this option exchange program.

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June 25, 2003

Dear Capstone Optionholder:

I am pleased to announce that Capstone's Board of Directors has approved a Voluntary Stock Option Exchange program ("EXCHANGE PROGRAM") in which eligible employees will have the opportunity to exchange options that have an exercise price of \$2.00 per share or more ("OLD OPTIONS") for a commitment to grant new options ("NEW OPTIONS") in the future under our 2000 Equity Incentive Plan. The offer to participate in the Exchange Program begins today.

Our Board decided to offer the Exchange Program because stock options continue to be an important component of our total compensation program, and because the Board is seeking to address the fact that most of our outstanding options have exercise prices significantly higher than the current market price of Capstone shares (that is, many options currently are "underwater"). The Exchange Program is an opportunity for you to potentially receive New Options that may have a greater potential to increase in value over time.

The main features of the Exchange Program include the following:

- **Eligible Employees:** Domestic non-executive management employees of Capstone and its subsidiaries as of June 25, 2003 are eligible for the Exchange Program. Executive management, members of the Board of Directors and consultants are not eligible. Overseas residents are also not eligible.
- **Eligible Options:** Options eligible to be tendered under the Exchange Program are all options outstanding under the Capstone Turbine Corporation 1993 Incentive Stock Plan and 2000 Equity Incentive Plan that have an exercise price of \$2.00 per share or more.
- **New Options:** Each Old Option will be replaced with a promise to grant a New Option no earlier than the first business day that is six months and one day from the date the Old Options are cancelled. We currently expect to grant the New Options on January 26, 2004 unless the offer is extended by us, in which case the New Options will be granted on the first business day that is six months and one day from the date that we cancel the Old Options. YOU WILL RECEIVE A NEW OPTION ONLY IF YOU REMAIN AN EMPLOYEE OF CAPSTONE AS OF THE DATE THE NEW OPTIONS ARE GRANTED. IF YOUR EMPLOYMENT WITH CAPSTONE TERMINATES FOR ANY REASON WHATSOEVER BEFORE THE DATE THE NEW OPTIONS ARE GRANTED (EXPECTED TO BE JANUARY 26, 2004), YOU WILL NOT RECEIVE A NEW OPTION OR ANY CONSIDERATION FOR YOUR CANCELLED OLD OPTIONS.
- **Cancelled Options:** Once your Old Option is cancelled, you will not be able to exercise your Old Option, even if you terminate employment for any reason and do not receive a New Option.
- **Exchange Terms:** New Options will be granted on a basis of one New Option for each Old Option that is cancelled. The New Options will be for the same number of shares as your Old Options, less any exercised shares. The New Options will be granted under the Capstone Turbine Corporation 2000 Equity Incentive Plan. Each New Option will be a non-statutory stock option (NSO), regardless of whether your Old Option was an incentive stock option (ISO) or an NSO. Each New Option will have a new vesting schedule as follows:
 - 12.5% of the shares subject to the New Options will be vested on January 26, 2004 (assuming that is the date we grant the New Options), and
 - 1/48 of the shares subject to the New Options will vest monthly after January 26, 2004, such that the New Options will be fully vested on the 42-month anniversary of January 26, 2004, subject to your continued employment with Capstone or one of its subsidiaries through each relevant vesting date.
- **Exercise Price of New Options:** The exercise price of the New Options will be equal to the fair market value of Capstone shares on the day we grant the New Options, expected to be January 26, 2004. "Fair

market value" is the closing price of Capstone's common stock on Nasdaq on the grant date of the New Options. This price may be higher, or lower, or the same as the exercise price of the Old Options to be cancelled. THERE IS A POSSIBILITY THAT THE EXERCISE PRICE OF THE NEW OPTIONS COULD BE HIGHER THAN THE EXERCISE PRICE OF THE OLD OPTIONS.

The Exchange Program is not a guarantee of continued employment for any period. Your employment with Capstone (or one of its subsidiaries, as applicable) remains "at will" and may be terminated at any time by either you or Capstone (or one of its subsidiaries, as applicable), with or without cause or notice, subject to the provisions of local law.

All eligible option holders who wish to participate in this Exchange Program must complete an Election Form, in the form attached, and hand deliver or fax a signed copy to Debbie Bernard at (818) 734-5381 no later than 5:00 p.m., Pacific Time, on July 24, 2003. You need to indicate your election to "accept" the exchange agreement and identify the option grant(s) being cancelled if you wish to participate.

Capstone intends to e-mail a confirmation of receipt to you within two (2) business days of receiving your Election Form. This will merely be a confirmation that we have received your Election Form; your options will not be cancelled until July 25, 2003. If you have not received such a confirmation of receipt, it is your responsibility to ensure that your Election Form has been received by us.

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IF YOUR ELECTION FORM IS RECEIVED AFTER 5:00 P.M., PACIFIC TIME, ON JULY 24, 2003 IT WILL NOT BE ACCEPTED AND YOU WILL BE CONSIDERED TO HAVE DECLINED TO ACCEPT THE EXCHANGE OFFER.

Attached to this e-mail, you are also receiving a more detailed document, entitled the Offer to Exchange Certain Outstanding Options for New Options (referred to as the "Offer to Exchange"), explaining the program in greater detail. The information contained in (1) the Offer to Exchange; (2) this letter; (3) the Election Form and (4) the Notice to Withdraw from the Offer; together constitute the entire offer and we strongly urge you to read these documents carefully and to consult your own advisors before deciding whether to participate or not.

We are separately providing to you for your review a stock report listing your current outstanding stock options. We strongly urge you to read all of these materials carefully and understand the risks associated with participating in the Exchange Program before making your decision. We also strongly encourage you to consult your legal, tax and financial advisors before making any decision about the Exchange Program. Participation by each eligible option holder is voluntary.

If you have any questions about the Exchange Program please contact Susan Cayley at (818) 734-5136 or Wade Welch at (818) 734-5555. If you would like to obtain paper copies of the documents referenced in this letter, please call Debbie Bernard at (818) 734-5431.

We have not authorized any person to make any recommendation on our behalf as to whether you should tender or not tender your options through the Exchange Offer. You should rely only on the information in this document, the documents to which we have referred you and your advisors.

We thank you for your continued dedication and contribution to Capstone.

Very truly yours,

/s/ EMILY LIGGETT

Emily Liggett
Chief Executive Officer (Interim)

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[] Please check the box if this Election Form is intended to amend and replace an Election Form that you previously submitted.

CAPSTONE TURBINE CORPORATION
VOLUNTARY STOCK OPTION EXCHANGE PROGRAM
ELECTION FORM

(USE THIS ELECTION FORM (i) TO ELECT TO PARTICIPATE IN THE STOCK OPTION EXCHANGE PROGRAM OR (ii) TO CHANGE YOUR PREVIOUS ELECTION WITH RESPECT TO PARTICULAR OPTIONS.)

To Capstone Turbine Corporation ("CAPSTONE"):

I have received Capstone's Offer to Exchange Certain Outstanding Options for New Options dated June 25, 2003 (the "OFFER"), to all non-executive management employees of Capstone (or any of its subsidiaries) who hold stock options eligible to be tendered pursuant to the Offer. By completing and submitting this Election Form in accordance with the instructions attached hereto prior to 5:00 p.m., Pacific Time, on July 24, 2003 (the "EXPIRATION DATE"), I elect to tender one or more of my options eligible to be tendered pursuant to the Offer (the "ELIGIBLE OPTIONS").

By signing below, I acknowledge that:

(a) Any Eligible Options tendered by me on this Election Form are tendered subject to the terms and conditions of the Offer, a copy of which I acknowledge having received and read in full.

(b) Capstone's acceptance for exchange of Eligible Options tendered pursuant to the Offer will constitute a binding agreement between Capstone and me upon the terms and subject to the conditions of the Offer. All authority in this Election Form will survive my death or incapacity, and all of my obligations in this Election Form will be binding upon my heirs, personal representatives, successors and assigns.

(c) If Capstone accepts my Eligible Options for exchange and cancels them, I acknowledge that I will have no right, title or interest to my tendered Eligible Option(s), and this Election Form will serve as an amendment to the option agreement(s) covering the Eligible Option(s) that I tendered and those option agreement(s) shall be void and of no further effect.

(d) I UNDERSTAND THAT I MUST BE AN EMPLOYEE OF CAPSTONE, ONE OF CAPSTONE'S SUBSIDIARIES OR A SUCCESSOR ENTITY AND OTHERWISE BE ELIGIBLE TO RECEIVE OPTION GRANTS UNDER CAPSTONE'S 2000 EQUITY INCENTIVE PLAN ON THE DATE THE NEW OPTIONS ARE GRANTED IN ORDER TO RECEIVE NEW OPTIONS. I ALSO UNDERSTAND THAT MY EMPLOYMENT RELATIONSHIP WITH CAPSTONE (OR ONE OF CAPSTONE'S SUBSIDIARIES OR A SUCCESSOR ENTITY, AS APPLICABLE) MAY BE TERMINATED AT ANY TIME BY EITHER CAPSTONE OR ME, WITH OR WITHOUT CAUSE OR NOTICE, SUBJECT TO THE LAWS OF THE COUNTRY IN WHICH I WORK AND ANY EMPLOYMENT AGREEMENT I MAY HAVE WITH CAPSTONE (OR ONE OF CAPSTONE'S SUBSIDIARIES OR A SUCCESSOR ENTITY, AS APPLICABLE).

(e) I recognize that as set forth in Section 15 of the Offer to Exchange, Capstone may terminate or amend the Offer and reject or postpone its acceptance and cancellation of any Eligible Options tendered for exchange.

(f) Capstone has advised me to consult with my own legal, financial and tax advisors before deciding whether or not to participate in the Offer.

(g) I have received and read the instructions attached to this form and, by signing this Election Form, I agree to be bound by the additional terms and conditions set forth in the instructions attached hereto.

I would like to participate in the Offer as indicated below. I have noted below the grant number, grant date, exercise price and total number of unexercised shares subject to each Eligible Option with respect to which I agree to have such Eligible Option cancelled and replaced pursuant to the terms and conditions of this Election Form and the Offer.

<TABLE>	TOTAL NUMBER OF UNEXERCISED SHARES SUBJECT TO THE OPTION (SHARES TO BE CANCELLED)		
<CAPTION>	GRANT DATE	EXERCISE PRICE	<C>
GRANT NUMBER	GRANT DATE	EXERCISE PRICE	
<S>	<C>	<C>	<C>
-----	-----	-----	-----
-----	-----	-----	-----
-----	-----	-----	-----

</TABLE>

All questions as to the number of shares subject to Eligible Options to be accepted for exchange, and the validity, form, eligibility (including time of receipt) and acceptance for exchange of any tender of Eligible Options will be determined by Capstone in its sole discretion.

I understand that any of these options that are accepted will be cancelled by Capstone unless prior to 5:00 p.m., Pacific Time, on July 24, 2003 (or a later Expiration Date if Capstone extends the Offer), (i) I submit a new Election Form or a Notice to Withdraw from the Offer that is properly completed and has a date later than the date of this Election Form or (ii) Capstone terminates the Offer.

Signature

Social Security/Social Insurance/
National ID/Tax File Number

Name (Please Print)

Date and Time

E-mail Address

Home or Work Address

THIS ELECTION FORM MUST BE RECEIVED EITHER VIA HAND DELIVERY OR FAX (E-MAIL IS NOT SUFFICIENT) BY 5:00 P.M., PACIFIC TIME, ON JULY 24, 2003 (OR IF THE OFFER IS EXTENDED, PRIOR TO THE EXTENDED EXPIRATION OF THE OFFER) BY:

CAPSTONE TURBINE CORPORATION
ATTENTION: DEBBIE BERNARD
21211 NORDHOFF STREET
CHATSWORTH, CALIFORNIA 91311
PHONE: (818) 734-5431
FAX: (818) 734-5381

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Exhibit (a) (1) (iii)

INSTRUCTIONS TO THE ELECTION FORM

FORMING PART OF THE TERMS AND CONDITIONS OF THE OFFER

1. DELIVERY OF ELECTION FORM. A properly completed and executed original of the Election Form (or a faxed copy of it), and any other documents required by the Election Form, must be received either via hand delivery or fax (e-mail is not sufficient) by 5:00 p.m., Pacific Time, on July 24, 2003 (the "EXPIRATION DATE") (or if the Offer is extended, prior to the extended expiration of the Offer) by:

Capstone Turbine Corporation
Attention: Debbie Bernard
21211 Nordhoff Street
Chatsworth, California 91311
Phone: (818) 734-5431
Fax: (818) 734-5381

THE METHOD BY WHICH YOU DELIVER ANY REQUIRED DOCUMENTS (INCLUDING THE ELECTION FORM) IS AT YOUR OPTION AND RISK, AND THE DELIVERY WILL BE DEEMED MADE ONLY WHEN ACTUALLY RECEIVED BY CAPSTONE AT THE ADDRESS OR FAX NUMBER LISTED ABOVE. IN ALL CASES, YOU SHOULD ALLOW SUFFICIENT TIME TO ENSURE TIMELY DELIVERY. WE INTEND TO E-MAIL A CONFIRMATION OF RECEIPT OF YOUR ELECTION FORM WITHIN TWO BUSINESS DAYS OF RECEIPT. IF YOU HAVE NOT RECEIVED A CONFIRMATION OF RECEIPT, IT IS YOUR RESPONSIBILITY TO ENSURE THAT YOUR ELECTION FORM HAS BEEN RECEIVED BY US.

2. CHANGE OF ELECTION / WITHDRAWALS OF TENDERED OPTIONS. You may change your election or withdraw from participation at any time before the Expiration Date. If Capstone extends the Offer beyond that time, you may change or withdraw your election until the extended expiration of the Offer. To change your election and still participate, you must deliver a new signed Election Form which is clearly dated after your previously submitted Election Form. Upon the receipt of such a new, properly signed and dated Election Form, Capstone will disregard any previously submitted Election Form. To withdraw all tendered options submitted for exchange, you must deliver a signed and dated (including the time) Notice to Withdraw from the Offer with the required information to Capstone while you still have the right to withdraw the tendered options. You may not rescind a withdrawal and you will be deemed not to have tendered any Eligible Options you have withdrawn unless you properly re-tender them before the Expiration Date by delivery of a new Election Form following the procedures described in these instructions.

Capstone will not accept any alternative, conditional or contingent tenders. All tendering option holders, by signing the Election Form (or a faxed copy of it), waive any right to receive any notice of the acceptance of their tender, except as provided for in the Offer to Exchange.

3. INADEQUATE SPACE. If the space provided in the Election Form is inadequate, the information requested by the table on the Election Form regarding the options to be tendered should be provided on a separate schedule attached to the Election Form. Print your name on the schedule, sign and date it.

4. TENDERS. If you intend to tender options through the Offer, you must complete the table on the Election Form by providing the following information for each option that you intend to tender: (i) grant number (the grant number is listed on your Personnel Option Status), (ii) grant date, (iii) exercise price, and (iv) the total number of unexercised shares subject to the option.

Capstone will not accept partial tenders of options. Accordingly, you may tender all or none of the unexercised shares subject to the eligible options you decide to tender. Please remember that only options with an exercise price of \$2.00 per share or more are eligible for exchange.

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5. SIGNATURES ON THE ELECTION FORM. If the Election Form is signed by the holder of the Eligible Options, the signature must correspond with the name as written on the face of the option agreement or agreements to which the options are subject without alteration, enlargement or any change whatsoever. IF YOUR NAME HAS BEEN LEGALLY CHANGED SINCE YOUR OPTION AGREEMENT WAS SIGNED, PLEASE SUBMIT PROOF OF THE LEGAL NAME CHANGE. If the Election Form is signed by an attorney-in-fact, or other person acting in a fiduciary or representative capacity, that person should so indicate when signing, and proper evidence satisfactory to Capstone of the authority of that person so to act must be submitted with the Election Form.

6. OTHER INFORMATION ON THE ELECTION FORM. In addition to signing the Election Form, you must print your name and indicate the date and time at which you signed it. You must also include a current e-mail address, work or home address and your identification number, such as your social security number, tax identification number or national identification number, as appropriate.

7. REQUESTS FOR ASSISTANCE OR ADDITIONAL COPIES. Questions regarding the mechanics of the Offer or requests for copies of the relevant documents should be directed to Susan Cayley, General Counsel, Capstone Turbine Corporation (telephone: (818) 734-5136; or e-mail scayley@capstoneturbine.com) or to Wade Welch, VP Finance, Capstone Turbine Corporation (telephone: (818) 734-5555; or e-mail wwelch@capstoneturbine.com). For questions regarding the legal, financial

or tax implications of the Offer, you should contact your own legal, financial and tax advisors. Copies will be furnished promptly at Capstone's expense.

8. **IRREGULARITIES.** All questions as to the number of shares subject to Eligible Options to be accepted for exchange, and the validity, form, eligibility (including time of receipt) and acceptance for exchange of any tender of options will be determined by Capstone in its sole discretion. Capstone's determinations shall be final and binding on all parties. Capstone reserves the right to reject any or all tenders of options Capstone determines not to be in proper form or the acceptance of which may, in the opinion of Capstone's counsel, be unlawful. Capstone also reserves the right to waive any of the conditions of the Offer and any defect or irregularity in the tender of any particular options, and Capstone's interpretation of the terms of the Offer (including these instructions) will be final and binding on all parties. No tender of Eligible Options will be deemed to be properly made until all defects and irregularities have been cured or waived. Unless waived, any defects or irregularities in connection with tenders must be cured within such time as Capstone shall determine. Neither Capstone nor any other person is or will be obligated to give notice of any defects or irregularities in tenders, and no person will incur any liability for failure to give any such notice.

9. **IMPORTANT TAX INFORMATION.** You should refer to Section 14 of the Offer to Exchange, which contains important U.S. federal income tax information.

10. **MISCELLANEOUS.**

A. **Data Privacy.** By accepting the Offer, you hereby explicitly and unambiguously consent to the collection, use and transfer, in electronic or other form, of your personal data as described in this document by and among, as applicable, Capstone or any of its affiliates for the exclusive purpose of implementing, administering and managing your participation in the Offer.

You understand that Capstone or any of its affiliates may hold certain personal information about you, including, but not limited to, your name, home address and telephone number, date of birth, social security number or other identification number, salary, nationality, job title, any shares of stock or directorships held in Capstone, details of all options or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding in your favor, for the purpose of implementing, administering and managing the stock option plan and this Offer ("DATA"). You understand that Data may be transferred to any third parties assisting in the implementation, administration and management of this Offer and the grant of any new options, that these recipients may be located in your country, or elsewhere, and that

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the recipient's country may have different data privacy laws and protections than in your country. You authorize the recipients to receive, possess, use, retain, record and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing your participation in the stock option plans and this Offer and Capstone or any of its affiliates may retain such information in your file. You understand that Data will be held only as long as is necessary to implement, administer and manage your participation in the stock option plans and this Offer. You understand that you may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or withdraw the consents herein by contacting in writing your local human resources representative. You understand that withdrawal of consent may affect your ability to participate in this Offer and exercise or realize benefits from the stock option plans.

B. **Acknowledgement and Waiver.** By accepting this Offer, you further acknowledge that: (i) your acceptance of the Offer is voluntary; (ii) the Offer, the Eligible Options and any new options granted to you are outside the scope of your employment contract, if any, and are not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments; (iii) the future value of the shares underlying any new options granted to you is unknown and cannot be predicted with certainty; (iv) if the shares underlying any new options granted to you do not increase in value, the new options will have no value; and (v) no claim or entitlement to compensation or damages arises from the termination of the Eligible Options or diminution in

value of any new options or shares purchased through the exercise of any new options, and you irrevocably release Capstone and any of its subsidiaries and affiliates from any such claim that may arise.

IMPORTANT: THE ELECTION FORM (OR A FAXED COPY OF IT) TOGETHER WITH ALL OTHER REQUIRED DOCUMENTS MUST BE RECEIVED IN ACCORDANCE WITH THE INSTRUCTIONS BY CAPSTONE BY 5:00 P.M., PACIFIC TIME, ON JULY 24, 2003.

Time, on the Expiration Date, or if the Offer is extended, before the extended expiration of the Offer, by the person noted on the front page of the Notice to Withdraw.

THE METHOD BY WHICH YOU DELIVER ANY REQUIRED DOCUMENTS IS AT YOUR OPTION AND RISK, AND THE DELIVERY WILL BE DEEMED MADE ONLY WHEN ACTUALLY RECEIVED BY CAPSTONE AT THE ADDRESS OR FAX NUMBER LISTED ABOVE. IN ALL CASES, YOU SHOULD ALLOW SUFFICIENT TIME TO ENSURE TIMELY DELIVERY. WE INTEND TO CONFIRM THE RECEIPT OF YOUR NOTICE TO WITHDRAW WITHIN TWO BUSINESS DAYS. IF YOU HAVE NOT RECEIVED SUCH A CONFIRMATION OF RECEIPT, IT IS YOUR RESPONSIBILITY TO ENSURE THAT YOUR NOTICE TO WITHDRAW HAS BEEN RECEIVED BY US.

Although by submitting the Notice to Withdraw, you have withdrawn your tendered options from the Offer, you may change your mind and re-accept the Offer until the Expiration Date. If the Offer is extended by Capstone beyond such time, you may tender your options at any time until the extended expiration of the Offer. To change your mind and elect to participate in the Offer, you must deliver a new signed and dated Election Form (or a faxed copy of the Election Form) with the required information to Capstone, while you still have the right to participate in the Offer. Your options will not be properly tendered for purposes of the Offer unless the withdrawn options are properly re-tendered before the Expiration Date by delivery of the new Election Form following the procedures described in the Instructions to the Election Form.

IF YOU DO NOT WISH TO WITHDRAW ALL OF YOUR TENDERED OPTIONS FROM THE OFFER, YOU SHOULD NOT FILL OUT THE NOTICE TO WITHDRAW. IF YOU WISH TO CHANGE YOUR ELECTION WITH RESPECT ONLY TO PARTICULAR OPTIONS, YOU SHOULD SUBMIT A NEW ELECTION FORM INSTEAD. To change your election regarding particular tendered options while continuing to elect to participate in the Offer, you must deliver a new signed and dated Election Form, with the required information, following the procedures described in the Instructions to the Election Form before the Expiration Date or, if the Offer is extended, before the extended expiration of the Offer. Upon the receipt of a new, properly signed and dated Election Form, any previously submitted Election Form or Notice to Withdraw will be disregarded and will be considered replaced in full by the new Election Form.

By signing the Notice to Withdraw (or a faxed copy of it), you waive any right to receive any notice of the withdrawal of the tender of your options.

2. SIGNATURES ON THE NOTICE TO WITHDRAW FROM THE OFFER. If the Notice to Withdraw is signed by the holder of the eligible options, the signature must correspond with the name as written on the face of the option agreement or agreements to which the options are subject without alteration, enlargement or any change whatsoever. IF YOUR NAME HAS BEEN LEGALLY CHANGED SINCE YOUR OPTION AGREEMENT WAS SIGNED, PLEASE SUBMIT PROOF OF THE LEGAL NAME CHANGE. If the Notice to Withdraw is signed by an attorney-in-fact or other person acting in a fiduciary or representative capacity, that person should so indicate when signing, and proper evidence satisfactory to Capstone of the authority of that person so to act must be submitted with the Notice to Withdraw.

3. OTHER INFORMATION ON THE NOTICE TO WITHDRAW FROM THE OFFER. In addition to signing the Notice to Withdraw, you must print your name and indicate the date and time at which you signed. You must also include a current e-mail address, home or work address and your identification number, such as your social security number, tax identification number or national identification number, as appropriate.

4. REQUESTS FOR ASSISTANCE OR ADDITIONAL COPIES. Questions regarding the mechanics of the Offer or requests for copies of the relevant documents should be directed to Susan Cayley, General Counsel, Capstone Turbine Corporation (telephone: (818) 734-5136; or e-mail scayley@capstoneturbine.com) or to Wade Welch, VP Finance, Capstone Turbine Corporation (telephone: (818) 734-5555; or e-mail wwelch@capstoneturbine.com). For questions regarding the legal, financial or tax implications of the Offer, you should contact your own legal, financial and tax advisors. Copies will be furnished promptly at Capstone's expense.

5. IRREGULARITIES. All questions as to the validity, form, eligibility (including time of receipt) and acceptance of the Notice to Withdraw will be determined by Capstone in its sole discretion. Capstone's determinations shall be final and binding on all parties. Capstone reserves the right to reject any or all Notices to Withdraw that Capstone determines not to be in proper form or the acceptance of which may, in the opinion of Capstone's counsel, be unlawful.

Capstone also reserves the right to waive any of the conditions of the Offer and any defect or irregularity in the Notice to Withdraw, and Capstone's interpretation of the terms of the Offer (including these instructions) will be final and binding on all parties. No Notice to Withdraw will be deemed to be properly made until all defects and irregularities have been cured or waived. Unless waived, any defects or irregularities in connection with Notices to Withdraw must be cured within the time as Capstone shall determine. Neither Capstone nor any other person is or will be obligated to give notice of any defects or irregularities in Notices to Withdraw, and no person will incur any liability for failure to give any such notice.

IMPORTANT: THE NOTICE TO WITHDRAW (OR A FAXED COPY OF IT) TOGETHER WITH ALL OTHER REQUIRED DOCUMENTS MUST BE RECEIVED BY CAPSTONE ON OR BEFORE THE EXPIRATION DATE.

CAPSTONE TURBINE CORPORATION
VOLUNTARY STOCK OPTION EXCHANGE PROGRAM
PROMISE TO GRANT STOCK OPTION(S)

In exchange for your agreement to cancel certain stock options granted by Capstone Turbine Corporation ("CAPSTONE"), Capstone hereby promises to grant you a stock option or stock options (as applicable) covering _____ shares of Capstone's common stock (as may be adjusted for stock splits, stock dividends and similar events and as provided below) no earlier than January 26, 2004 (the "NEW OPTION(S)"). The exercise price of the New Option(s) will be the closing price of Capstone's common stock as listed on the Nasdaq National Market on the date of grant of the New Option(s).

The New Option(s) will vest and become exercisable as follows:

- 12.5% of the shares subject to the New Option(s) will be vested on the grant date of the New Option(s); and
- 1/48 of the shares subject to the New Option(s) will vest monthly after the grant date of the New Option(s); such that each New Option will be fully vested on the 42-month anniversary of the grant date of the New Option(s), subject to your continued employment with Capstone or one of its subsidiaries through each relevant vesting date.

Regardless of whether your exchanged options under the 1993 Incentive Stock Plan or the 2000 Equity Incentive Plan are incentive stock options or nonstatutory stock options, your New Option(s) will be nonstatutory stock options.

The New Option(s) will otherwise be subject to:

- the standard terms and conditions under the Capstone Turbine Corporation 2000 Equity Incentive Plan; and
- a new option agreement between Capstone and you.

Prior to the grant of the New Option(s), it is possible that Capstone might be acquired by another company. This Promise to Grant Stock Option(s) is evidence of a binding commitment that Capstone's successors must honor and, accordingly, in the event of any such acquisition, the acquirer would be subject to this promise to grant you a New Option. The New Option(s) would be for the purchase of the acquirer's stock (as opposed to Capstone's), with an exercise price equal to the fair market value of such acquirer's stock on the date of grant of the New Option(s), and would be unaffected by the acquirer's treatment of Capstone's existing stock option plans. In such case, the number of shares subject to the New Option(s) would be appropriately adjusted.

In order to receive the New Option(s), you must be an employee of Capstone, one of its subsidiaries or a successor entity on the date the New Option(s) are granted. Accordingly, if you do not have an employment relationship with Capstone (or one of its subsidiaries or a successor entity, as applicable) for any reason on the date of grant of the New Option(s), you will not receive any New Option(s) or other consideration for your tendered options that have been accepted by Capstone for exchange. Your employment relationship with Capstone (or one of its subsidiaries or a successor entity, as applicable) may be terminated at any time by either you or Capstone, with or without cause or notice, subject to the laws of the country in which you work and any employment agreement you may have with Capstone (or one of its subsidiaries or a successor entity, as applicable).

This Promise to Grant Stock Option(s) is subject to the terms and conditions of the Offer to Exchange Certain Outstanding Options for New Option(s) dated June 25, 2003 and the Election Form previously completed and submitted by you to Capstone, both of which are incorporated herein by reference. These documents reflect the entire agreement between you and Capstone with respect to this transaction. This Promise to Grant Stock Option(s) may only be amended by means of a writing signed by you and a duly authorized officer of Capstone.

CAPSTONE TURBINE CORPORATION

By: _____ **Date:** _____, 2003

Name: _____

Title: _____

FORM OF E-MAIL CONFIRMATION
OF RECEIPT OF ELECTION FORM

This e-mail confirms our receipt of your Election Form, which sets forth your election to exchange one or more of your outstanding options for cancellation and regrant pursuant to our voluntary stock option exchange program. This e-mail does not serve as our formal acceptance of the options designated on your Election Form for cancellation and regrant, per the terms and conditions of the Offer to Exchange Certain Outstanding Options for New Options dated June 25, 2003 (the "Offer") previously distributed to you and filed with the SEC. A formal notice of the acceptance/rejection of your options will be sent to you promptly after the expiration of the Offer, which is currently scheduled to occur at 5:00 p.m., Pacific Time, on July 24, 2003 (the "Expiration Date").

Your election to exchange your options may be withdrawn or changed at any time prior to the Expiration Date. To withdraw your election, you must submit a Notice to Withdraw from the Offer prior to the Expiration Date per the procedures set forth in the Offer. To change your election, you must submit a new Election Form prior to the Expiration Date per the procedures set forth in the Offer.

If you have questions regarding this confirmation, contact:

*Capstone Turbine Corporation
Attention: Debbie Bernard
21211 Nordhoff Street
Chatsworth, California 91311
Phone: (818) 734-5431
Fax: (818) 734-5381*

FORM OF E-MAIL CONFIRMATION OF RECEIPT OF
NOTICE TO WITHDRAW FROM THE OFFER

This e-mail confirms our receipt of your Notice to Withdraw from the Offer pursuant to our Offer to Exchange Certain Outstanding Options for New Options dated June 25, 2003 (the "Offer") and nullifying your previously submitted Election Form.

Please note that the Notice to Withdraw from the Offer completely withdraws you from the Offer and cannot be used to make changes to your previously submitted Election Form. Please submit a new Election Form if you would like to change your election with respect to a particular option.

In addition, you may change your mind and re-accept the Offer by completing and delivering a new Election Form per the procedures set forth in the Offer prior to 5:00 p.m., Pacific Time, on July 24, 2003.

If you have questions regarding this confirmation, contact:

*Capstone Turbine Corporation
Attention: Debbie Bernard
21211 Nordhoff Street
Chatsworth, California 91311
Phone: (818) 734-5431
Fax: (818) 734-5381*

FORM OF E-MAIL REMINDER ABOUT EXPIRATION OF OFFER

This is a reminder that if you wish to exchange any of your eligible options pursuant to our Offer to Exchange Certain Outstanding Options for New Options dated June 25, 2003 (the "Offer"), you must submit your properly completed Election Form via fax or hand delivery (e-mail is not sufficient) for receipt by 5:00 p.m., Pacific Time, on July 24, 2003 (the "Expiration Date") to:

*Capstone Turbine Corporation
Attention: Debbie Bernard
21211 Nordhoff Street
Chatsworth, California 91311
Phone: (818) 734-5431
Fax: (818) 734-5381*

This is a firm deadline. If your Election Form is received after this time, it will not be accepted. We urge you to respond early to avoid any last minute problems.

If you have already submitted an Election Form, your election to exchange your options may be withdrawn or changed at any time prior to the Expiration Date. To withdraw your election, you must submit a Notice to Withdraw from the Offer prior to the Expiration Date per the procedures set forth in the Offer. To change your election, you must submit a new Election Form prior to the Expiration Date per the procedures set forth in the Offer.

FORM OF E-MAIL NOTIFICATION OF
ACCEPTANCE AND CANCELLATION OF TENDERED OPTIONS

This e-mail confirms that all options validly tendered for exchange pursuant to our Offer to Exchange Certain Outstanding Options for New Options dated June 25, 2003, were accepted and cancelled on July 25, 2003.

[CAPSTONE LOGO]

The Voluntary Employee Stock Option
Exchange Offer

June 25, 2003

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[CAPSTONE LOGO]

Overview & Purpose

What is the Voluntary Stock Option Exchange Program?

All non-executive U.S. employees can exchange option grants with exercise prices of \$2.00 per share or more, for new options to be granted no earlier than 6 months and 1 day from cancellation.

We currently expect to cancel the options on July 25th and grant the new options on January 26, 2004 unless the offer is extended by us.

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[CAPSTONE LOGO]

OVERVIEW & PURPOSE

WHY IS CAPSTONE MAKING THE OFFER?

- - WE BELIEVE THIS WILL CREATE BETTER PERFORMANCE INCENTIVES FOR EMPLOYEES AND ENHANCE STOCKHOLDER VALUE.
- - ADDRESS THE FACT THAT MOST OF OUR OUTSTANDING OPTIONS ARE UNDERWATER.
- - POTENTIALLY BRING MORE VALUE TO EMPLOYEES WITH STOCK OPTION GRANTS.

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[CAPSTONE LOGO]

OVERVIEW OF THE EXCHANGE

MAIN FEATURES

- - YOU CAN ELECT TO TENDER ANY OPTION GRANT WITH AN EXERCISE PRICE EQUAL OR GREATER THAN \$2.00 FOR EXCHANGE BETWEEN JUNE 25, 2003 AND JULY 24, 2003 (OR LONGER IF WE EXTEND THE OFFERING PERIOD).
- - THE SAME NUMBER OF NEW OPTIONS WILL BE GRANTED TO YOU NO EARLIER THAN 6 MONTHS AND 1 DAY AFTER THE CANCELLATION DATE. AGAIN, CURRENTLY WE ANTICIPATE THE NEW GRANTS TO BE ON JANUARY 26, 2004.
- - THE EXERCISE PRICE PER SHARE OF THE NEW OPTIONS WILL BE THE CLOSING PRICE OF OUR COMMON STOCK REPORTED BY NASDAQ ON THE DATE OF GRANT OF THE NEW OPTIONS.

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[CAPSTONE LOGO]

OVERVIEW OF THE EXCHANGE

Main Features -- Continued

- - As for vesting, 12.5% of the new option grants will be vested on the date you are granted the New Option and 1/48 of the new options will vest monthly over the next 42 months, subject to your continued employment.

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[CAPSTONE LOGO] Procedure to Participate

How do I participate?

1. If you choose to participate in the Exchange Offer, complete the Election Form and return it to Debbie Bernard by 5:00 p.m., Pacific Time, on July 24, 2003 (or any extended period we communicate) by fax or hand delivery. Note: email is not sufficient.
2. Robin Deyo has provided a Personnel Option Status for each of you. You can find the information required for the Election Form in Robin's summary.
3. HR will email you a confirmation of receipt of your Election Form within two business days of receipt. If you have not received a confirmation of receipt, contact HR. It is your responsibility to ensure that your Election Form has been received by us.

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[CAPSTONE LOGO] Procedure to Withdraw

How do I withdraw if I change my mind?

- - If you choose to participate in the Exchange Offer and then decide not to participate at all, you must complete the "Notice to Withdraw from the Offer Form." If you don't withdraw by July 24, 2003 (or any extension period we later communicate) your election to participate will remain effective.
- - The Notice to Withdraw must be completed and returned to Debbie Bernard by 5:00 p.m., Pacific Time, on July 24, 2003 via fax or hand delivery. Note: email is not sufficient.
- - HR will email you a confirmation of receipt of your Notice within two business days of receipt. If you have not received a confirmation of receipt, contact HR. It is your responsibility to ensure that your Notice has been received by us.

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[CAPSTONE LOGO] Procedure to Amend

How do I change my election?

1. If you choose to participate in the Exchange Offer and then change your mind regarding the grants you want to tender, you must complete a new "Election Form."
2. The completed Election Form must be returned to Debbie Bernard by 5:00 p.m., Pacific Time, on July 24, 2003 (or any extension period we communicate) via fax or hand delivery. Note: email is not sufficient.
3. HR will email you a confirmation of receipt of your Election Form within two business days of receipt. If you have not received a confirmation of receipt, contact HR. It is your responsibility to ensure that your Election Form has been received by us.

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[CAPSTONE LOGO] Example

Original Grant as of June 25, 2003

<Table>
<Caption>

Option Date	Amount Granted	Price	Exercised	Vested	Unvested	Outstanding	Exercisable
<S> February 18, 2000	<C> 2,400	<C> \$3.33	<C> 0	<C> 2,000	<C> 400	<C> 2,400	<C> 2,000

</Table>

Original Grant, No Participation in the Exchange Offer, as of Jan. 26, 2004

<Table>
<Caption>

Option Date	Amount Granted	Price	Exercised	Vested	Unvested	Outstanding	Exercisable
<S> February 18, 2000	<C> 2,400	<C> \$3.33	<C> 0	<C> 2,350	<C> 50	<C> 2,400	<C> 2,350

</Table>

New Grant with Participation in the Plan with a New Grant Date of Jan. 26, 2004

<Table>
<Caption>

Option Date	Amount Granted	Price	Exercised	Vested	Unvested	Outstanding	Exercisable
<S> January 26, 2004*	<C> 2,400	<C> CPST closing price on New Grant Date	<C> 0	<C> 300	<C> 2,100	<C> 2,400	<C> 300
*(could be extended)							

</Table>

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[CAPSTONE LOGO]

Potential Risk or Benefit

The new options may have a higher exercise price
than some or all of your current options.

OR

The new options may have a lower exercise price

than some or all of your current options.

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[CAPSTONE LOGO]

Q&A

Who is eligible to participate?

- - Anyone who is a non-executive management employee of Capstone in the United States through July 25, 2003.
- - Those who are not eligible to participate include executive management, Board members, consultants and anyone outside of the United States.

Are there any eligibility requirements that I must satisfy after my options are cancelled to receive new options?

- - You must be an employee of Capstone, one of our subsidiaries or a successor entity on the date the new options are granted, anticipated to be January 26, 2004.

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[CAPSTONE LOGO]

Q&A

If I tender options in the Offer, will I be eligible to receive other grants?

- - If we accept options you tender in the Offer, we will not grant you any other options until January 26, 2004 (that is, at least six months and one day after the Cancellation Date).

If I choose to tender an option that is eligible for exchange, do I have to tender all the shares covered by that option?

- - Yes. We are not accepting partial tenders of an option grant. You may only tender all or none of the unexercised shares covered by each option grant. However, you may tender the remaining portion of an option grant that you have partially exercised.

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[CAPSTONE LOGO]

Q&A

What will the exercise price of the new options be?

- - The exercise price per share of the new options will be the closing price of our common stock reported by the Nasdaq National Market on the date of grant of the new options. We cannot predict the exercise price of the new options. The new options may have a higher exercise price than some or all of your current options.

Will I be required to give up all my rights to the cancelled options?

-- Yes. Once we have accepted the options that you have tendered, your options will be cancelled and you will no longer have any rights under those options.

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[CAPSTONE LOGO]

Q&A

Any more questions?

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1993 Incentive Stock Plan

Form of Stock Option Agreement

IT IS UNLAWFUL TO CONSUMMATE A SALE OR TRANSFER OF THIS SECURITY OR ANY INTEREST THEREIN, OR TO RECEIVE ANY CONSIDERATION THEREFOR, WITHOUT THE PRIOR WRITTEN CONSENT OF THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA, EXCEPT AS PERMITTED IN THE COMMISSIONER'S RULES.

THE SECURITY REPRESENTED BY THIS CERTIFICATE HAS BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH SALE OR DISPOSITION MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933, AS AMENDED.

STOCK OPTION AGREEMENT

Capstone Turbine Corporation, a California corporation (the "Company"), hereby grants to ("Optionee") an option (the "Option") to purchase a total of shares of Common Stock (the "Shares"), at the price determined as provided herein, and in all respects subject to the terms, definitions and provisions of the 1993 Incentive Stock Plan (the "Plan") adopted by the Company, which is incorporated herein by reference. Unless otherwise defined herein, capitalized terms used herein shall have the meanings set forth in the Plan.

1. Nature of the Option. If Optionee is an Employee of the Company, this Option is intended to qualify as an Incentive Stock Option. If Optionee is a Consultant of the Company, this Option is a Nonstatutory Stock Option.

2. Exercise Price. The exercise price is \$ for each Share, which price is not less than the fair market value per share of Common Stock on the date of grant, as determined by the Board; provided, however, in the event Optionee is an Employee and owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of its Parent or Subsidiary corporations immediately before this Option is granted, said exercise price is not less than one hundred ten percent (110%) of the fair market value per share of Common Stock on the date of grant as determined by the Board.

3. Exercise of Options. This Option shall be exercisable during its term in accordance with the provisions of Section 8 of the Plan as follows:

(i) Right to Exercise

(a) This Option shall not become exercisable as to any of the number of the Shares until the date that is one (1) year from the date of grant of the Option (the "Anniversary Date"). On the Anniversary Date, this Option may be exercised to the extent of 25% of the Shares. Upon the expiration of each calendar month from the Anniversary Date, this Option may be exercised to the extent of the product of (a) the aggregate number of shares set forth in the first paragraph of this Agreement and (b) the fraction the numerator of which is one (1) and the denominator of which is forty-eight (48) (the "Monthly Vesting Amount"), plus the shares as to which the right to exercise the Option has previously accrued but has not been exercised; provided, however, that notwithstanding any of the above, the 25% exercisable on the Anniversary Date and the Monthly Vesting Amount with respect to any calendar month shall become exercisable only if the Employee or Consultant was an employee or consultant, as applicable, of the Company or any Subsidiary of the Company as of the Anniversary Date and the last day of such month, respectively. Any time that the Optionee is on leave or is absent from performing services for the Company shall not be counted towards the vesting provided herein.

(b) This Option may not be exercised for a fraction of a Share.

(c) In the event of Optionee's death, disability or other termination of employment, the exercisability of the Option is governed by Sections 7, 8 and 9 below, subject to the limitations contained in subsection 3(i)(d).

(d) In no event may this Option be exercised after the date of expiration of the term of this Option as set forth in Section 11 below.

(ii) Method of Exercise. This Option shall be exercisable by written notice which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised, and such other representations and agreements as to the holder's investment intent with respect to such shares of Common Stock as may be required by the Company pursuant to the provisions of the Plan. Such written notice shall be signed by Optionee and shall be delivered in person or by certified mail to the President, Secretary or Chief Financial Officer of the Company. The written notice shall be accompanied by payment of the exercise price.

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No Shares will be issued pursuant to the exercise of an Option unless such issuance and such exercise shall comply with all relevant provisions of law and the requirements of any stock exchange upon which the Shares may then be listed. Assuming such compliance, for income tax purposes the Shares shall be considered transferred to the Optionee on the date on which the Option is exercised with respect to such Shares.

(iii) Adjustments, Merger, etc. The number and class of the Shares and/or the exercise price specified in Section 2 above are subject to appropriate adjustment in the event of changes in the capital stock of the Company by reason of stock dividends, split-ups or combinations of shares, reclassifications, mergers, consolidations, reorganizations or liquidations. Subject to any required action of the stockholders of the Company, if the Company shall be the surviving corporation in any merger or consolidation, this Option (to the extent that it is still outstanding) shall pertain to and apply to the securities to which a holder of the same number of shares of Common Stock that are then subject to this Option would have been entitled. A dissolution or liquidation of the Company, or a merger or consolidation in which the Company is not the surviving corporation, will cause this Option to terminate, unless the agreement or merger or consolidation shall otherwise provide, provided that the Optionee shall, if the Board expressly authorizes, in such event have the right immediately prior to such dissolution or liquidation, or merger or consolidation, to exercise this Option in whole or part. To the extent that the foregoing adjustments relate to stock or securities of the Company, such adjustments shall be made by the Board, whose determination in that respect shall be final, binding and conclusive.

4. Optionee's Representations. By receipt of this Option, by its execution, and by its exercise in whole or in part, Optionee represents to the Company that Optionee understands that:

(i) both this Option and any Shares purchased upon its exercise are securities, the issuance by the Company of which requires compliance with federal and state securities laws;

(ii) these securities are made available to Optionee only on the condition that Optionee makes the representations contained in this Section 4 to the Company;

(iii) Optionee has made a reasonable investigation of the affairs of the Company sufficient to be well informed as to the rights and the value of these securities;

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(iv) Optionee understands that the securities have not been registered under the Securities Act of 1933, as amended (the "Act") in reliance upon one or more specific exemptions contained in the Act, which may include reliance on Rule 701 promulgated under the Act, if available, or which may depend upon (a) Optionee's bona fide investment intention in acquiring these securities; (b) Optionee's intention to hold these securities in compliance with federal and state securities laws; (c) Optionee having no present intention of selling or transferring any part thereof (recognizing that the Option is not transferable) in violation of applicable federal and state securities laws; and (d) there being certain restrictions on transfer of the Shares subject to the Option;

(v) Optionee understands that the Shares subject to this Option, in addition to other restrictions on transfer, must be held indefinitely unless subsequently registered under the Act, or unless an exemption from registration is available; that Rule 144, the usual exemption from registration, is only available after the satisfaction of certain holding periods and in the presence of a public market for the Shares; that there is no certainty that a public market for the Shares will exist, and that otherwise it will be necessary that the Shares be sold pursuant to another exemption from registration which may be difficult to satisfy; and

(vi) Optionee understands that the certificate representing the Shares will bear a legend prohibiting their transfer in the absence of their registration or the opinion of counsel for the Company that registration is not required, and a legend prohibiting their transfer without the consent of the Commissioner of Corporations of the State of California unless otherwise exempted.

5. **Method of Payment.** Payment of the purchase price shall be made by cash, check or, in the sole discretion of the Board at the time of exercise, promissory notes or other Shares of Common Stock having a fair market value on the date of surrender equal to the aggregate purchase price of the Shares being purchased.

6. **Restrictions on Exercise.** This Option may not be exercised if the issuance of such Shares upon such exercise or the method of payment of consideration for such Shares would constitute a violation of any applicable federal or state securities or other law or regulation, including any rule under Part 207 of Title 12 of the Code of Federal Regulations (Regulation G) as promulgated by the Federal Reserve Board. As a condition to the exercise of this Option, the Company may require

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Optionee to make any representation and warranty to the Company as may be required by any applicable law or regulation.

7. **Termination of Status as an Employee or Consultant.** In the event of termination of Optionee's Continuous Status as an Employee or Consultant for any reason other than death or disability, Optionee may, but only within 30 (30) days after the date of such termination (but in no event later than the date of expiration of the term of this Option as set forth in Section 11 below), exercise this Option to the extent that Optionee was entitled to exercise it at the date of such termination. To the extent that Optionee was not entitled to exercise this Option at the date of such termination, or if Optionee does not exercise this Option within the time specified herein, this Option shall terminate.

8. **Disability of Optionee.** In the event of termination of Optionee's Continuous Status as an Employee or Consultant as a result of Optionee's disability, Optionee may, but only within six (6) months from the date of termination of employment or consulting relationship (but in no event later than the date of expiration of the term of this Option as set forth in Section 11 below), exercise this Option to the extent Optionee was entitled to exercise it at the date of such termination; provided, however that if the disability is not total and permanent (as defined in Section 22(e)(3) of the Code) and the Optionee exercises the option within the period provided above but more than three months after the date of termination, this Option shall automatically be deemed to be a Nonstatutory Stock Option and not an Incentive Stock Option; and provided, further, that if the disability is total and permanent (as defined in Section 22(e)(3) of the Code), then the Optionee may, but only within one (1) year from the date of termination of employment or consulting relationship (but in no event later than the date of expiration of the term of this Option as set forth in Section 11 below), exercise this Option to the extent Optionee was entitled to exercise it at the date of such termination. To the extent that Optionee was not entitled to exercise this Option at the date of termination, or if Optionee does not exercise such Option (which Optionee was entitled to exercise) within the time periods specified herein, this Option shall terminate.

9. **Death of Optionee.** In the event of the death of Optionee:

(i) during the term of this Option while an Employee or Consultant of the Company and having been in Continuous Status as an Employee or

Consultant since the date of grant of this Option, this Option may be exercised, at any time within one (1) year following the date of death (but, in the case of an

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Incentive Stock Option, in no event later than the date of expiration of the term of this Option as set forth in Section 11 below), by Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the time of death of the Optionee. To the extent that such Employee or Consultant was not entitled to exercise the Option at the date of death, or if such Employee, Consultant, estate or other person does not exercise such Option (which such Employee, Consultant, estate or person was entitled to exercise) within the one (1) year time period specified herein, the Option shall terminate; or

(ii) during the thirty (30) day period specified in Section 7 or the one (1) year period specified in Section 8, after the termination of Optionee's Continuous Status as an Employee or Consultant, this Option may be exercised, at any time within one (1) year following the date of death (but, in the case of an Incentive Stock Option, in no event later than the date of expiration of the term of this Option as set forth in Section 11 below), by Optionee's estate or by a person who acquired the right to exercise this Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the date of termination. To the extent that such Employee or Consultant was not entitled to exercise this Option at the date of death, or if such Employee, Consultant, estate or other person does not exercise such Option (which such Employee, Consultant, estate or person was entitled to exercise) within the one (1) year time period specified herein, this Option shall terminate.

10. *Non-Transferability of Option.* This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee, only by Optionee. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of Optionee.

11. *Term of Option.* This Option may not be exercised more than ten (10) years from the date of grant of this Option, and may be exercised during such term only in accordance with the Plan and terms of this Option; provided, however, that the term option, if it is a Nonstatutory Stock Option, may be extended for the period set forth in Section 9(i) or Section 9(ii) in the circumstances set forth in such Section.

12. *Early Disposition of Stock; Taxation Upon Exercise of Option.* If Optionee is an Employee, Optionee understands that, if Optionee disposes of any Shares received under this Option within two (2) years after the date of this Agreement or within one (1) year after such Shares were transferred to Optionee,

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Optionee will be treated for federal income tax purposes as having received ordinary income at the time of such disposition in any amount generally measured as the difference between the price paid for the Shares and the lower of the fair market value of the Shares at the date of exercise or the fair market value of the Shares at the exercise or the fair market value of the Shares at the of disposition. Any gain recognized on such premature sale of the Shares in excess of the amount treated as ordinary income will be characterized as capital gain. Optionee hereby agrees to notify the Company in writing within thirty (30) days after the date of any such disposition. Optionee understands that if Optionee disposes of such Shares at any time after the expiration of such two-year and one-year holding periods, any gain on such sale will be treated as long-term capital gain. If Optionee is a Consultant, Optionee understands that, upon exercise of this Option, Optionee will recognize income for tax purposes in an amount equal to the excess of the then fair market value of the Shares over the exercise price. Upon a resale of such shares by the Optionee, any difference between the sale price and the fair market value of the Shares on the date of exercise of the Option will be treated as capital gain or loss. Optionee understands that the Company will be required to withhold tax from Optionee's current compensation in some of the circumstances described above; to the extent that Optionee's current compensation is insufficient to satisfy the withholding tax liability, the Company may require the Optionee to make a cash payment to cover such liability as a condition to exercise of this Option.

13. *Tax Consequences.* The Optionee understands that any of the foregoing

references to taxation are based on federal income tax laws and regulations now in effect. The Optionee has reviewed with the Optionee's own tax advisors the federal, state, local and foreign tax consequences of the transactions contemplated by this Agreement. The Optionee is relying solely on such advisors and not on any statements or representations of the Company or any of its agents. The Optionee understands that the Optionee (and not the Company) shall be responsible for the Optionee's own tax liability that may arise as a result of the transactions contemplated by this Agreement.

14. *Severability; Construction.* In the event that any provision in this Option shall be invalid or unenforceable, such provision shall be severable from, and such invalidity or unenforceability shall not be construed to have any effect on, the remaining provisions of this Option. This Option shall be construed as to its fair meaning and not for or against either party.

15. *Damages.* The parties agree that any violation of this Option (other than a default in the payment of money) cannot be

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compensated for by damages, and any aggrieved party shall have the right, and is hereby granted the privilege, of obtaining specific performance of this Option in any court of competent jurisdiction in the event of any breach hereunder.

16. *Governing Law.* This Option shall be deemed to be made under and governed by and construed in accordance with the laws of the State of California.

17. *Delay.* No delay or failure on the part of the Company or the Optionee in the exercise of any right, power or remedy shall operate as a waiver thereof, nor shall any single or partial exercise by any of them of any right, power or remedy preclude other or further exercise thereof, or the exercise of any other right, power or remedy.

18. *Restrictions.* Notwithstanding anything herein to the contrary, Optionee understands and agrees that Optionee shall not dispose of any of the Shares, whether by sale, exchange, assignment, transfer, gift, devise, bequest, mortgage, pledge, encumbrance or otherwise, except in accordance with the terms and conditions of this Section 18, and Optionee shall not take or omit any action which will impair the absolute and unrestricted right, power, authority and capacity of Optionee to sell Shares in accordance with the terms and conditions hereof.

Any purported transfer of Shares by Optionee that violates any provision of this Section 18 shall be wholly void and ineffectual and shall give to the Company or its designee the right to purchase from Optionee all but not less than all of the Shares then owned by Optionee for a period of 90 days from the date the Company first learns of the purported transfer at the Agreement Price and on the Agreement Terms (as those terms are defined in subsections (b) (3) and (b) (4), respectively, of this Section 18). If the Shares are not purchased by the Company or its designee, the purported transfer thereof shall remain void and ineffectual and they shall continue to be subject to this Agreement.

The Company shall not cause or permit the transfer of any Shares to be made on its books except in accordance with the terms hereof.

(a) (1). *Permitted Transfers.*

(i) Optionee may sell, assign or transfer any Shares held by the Optionee but only by complying with the provisions of subsection (b) (1) of this Section 18.

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(ii) Optionee may sell, assign or transfer any Shares held by the Optionee without complying with the provisions of subsection (b) (1) by obtaining the prior written consent of the Company's shareholders owning 50% of the then issued and outstanding shares of the Company's Common Stock (determined on a fully diluted basis) or a majority of the members of the Board of Directors of the Company, provided that the transferee agrees in writing to be bound by the provisions of this Option and the transfer is made in accordance with any other restrictions or conditions contained in the written consent and in accordance with applicable federal and state securities laws.

(iii) Upon the death of Optionee, Shares held by the Optionee may be transferred to the personal representative of the Optionee's estate without complying with the provisions of subsection (b) (1). Shares so transferred shall be subject to the other provisions of this Option, including in particular subsection (b) (2).

(a) (2). No Pledge. Unless a majority of the members of the Board of Directors consent, Shares may not be pledged, mortgaged or otherwise encumbered to secure indebtedness for money borrowed or any other obligation for which the Optionee is primarily or secondarily liable.

(a) (3). Stock Certificate Legend. Each stock certificate for Shares issued to the Optionee shall have conspicuously written, printed, typed or stamped upon the face thereof, or upon the reverse thereof with a conspicuous reference on the face thereof, one or both of the following legend:

(i) THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ISSUED WITHOUT REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE TRANSFERRED IN THE ABSENCE OF REGISTRATION THEREUNDER OR AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT. SUCH SHARES MAY NOT BE SOLD, ASSIGNED, TRANSFERRED, OR OTHERWISE DISPOSED OF IN ANY MANNER EXCEPT IN ACCORDANCE WITH AND SUBJECT TO THE TERMS OF THE STOCK OPTION AGREEMENT, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY. UNLESS A MAJORITY OF THE MEMBERS OF THE BOARD OF DIRECTORS CONSENT, SUCH STOCK OPTION AGREEMENT PROHIBITS ANY PLEDGE, MORTGAGE OR OTHER ENCUMBRANCE OF SUCH SHARES TO SECURE ANY OBLIGATION OF THE HOLDER HEREOF. EVERY CREDITOR OF THE HOLDER HEREOF AND ANY PERSON ACQUIRING OR PURPORTING TO ACQUIRE THIS CERTIFICATE OR THE SHARES HEREBY EVIDENCED OR ANY INTEREST THEREIN IS HEREBY NOTIFIED OF THE EXISTENCE OF SUCH STOCK OPTION AGREEMENT, AND ANY ACQUISITION OR PURPORTED ACQUISITION OF THIS CERTIFICATE OR THE SHARES HEREBY EVIDENCED OR ANY INTEREST THEREIN SHALL BE SUBJECT TO ALL RIGHTS

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AND OBLIGATIONS OF THE PARTIES TO SUCH STOCK OPTION AGREEMENT AS THEREIN SET FORTH.

(ii) IT IS UNLAWFUL TO CONSUMMATE A SALE OR TRANSFER OF THIS SECURITY, OR ANY INTEREST THEREIN, OR TO RECEIVE ANY CONSIDERATION THEREFOR, WITHOUT THE PRIOR WRITTEN CONSENT OF THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA, EXCEPT AS PERMITTED IN THE COMMISSIONER'S RULES.

(b) (1). Sales of Shares.

(i) Company's Right of First Refusal. In the event that the Optionee shall desire to sell, assign or transfer any Shares held by the Optionee to any other person (the "Offered Shares") and shall be in receipt of a bona fide offer to purchase the Offered Shares ("Offer"), the following procedure shall apply. The Optionee shall give to the Company written notice containing the terms and conditions of the Offer, including, but not limited to (a) the number of Offered Shares; (b) the price per Share; (c) the method of payment; and (d) the name(s) of the proposed purchaser(s).

An offer shall not be deemed bona fide unless the Optionee has informed the prospective purchaser of the Optionee's obligation under this Option and the prospective purchaser has agreed to become a party hereunder and to be bound hereby. The Company is entitled to take such steps as it reasonably may deem necessary to determine the validity and bona fide nature of the Offer.

Until 30 days after such notice is given, the Company or its designee shall have the right to purchase all of the Offered Shares at the price offered by the prospective purchaser and specified in such notice. Such purchase shall be on the Agreement Terms, as defined in subsection (b) (4).

(ii) Failure of Company or its Designee to Purchase Offered Shares. If all of the Offered Shares are not purchased by the Company and/or its designee within the 30-day period granted for such purchases, then any remaining Offered Shares may be sold, assigned or transferred pursuant to the Offer; provided, that the Offered Shares are so transferred within 30 days of the expiration of the 30-day period to the person or persons named in, and under the terms and conditions of, the bona fide Offer described in the notice to the Company; and provided further, that such persons agree to execute and deliver to the Company a written agreement, in form and content satisfactory to

the Company, agreeing to be bound by the terms and conditions of this Option.

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(b) (2). Manner of Exercise.

Any right to purchase hereunder shall be exercised by giving written notice of election to the Optionee, the Optionee's personal representative or any other selling person, as the case may be, prior to the expiration of such right to purchase.

(b) (3). Agreement Price.

The "Agreement Price" shall be the higher of (A) the fair market value of the Shares to be purchased determined in good faith by the Board of Directors of the Company and (B) the original exercise price of the Shares to be purchased.

(b) (4). Agreement Terms. "Agreement Terms" shall mean and include the following:

(i) Delivery of Shares and Closing Date. At the closing, the Optionee, the Optionee's personal representative or such other selling person, as the case may be, shall deliver certificates representing the Shares, properly endorsed for transfer, and with the necessary documentary and transfer tax stamps, if any, affixed, to the purchaser of such Shares. Payment of the purchase price therefor shall concurrently be made to the Optionee, the Optionee's personal representative or such other selling person, as provided in subsection (ii) of this subsection (b) (4). Such delivery and payment shall be made at the principal office of the Company or at such other place as the parties mutually agree.

(ii) Payment of Purchase Price. The Company shall pay the purchase price to the Optionee at the closing.

(b) (5). Right to Purchase Upon Certain Other Events.

The Company or its designee shall have the right to purchase all, but not less than all, of the Shares held by the Optionee at the Agreement Price and on the Agreement Terms for a period of 90 days after any of the following events:

(i) An attempt by a creditor to levy upon or sell any of the Optionee's Shares;

(ii) the filing of a petition by the Optionee under the U.S. Bankruptcy Code or any insolvency laws;

(iii) the filing of a petition against Optionee under any insolvency or bankruptcy laws by any creditor of the Optionee if such petition is not dismissed within 30 days of filing;

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(iv) the entry of a decree of divorce between the Optionee and the Optionee's spouse; or

(v) the termination of Optionee's services as an employee or consultant with the Company.

The Optionee shall provide the Company written notice of the occurrence of any such event within 30 days of such event.

(c) (1). Termination. The provisions of this Section 18 shall terminate and all rights of each such party hereunder shall cease except for those which shall have theretofore accrued upon the occurrence of any of the following events:

(i) Cessation of the Company's business;

(ii) bankruptcy, receivership or dissolution of the Company;

(iii) ownership of all of the issued and outstanding shares of the Company by a single shareholder of the Company;

(iv) written consent or agreement of the shareholders of the Company holding 50% of the then issued and outstanding shares of the Company (determined on a fully diluted basis);

(v) consent or agreement of a majority of the members of the Board of Directors of the Company; or

(vi) registration of any class of equity securities of the Company pursuant to Section 12 of the Securities Exchange Act of 1934, as amended.

(c) (2). Amendment. This Section 18 may be modified or amended in whole or in part by a written instrument signed by shareholders of the Company holding 50% of the outstanding shares of Common Stock (determined on a fully diluted basis) or a majority of the members of the Board of Directors of the Company.

19. Market Standoff. Unless the Board of Directors otherwise consents, each Optionee agrees hereby not to sell or otherwise transfer any Shares or other securities of the Company during the 180-day period following the effective date of a registration statement of the Company filed under the Act; provided, however, that such restriction shall apply only to the first two registration statements of the Company to become

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effective under the Act which includes securities to be sold on behalf of the Company to the public in an underwritten public offering under the Act. The Company may impose stop-transfer instructions with respect to securities subject to the foregoing restrictions until the end of such 180-day period.

20. Complete Agreement. This Agreement constitutes the entire agreement between the parties with respect to its subject matter, and supersedes all other prior or contemporaneous agreements and understandings both oral or written. This Agreement may only be amended in a writing signed by the Company and the Optionee.

21. Department of Corporations Rule. The Optionee hereby acknowledges receipt of a copy of Section 260.141.11 of the Rules of the California Corporations Commissioner, a copy of which is attached as Exhibit A hereto.

DATE OF GRANT: _____

CAPSTONE TURBINE CORPORATION

By:

Name: Jeffrey R. Watts
Title: Chief Executive Officer

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OPTIONEE ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO SECTION 3 HEREOF IS EARNED ONLY BY CONTINUING SERVICE AS AN EMPLOYEE OR CONSULTANT AT THE WILL OF THE COMPANY (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS OPTION OR ACQUIRING SHARES HEREUNDER). OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT THIS OPTION, THE COMPANY'S PLAN WHICH IS INCORPORATED HEREIN BY REFERENCE, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS AN EMPLOYEE OR CONSULTANT FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE WITH OPTIONEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE OPTIONEE'S EMPLOYMENT OR CONSULTING RELATIONSHIP AT ANY TIME, WITH OR WITHOUT CAUSE.

Optionee acknowledges receipt of a copy of the Plan, a copy of which is annexed hereto, represents that Optionee is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. Optionee has reviewed the Plan and this Option in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option and fully understands all provisions of this Option.

Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Board or of the Committee upon any questions arising under the Plan.

Dated:

Optionee

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Consent of Spouse

The undersigned spouse of the Optionee to the foregoing Stock Option Agreement acknowledges on his or her own behalf that: I have read the foregoing Stock Option Agreement and I know its contents. I hereby consent to and approve of the provisions of the Stock Option Agreement, and agree that the Shares issued upon exercise of the options covered thereby and my interest in them are subject to the provisions of the Stock Option Agreement and that I will take no action at any time to hinder operation of the Stock Option Agreement on those Shares or my interest in them.

Signature of Spouse

Address

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EXHIBIT A

SECTION 260.141.11
TITLE 10, CALIFORNIA ADMINISTRATIVE CODE

260.141.11 RESTRICTION on Transfer. (a) The issuer of any security upon which a restriction on transfer has been imposed pursuant to Sections 260.102.6, 260.141.10 or 260.534 shall cause a copy of this section to be delivered to each issuee or transferee of such security at the time the certificate evidencing the security is delivered to the issuee or transferee.

(b) It is unlawful for the holder of any such security to consummate a sale or transfer of such security, or any interest therein, without the prior written consent of the Commissioner (until this condition is removed pursuant to Section 260.141.12 of these rules), except:

(1) to the issuer;

(2) pursuant to the order of process of any court;

(3) to any person described in Subdivision (i) of Section 25102 of the Code or Section 260.105.14 of these rules;

(4) to the transferor's ancestors, descendants or spouse, or any custodian or trustee for the account of the transferor or the transferor's ancestors, descendants, or spouse; or to a transferee by a trustee or custodian for the account of the transferee or the transferee's ancestors, descendants or spouse;

(5) to holders of securities of the same class of the same issuer;

(6) by way of gift or donation inter vivos or on death;

(7) by or through a broker-dealer licensed under the Code (either acting as such or as a finder) to a resident of a foreign state, territory or country who is neither domiciled in this state to the knowledge of the broker-dealer, nor actually present in this state if the sale of such securities is not in violation of any securities law of the foreign state, territory or country concerned;

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(8) to a broker-dealer licensed under the Code in a principal transaction, or as an underwriter or member of an underwriting syndicate or selling group;

(9) if the interest sold or transferred is a pledge or other lien given by the purchaser to the seller upon a sale of the security for which the Commissioner's written consent is obtained or under this rule not required;

(10) by way of a sale qualified under Sections 25111, 25112, 25113 or 25121 of the Code, of the securities to be transferred, provided that no order under Section 25140 or Subdivision (a) of Section 25143 is in effect with respect to such qualification;

(11) by a corporation to a wholly owned subsidiary of such corporation, or by a wholly owned subsidiary of a corporation to such corporation;

(12) by way of an exchange qualified under Section 25111, 25112 or 25113 of the Code, provided that no order under Section 25140 or Subdivision (a) of Section 25143 is in effect with respect to such qualification;

(13) between residents of foreign states, territories or counties who are neither domiciled nor actually present in this state;

(14) to the State Controller pursuant to the Unclaimed Property Law or to the administrator of the unclaimed property law of another state; or

(15) by the State Controller pursuant to the Unclaimed Property Law or by the administrator of the unclaimed property law of another state if, in either such case, such person (i) discloses to potential purchasers at the sale that transfer of the securities is restricted under this rule, (ii) delivers to each purchaser a copy of this rule, and (iii) advises the Commissioner of the name of each purchaser;

(16) by a trustee to a successor trustee when such transfer does not involve a change in the beneficial ownership of the securities;

(17) by way of an offer and sale of outstanding securities in an issuer transaction that is subject to the qualification requirement of Section 25110 of the Code but exempt from that qualification requirement by subdivision (f) of Section 25102;

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provided that any such transfer is on the condition that any certificate evidencing the security issued to such transferee shall contain the legend required by this section.

(c) The certificates representing all such securities subject to such restriction on transfer, whether upon initial issuance or upon any transfer thereof, shall bear on their face a legend, prominently stamped or printed thereon in capital letters of not less than 10-point size, reading as follows:

"IT IS UNLAWFUL TO CONSUMMATE A SALE OR TRANSFER OF THIS SECURITY, OR ANY INTEREST THEREIN, OR TO RECEIVE ANY CONSIDERATION THEREFOR, WITHOUT THE PRIOR WRITTEN CONSENT OF THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA, EXCEPT AS

PERMITTED IN THE COMMISSIONER'S RULES."

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CAPSTONE TURBINE CORPORATION
 AMENDED AND RESTATED 2000 EQUITY INCENTIVE PLAN
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 CAPSTONE TURBINE CORPORATION
 AMENDED AND RESTATED 2000 EQUITY INCENTIVE PLAN

1. *Purposes of the Plan.* The purposes of the Capstone Turbine Corporation Amended and Restated 2000 Equity Incentive Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to Employees, Directors and Consultants and to promote the success of the Company's business. Options granted under the Plan may be Incentive Stock Options or Non-Qualified Stock Options, as determined by the Administrator at the time of grant. Stock Purchase Rights and Stock Bonuses may also be granted under the Plan.

2. *Definitions.* As used herein, the following definitions shall apply:

(a) "Acquisition" means (i) any consolidation or merger of the Company with or into any other corporation or other entity or person in which the stockholders of the Company prior to such consolidation or merger own less than fifty percent (50%) of the Company's voting power immediately after such consolidation or merger, excluding any consolidation or merger effected exclusively to change the domicile of the Company; or (ii) a sale of all or substantially all of the assets of the Company.

(b) "Administrator" means the Board or the Committee responsible for conducting the general administration of the Plan, as applicable, in accordance with Section 4 hereof.

(c) "Applicable Laws" means the requirements relating to the administration of stock option plans under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where Options, Stock Purchase Rights or Stock Bonuses are granted under the Plan.

(d) "Board" means the Board of Directors of the Company.

(e) "Cause" means (i) with respect to a Holder who is an Employee, and whose employment contract expressly provides for termination of such Holder in certain specified circumstances constituting "cause", those circumstances that constitute "cause" under such Holder's employment contract; (ii) with respect to a Holder who is an Employee, but who does not have an employment contract or whose employment contract does not expressly provide for termination of such Holder in certain specified circumstances constituting "cause", (A) the commission of any act by such Holder involving fraud, embezzlement or a felony, (B) the commission of any act by such Holder constituting financial dishonesty against the Company or its Parent or any of its Subsidiaries, (C) repeated and gross dereliction of duty to the Company or its Parent or any of its Subsidiaries to which such Holder's duties extend, (D) an act involving moral turpitude which (1) brings the Company or its Parent or any of its Subsidiaries into public disrepute or disgrace, or (2) causes material injury to the customer relations, operations or the business prospects of the Company or its Parent or any of its Subsidiaries, (E) the breach by such Holder of any of such Holder's obligations under such Holder's employee or employment agreement with the Company or its Parent or any of its Subsidiaries, or (F) the refusal or failure of such Holder to follow the lawful directives of the Board, the President and Chief Executive Officer of the Company or his designee or such Holder's supervisor; and (iii) with respect to a Holder who is a Director, (A) the commission of any act by such Holder involving fraud, embezzlement or a felony, (B) the commission of any act by such Holder constituting financial dishonesty against the Company or its Parent or any of its Subsidiaries, (C) repeated and gross dereliction of duty to the Company or its Parent or any of its Subsidiaries to which such Holder's duties extend, (D) an act involving moral turpitude which (1) brings the Company or its Parent or any of its Subsidiaries into public disrepute or disgrace, or (2) causes material injury to the customer relations, operations or the business prospects of the Company or its Parent or any of its Subsidiaries.

(f) "Code" means the Internal Revenue Code of 1986, as amended, or any successor statute or statutes thereto. Reference to any particular Code section shall include any successor section.

(g) "Committee" means a committee appointed by the Board in accordance with Section 4 hereof.

(h) "Common Stock" means the Common Stock of the Company, par value \$0.001 per share.

(i) "Company" means Capstone Turbine Corporation, a Delaware corporation.

(j) "Consultant" means any consultant or adviser if: (i) the consultant or adviser renders bona fide services to the Company; (ii) the services rendered by the consultant or adviser are not in connection with the offer or sale of securities in a capital-raising transaction and do not directly or indirectly promote or maintain a market for the Company's securities; and (iii) the consultant or adviser is a natural person who has contracted directly with the Company to render such services.

(k) "Director" means a member of the Board.

(l) "Employee" means any person, including an Officer or Director, who is an employee (as defined in accordance with Section 3401(c) of the Code) of the Company or any Parent or Subsidiary of the Company. A Service Provider shall not cease to be an Employee in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, its Parent, any Subsidiary, or any successor. For purposes of Incentive Stock Options, no such leave may exceed ninety (90) days, unless reemployment upon expiration of such leave is guaranteed by statute or contract. Neither service as a Director nor payment of a director's fee by the Company

shall be sufficient, by itself, to constitute "employment" by the Company.

(m) "Exchange Act" means the Securities Exchange Act of 1934, as amended, or any successor statute or statutes thereto. Reference to any particular Exchange Act section shall include any successor section.

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(n) "Fair Market Value" means, as of any date, the value of a share of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including, without limitation, the Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for a share of such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system for the last market trading day prior to the time of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the high bid and low asked prices for a share of the Common Stock on the last market trading day prior to the day of determination; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Administrator.

(o) "Holder" means a person who has been granted or awarded an Option or Stock Purchase Right or who holds Shares acquired pursuant to the exercise of an Option or Stock Purchase Right or pursuant to a Stock Bonus.

(p) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and which is designated as an Incentive Stock Option by the Administrator.

(q) "Independent Director" means a Director who is not an Employee of the Company.

(r) "Non-Qualified Stock Option" means an Option (or portion thereof) that is not designated as an Incentive Stock Option by the Administrator, or which is designated as an Incentive Stock Option by the Administrator but fails to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(s) "Officer" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(t) "Option" means a stock option granted pursuant to the Plan.

(u) "Option Agreement" means a written agreement between the Company and a Holder evidencing the terms and conditions of an individual Option grant. The Option Agreement is subject to the terms and conditions of the Plan.

(v) "Option Exchange Program" means a program whereby outstanding Options are surrendered or cancelled in exchange for Options of the same type (which may have a lower exercise price or purchase price), of a different type and/or cash.

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(w) "Parent" means any corporation, whether now or hereafter existing (other than the Company), in an unbroken chain of corporations ending with the Company if each of the corporations other than the last corporation in the unbroken chain owns stock possessing more than fifty percent of the total combined voting power of all classes of stock in one of the other corporations in such chain.

(x) "Plan" means the Capstone Turbine Corporation Amended and Restated 2000 Equity Incentive Plan.

(y) "Public Trading Date" means the first date upon which Common Stock of the Company is listed (or approved for listing) upon notice of issuance on any securities exchange or designated (or approved for designation) upon notice of issuance as a national market security on an interdealer quotation system.

(z) "Restricted Stock" means Shares acquired pursuant to the exercise of an unvested Option in accordance with Section 10(h) below or pursuant to a Stock Purchase Right granted under Section 14 below.

(aa) "Rule 16b-3" means that certain Rule 16b-3 under the Exchange Act, as such Rule may be amended from time to time.

(bb) "Section 16(b)" means Section 16(b) of the Exchange Act, as such Section may be amended from time to time.

(cc) "Securities Act" means the Securities Act of 1933, as amended, or any successor statute or statutes thereto. Reference to any particular Securities Act section shall include any successor section.

(dd) "Service Provider" means an Employee, Director or Consultant.

(ee) "Share" means a share of Common Stock, as adjusted in accordance with Section 15 below.

(ff) "Stock Bonus" means a grant of Common Stock granted pursuant to Section 14(e) of the Plan.

(gg) "Stock Purchase Right" means a right to purchase Common Stock pursuant to Section 14 below or the right to receive a bonus of Common Stock for past services.

(hh) "Subsidiary" means any corporation, whether now or hereafter existing (other than the Company), in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain owns stock possessing more than fifty percent of the total combined voting power of all classes of stock in one of the other corporations in such chain.

3. Stock Subject to the Plan. Subject to the provisions of Section 15 of the Plan, the shares of stock subject to Options, Stock Purchase Rights or Stock Bonuses shall be Common Stock, initially shares of the Company's Common Stock, par value \$0.001 per share. Subject to

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the provisions of Section 15 of the Plan, the maximum aggregate number of Shares which may be issued upon exercise of such Options or Stock Purchase Rights or pursuant to such Stock Bonuses is six million two hundred thousand (6,200,000) Shares, plus the number of Shares previously authorized and remaining available under the Company's 1993 Stock Incentive Plan, as amended, as of the Public Trading Date, plus any Shares covered by options granted under the Company's 1993 Stock Incentive Plan that are forfeited or expire unexercised or otherwise become available after the Public Trading Date; provided, however, that the maximum aggregate number of Shares which may be issued upon exercise of Incentive Stock Options is three million seven hundred thousand (3,700,000) Shares. Shares issued upon exercise of Options or Stock Purchase Rights or pursuant to Stock Bonuses may be authorized but unissued, or reacquired Common Stock. If an Option or Stock Purchase Right expires or becomes unexercisable without having been exercised in full, or is surrendered pursuant to an Option Exchange Program, the unpurchased Shares which were subject thereto shall become available for future grant or sale under the Plan (unless the Plan has terminated). Shares which are delivered by the Holder or withheld by the Company upon the exercise of an Option or Stock Purchase Right or in respect of a Stock Bonus under the Plan, in payment of the exercise price thereof or tax withholding thereon, may again be optioned, granted or awarded hereunder, subject to the limitations of this Section 3. If Shares of Restricted Stock are repurchased by the Company at their original purchase price, such Shares shall become available for future grant under the Plan. Notwithstanding the provisions of this Section 3, no Shares may again be optioned, granted or awarded if such action would cause an Incentive Stock Option to fail to qualify as an Incentive Stock Option under Code Section 422.

4. Administration of the Plan.

(a) Administrator. Unless and until the Board delegates administration to a Committee as set forth below, the Plan shall be administered by the Board. The Board may delegate administration of the Plan to a Committee or Committees of one or more members of the Board, and the term "Committee" shall apply to any person or persons to whom such authority has been delegated. If administration is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board, including the power to delegate to a subcommittee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board shall thereafter be to the Committee or subcommittee), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. Notwithstanding the foregoing, however, from and after the Public Trading Date, a Committee of the Board shall administer the Plan and the Committee shall consist solely of two or more Independent Directors each of whom is both an "outside director," within the meaning of Section 162(m) of the Code, and a "non-employee director" within the meaning of Rule 16b-3. Within the scope of such authority, the Board or the Committee may (i) delegate to a committee of one or more members of the Board who are not Independent Directors the authority to grant awards under the Plan to eligible persons who are either (1) not then "covered employees," within the meaning of Section 162(m) of the Code and are not expected to be "covered employees" at the time of recognition of income resulting from such award or (2) not persons with respect to whom the Company wishes to comply with Section 162(m) of the Code and/or (ii) delegate to a committee of one or more members of the Board who are not "non-employee directors," within the meaning of Rule 16b-3, the authority to grant awards under the Plan to eligible persons who are not then subject to

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Section 16 of the Exchange Act. The Board may abolish the Committee at any time and revert in the Board the administration of the Plan. Appointment of Committee members shall be effective upon acceptance of appointment. Committee members may resign at any time by delivering written notice to the Board. Vacancies in the Committee may only be filled by the Board.

(b) Powers of the Administrator. Subject to the provisions of the Plan and the specific duties delegated by the Board to such Committee, and subject to the approval of any relevant authorities, the Administrator shall have the authority in its sole discretion:

(i) to determine the Fair Market Value;

(ii) to select the Service Providers to whom Options, Stock Purchase Rights, and Stock Bonuses may from time to time be granted hereunder;

(iii) to determine the number of Shares to be covered by each such award granted hereunder;

(iv) to approve forms of agreement for use under the Plan;

(v) to determine the terms and conditions of any award granted hereunder (such terms and conditions include, but are not limited to, the exercise price, the time or times when Options or Stock Purchase Rights may vest or be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any award granted hereunder or the Common Stock relating thereto, based in each case on such factors as the Administrator, in its sole discretion, shall determine);

(vi) to reduce the exercise price of any Option or Stock Purchase Right to the then current Fair Market Value if the Fair Market Value of the Common Stock covered by such Option or Stock Purchase Right shall have declined since the date the Option or Stock Purchase Right was granted;

(vii) to institute an Option Exchange Program;

(viii) to determine whether to offer to buyout a previously granted Option as provided in subsection 10(i) and to determine the terms and conditions of such offer and buyout (including whether payment is to be made in

cash or Shares);

(ix) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of qualifying for preferred tax treatment under foreign tax laws;

(x) to allow Holders to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Option or Stock Purchase Right or pursuant to a Stock Bonus that number of Shares having a Fair Market Value equal to the minimum amount required to be withheld based on the statutory withholding rates for federal and state tax purposes that apply to supplemental taxable income. The Fair Market

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Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined. All elections by Holders to have Shares withheld for this purpose shall be made in such form and under such conditions as the Administrator may deem necessary or advisable;

(xi) to amend the Plan or any Option or Stock Purchase Right granted under the Plan as provided in Section 17; and

(xii) to construe and interpret the terms of the Plan and awards granted pursuant to the Plan and to exercise such powers and perform such acts as the Administrator deems necessary or desirable to promote the best interests of the Company which are not in conflict with the provisions of the Plan.

(c) Effect of Administrator's Decision. All decisions, determinations and interpretations of the Administrator shall be final and binding on all Holders.

5. Eligibility. Non-Qualified Stock Options, Stock Purchase Rights and Stock Bonuses may be granted to Service Providers. Incentive Stock Options may be granted only to Employees. If otherwise eligible, an Employee or Consultant who has been granted an Option, Stock Purchase Right or Stock Bonus may be granted additional Options, Stock Purchase Rights or Stock Bonuses. In addition to the foregoing, each Independent Director shall be eligible to be granted Options at the times and in the manner set forth in Section 12.

6. Limitations.

(a) Each Option shall be designated by the Administrator in the Option Agreement as either an Incentive Stock Option or a Non-Qualified Stock Option. However, notwithstanding such designations, to the extent that the aggregate Fair Market Value of Shares subject to a Holder's Incentive Stock Options and other incentive stock options granted by the Company, any Parent or Subsidiary, which become exercisable for the first time during any calendar year (under all plans of the Company or any Parent or Subsidiary) exceeds \$100,000, such excess Options or other options shall be treated as Non-Qualified Stock Options.

For purposes of this Section 6(a), Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of the Shares shall be determined as of the time of grant.

(b) None of the Plan, any Option, Stock Purchase Right or Stock Bonus shall confer upon a Holder any right with respect to continuing the Holder's employment or consulting relationship with the Company, nor shall they interfere in any way with the Holder's right or the Company's right to terminate such employment or consulting relationship at any time, with or without cause.

(c) No Service Provider shall be granted, in any calendar year, Options, Stock Purchase Rights or Stock Bonuses to acquire more than three million (3,000,000) Shares. The foregoing limitation shall be adjusted proportionately in connection with any change in the Company's capitalization as described in Section 15. For purposes of this Section 6(c), if an Option is canceled in the same calendar year it was granted (other than in connection with

transaction described in Section 15), the canceled Option will be counted against the limit set forth in this Section 6(c). For this purpose, if the exercise price of an Option is reduced, the transaction shall be treated as a cancellation of the Option and the grant of a new Option.

7. *Term of Plan.* The Plan shall become effective upon its initial adoption by the Board and shall continue in effect until it is terminated under Section 17 of the Plan. No Options, Stock Purchase Rights or Stock Bonuses may be issued under the Plan after the tenth (10th) anniversary of the earlier of (i) the date upon which the Plan is adopted by the Board or (ii) the date the Plan is approved by the stockholders.

8. *Term of Option.* The term of each Option shall be stated in the Option Agreement; provided, however, that the term shall be no more than ten (10) years from the date of grant thereof. In the case of an Incentive Stock Option granted to a Holder who, at the time the Option is granted, owns (or is treated as owning under Code Section 424) stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Option shall be five (5) years from the date of grant or such shorter term as may be provided in the Option Agreement.

9. *Option Exercise Price and Consideration.*

(a) Except as provided in Section 13, the per share exercise price for the Shares to be issued upon exercise of an Option shall be such price as is determined by the Administrator, but shall be subject to the following:

(i) *In the case of an Incentive Stock Option*

(A) granted to an Employee who, at the time of grant of such Option, owns (or is treated as owning under Code Section 424) stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than one hundred ten percent (110%) of the Fair Market Value per Share on the date of grant.

(B) granted to any other Employee, the per Share exercise price shall be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant.

(ii) *In the case of a Non-Qualified Stock Option*

(A) granted to a Service Provider who, at the time of grant of such Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the exercise price shall be no less than one hundred ten percent (110%) of the Fair Market Value per Share on the date of the grant.

(B) granted to any other Service Provider, the per Share exercise price shall be no less than eighty-five percent (85%) of the Fair Market Value per Share on the date of grant.

(iii) Notwithstanding the foregoing, Options may be granted with a per Share exercise price other than as required in this subsection (a) above pursuant to a merger or other corporate transaction.

(b) The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Administrator (and, in the case of an Incentive Stock Option, shall be determined at the time of grant). Such consideration may consist of (1) cash, (2) check, (3) with the consent of the Administrator, a full recourse promissory note bearing interest (at no less than such rate as shall then preclude the imputation of interest under the Code) and payable upon such terms as may be prescribed by the Administrator, (4) with the consent of the Administrator, other Shares which (x) in the case of Shares acquired from the Company, have been owned by the Holder for more than six (6) months on the date of surrender, and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option shall be exercised, (5) with the consent of the Administrator, surrendered Shares then issuable upon exercise of the Option having a Fair Market Value on the date of exercise equal

to the aggregate exercise price of the Option or exercised portion thereof, (6) with the consent of the Administrator, property of any kind which constitutes good and valuable consideration, (7) with the consent of the Administrator, delivery of a notice that the Holder has placed a market sell order with a broker with respect to Shares then issuable upon exercise of the Options and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the Option exercise price, provided, that payment of such proceeds is then made to the Company upon settlement of such sale, or (8) with the consent of the Administrator, any combination of the foregoing methods of payment.

10. Exercise of Option.

(a) *Vesting; Fractional Exercises.* Except as provided in Section 13, Options granted hereunder shall be vested and exercisable according to the terms hereof at such times and under such conditions as determined by the Administrator and set forth in the Option Agreement; provided, however, that, except with regard to Options granted to Officers, Directors or Consultants, in no event shall an Option granted hereunder become vested and exercisable at a rate of less than twenty percent (20%) per year over five (5) years from the date the Option is granted, subject to reasonable conditions, such as continuing to be a Service Provider. An Option may not be exercised for a fraction of a Share.

(b) *Deliveries upon Exercise.* All or a portion of an exercisable Option shall be deemed exercised upon delivery of all of the following to the Secretary of the Company or his or her office:

(i) A written or electronic notice complying with the applicable rules established by the Administrator stating that the Option, or a portion thereof, is exercised. The notice shall be signed by the Holder or other person then entitled to exercise the Option or such portion of the Option;

(ii) Such representations and documents as the Administrator, in its sole discretion, deems necessary or advisable to effect compliance with Applicable Laws. The

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Administrator may, in its sole discretion, also take whatever additional actions it deems appropriate to effect such compliance, including, without limitation, placing legends on share certificates and issuing stop transfer notices to agents and registrars;

(iii) Upon the exercise of all or a portion of an unvested Option pursuant to Section 10(h), a Restricted Stock purchase agreement in a form determined by the Administrator and signed by the Holder or other person then entitled to exercise the Option or such portion of the Option; and

(iv) In the event that the Option shall be exercised pursuant to Section 10(f) by any person or persons other than the Holder, appropriate proof of the right of such person or persons to exercise the Option.

(c) *Conditions to Delivery of Share Certificates.* The Company shall not be required to issue or deliver any certificate or certificates for Shares purchased upon the exercise of any Option or portion thereof prior to fulfillment of all of the following conditions:

(i) The admission of such Shares to listing on all stock exchanges on which such class of stock is then listed;

(ii) The completion of any registration or other qualification of such Shares under any state or federal law, or under the rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body which the Administrator shall, in its sole discretion, deem necessary or advisable;

(iii) The obtaining of any approval or other clearance from any state or federal governmental agency which the Administrator shall, in its sole discretion, determine to be necessary or advisable;

(iv) The lapse of such reasonable period of time following the exercise of the Option as the Administrator may establish from time to time for

reasons of administrative convenience; and

(v) The receipt by the Company of full payment for such Shares, including payment of any applicable withholding tax, which in the sole discretion of the Administrator may be in the form of consideration used by the Holder to pay for such Shares under Section 9(b).

(d) Termination of Relationship as a Service Provider. If a Holder ceases to be a Service Provider other than by reason of the Holder's disability or death, such Holder may exercise his or her Option within such period of time as is specified in the Option Agreement to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of the Option as set forth in the Option Agreement). In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for three (3) months following the Holder's termination. If, on the date of termination, the Holder is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option immediately cease to be issuable under the Option and shall again become available for issuance under the Plan. If, after termination, the Holder does not exercise his or her Option within the time period

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specified herein, the Option shall terminate, and the Shares covered by such Option shall again become available for issuance under the Plan. If a Holder is terminated for Cause, the Option shall immediately terminate, and the Shares covered by such Option shall again become available for issuance under the Plan.

(e) Disability of Holder. If a Holder ceases to be a Service Provider as a result of the Holder's disability, the Holder may exercise his or her Option within such period of time as is specified in the Option Agreement to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Option Agreement). In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for twelve (12) months following the Holder's termination. If such disability is not a "disability" as such term is defined in Section 22(e) (3) of the Code, in the case of an Incentive Stock Option such Incentive Stock Option shall automatically cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Non-Qualified Stock Option from and after the day which is three (3) months and one (1) day following such termination. If, on the date of termination, the Holder is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall immediately cease to be issuable under the Option and shall again become available for issuance under the Plan. If, after termination, the Holder does not exercise his or her Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall again become available for issuance under the Plan.

(f) Death of Holder. If a Holder dies while a Service Provider, the Option may be exercised within such period of time as is specified in the Option Agreement (but in no event later than the expiration of the term of such Option as set forth in the Notice of Grant), by the Holder's estate or by a person who acquires the right to exercise the Option by bequest or inheritance, but only to the extent that the Option is vested on the date of death. In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for twelve (12) months following the Holder's termination. If, at the time of death, the Holder is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall immediately cease to be issuable under the Option and shall again become available for issuance under the Plan. The Option may be exercised by the executor or administrator of the Holder's estate or, if none, by the person(s) entitled to exercise the Option under the Holder's will or the laws of descent or distribution. If the Option is not so exercised within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall again become available for issuance under the Plan. The Company shall notify the Holder's estate or the person who acquires the right to exercise the Option by bequest or inheritance of the existence of the Holder's outstanding Option and the date of the expiration of the term of such Option as soon after the death of the Holder as is practicable.

(g) Regulatory Extension. A Holder's Option Agreement may provide that if the exercise of the Option following the termination of the Holder's status as a Service Provider (other than upon the Holder's death or Disability) would be prohibited at any time solely because the issuance of shares would

violate the registration requirements under the Securities Act, then the Option shall terminate on the earlier of (i) the expiration of the term of the Option set forth in Section 8 or (ii) the expiration of a period of three (3) months after the termination of the

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Holder's status as a Service Provider during which the exercise of the Option would not be in violation of such registration requirements.

(h) *Early Exercisability.* The Administrator may provide in the terms of a Holder's Option Agreement that the Holder may, at any time before the Holder's status as a Service Provider terminates, exercise the Option in whole or in part prior to the full vesting of the Option; provided, however, that subject to Section 22, Shares acquired upon exercise of an Option which has not fully vested may be subject to any forfeiture, transfer or other restrictions as the Administrator may determine in its sole discretion.

(i) *Buyout Provisions.* The Administrator may at any time offer to buyout for a payment in cash or Shares, an Option previously granted, based on such terms and conditions as the Administrator shall establish and communicate to the Holder at the time that such offer is made.

11. *Non-Transferability of Options and Stock Purchase Rights.* Options and Stock Purchase Rights may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Holder, only by the Holder.

12. *Granting of Options to Independent Directors.*

(a) During the term of the Plan, a person who is an Independent Director as of the Public Trading Date, or a person who is initially elected to the Board following the Public Trading Date and who is an Independent Director at the time of such initial election, may be granted an Option to purchase twenty-one thousand six hundred (21,600) shares of Common Stock (subject to adjustment as provided in Section 15) on the Public Trading Date or such initial election, as applicable (each, an "Initial Option"). Members of the Board who are employees of the Company who subsequently retire from the Company and remain on the Board will not receive an Initial Option. The Initial Option grants authorized by this Section 12(a) shall be made by the Board.

13. *Terms of Initial Options.* The per Share price of each Initial Option granted to an Independent Director shall equal 100% of the Fair Market Value of a share of Common Stock on the date the Initial Option is granted; provided, however, that the per Share price of each Initial Option granted to an Independent Director on the date of the initial public offering of Common Stock shall equal the initial public offering price (net of underwriting discounts and commissions) per Share. Initial Options granted to Independent Directors shall become exercisable in cumulative annual installments of one third (1/3) of the Shares subject to such option on each of the yearly anniversaries of the date of Initial Option grant, commencing with the first such anniversary, such that each Initial Option shall be one hundred percent (100%) vested on the third anniversary of its date of grant, subject to the Independent Director remaining a Director on each such date. Subject to Section 10, the term of each Initial Option granted to an Independent Director shall be ten (10) years from the date the Initial Option is granted. No portion of an Initial Option which is unexercisable at the time of an Independent Director's termination of membership on the Board shall thereafter become exercisable.

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14. *Stock Purchase Rights and Stock Bonuses.*

(a) *Rights to Purchase.* Stock Purchase Rights may be issued either alone, in addition to, or in tandem with Options granted under the Plan and/or cash awards made outside of the Plan. After the Administrator determines that it will offer Stock Purchase Rights under the Plan, it shall advise the offeree in writing of the terms, conditions and restrictions related to the offer, including the number of Shares that such person shall be entitled to purchase, the price to be paid, and the time within which such person must accept such offer. The offer shall be accepted by execution of a Restricted Stock purchase agreement in the form determined by the Administrator.

(b) *Repurchase Right.* Unless the Administrator determines otherwise, the Restricted Stock purchase agreement shall grant the Company the right to repurchase Shares acquired upon exercise of a Stock Purchase Right upon the termination of the purchaser's status as a Service Provider for any reason. Subject to Section 22, the purchase price for Shares repurchased by the Company pursuant to such repurchase right and the rate at which such repurchase right shall lapse shall be determined by the Administrator in its sole discretion, and shall be set forth in the Restricted Stock purchase agreement.

(c) *Other Provisions.* The Restricted Stock purchase agreement shall contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined by the Administrator in its sole discretion.

(d) *Rights as a Shareholder.* Once the Stock Purchase Right is exercised, the purchaser shall have rights equivalent to those of a shareholder and shall be a shareholder when his or her purchase is entered upon the records of the duly authorized transfer agent of the Company. No adjustment shall be made for a dividend or other right for which the record date is prior to the date the Stock Purchase Right is exercised, except as provided in Section 15 of the Plan.

(e) *Stock Bonuses.* Notwithstanding any other provision of the Plan, the Administrator may grant Stock Bonuses, as compensation or as bonuses, to such Service Providers as the Administrator may select in its sole discretion from time to time. Such Stock Bonuses may be issued either alone, in addition to, or in tandem with Options or Stock Purchase Rights granted under the Plan and/or cash awards made outside of the Plan. After the Administrator determines that it will offer Stock Bonuses under the Plan, it shall advise the offeree in writing of the terms and conditions related to the offer, including the number of Shares that such person shall be entitled to receive, the price to be paid, if any, the time within which such person must accept such offer, and the manner of acceptance of such offer.

15. *Adjustments upon Changes in Capitalization, Merger or Asset Sale.*

(a) In the event that the Administrator determines that any dividend or other distribution (whether in the form of cash, Common Stock, other securities, or other property), recapitalization, reclassification, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, liquidation, dissolution, or sale, transfer, exchange or other disposition of all or substantially all of the assets of the Company, or

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exchange of Common Stock or other securities of the Company, issuance of warrants or other rights to purchase Common Stock or other securities of the Company, or other similar corporate transaction or event, in the Administrator's sole discretion, affects the Common Stock such that an adjustment is determined by the Administrator to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or with respect to any Option, Stock Purchase Right or Restricted Stock, then the Administrator shall, in such manner as it may deem equitable, adjust any or all of:

(i) the number and kind of shares of Common Stock (or other securities or property) with respect to which Options or Stock Purchase Rights may be granted or awarded (including, but not limited to, adjustments of the limitations in Section 3 on the maximum number and kind of shares which may be issued and adjustments of the maximum number of Shares that may be purchased by any Holder in any calendar year pursuant to Section 6(c));

(ii) the number and kind of shares of Common Stock (or other securities or property) subject to outstanding Options, Stock Purchase Rights or Restricted Stock; and

(iii) the grant or exercise price with respect to any Option or Stock Purchase Right.

(b) In the event of any transaction or event described in Section 15(a), the Administrator, in its sole discretion, and on such terms and conditions as it deems appropriate, either by the terms of the Option, Stock

Purchase Right or Restricted Stock or by action taken prior to the occurrence of such transaction or event and either automatically or upon the Holder's request, is hereby authorized to take any one or more of the following actions whenever the Administrator determines that such action is appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended by the Company to be made available under the Plan or with respect to any Option, Stock Purchase Right or Restricted Stock granted or issued under the Plan or to facilitate such transaction or event:

(i) To provide for either the purchase of any such Option, Stock Purchase Right or Restricted Stock for an amount of cash equal to the amount that could have been obtained upon the exercise of such Option or Stock Purchase Right or realization of the Holder's rights had such Option, Stock Purchase Right or Restricted Stock been currently exercisable or payable or fully vested or the replacement of such Option, Stock Purchase Right or Restricted Stock with other rights or property selected by the Administrator in its sole discretion;

(ii) To provide that such Option or Stock Purchase Right shall be exercisable as to all shares covered thereby, notwithstanding anything to the contrary in the Plan or the provisions of such Option or Stock Purchase Right;

(iii) To provide that such Option, Stock Purchase Right or Restricted Stock be assumed by the successor or survivor corporation, or a parent or subsidiary thereof, or shall be substituted for by similar options, rights or awards covering the stock of the successor or

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survivor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices;

(iv) To make adjustments in the number and type of shares of Common Stock (or other securities or property) subject to outstanding Options and Stock Purchase Rights, and/or in the terms and conditions of (including the grant or exercise price), and the criteria included in, outstanding Options, Stock Purchase Rights or Restricted Stock or Options, Stock Purchase Rights or Restricted Stock which may be granted in the future; and

(v) To provide that immediately upon the consummation of such event, such Option or Stock Purchase Right shall not be exercisable and shall terminate; provided, that for a specified period of time prior to such event, such Option or Stock Purchase Right shall be exercisable as to all Shares covered thereby, and the restrictions imposed under an Option Agreement or Restricted Stock purchase agreement upon some or all Shares may be terminated and, in the case of Restricted Stock, some or all shares of such Restricted Stock may cease to be subject to repurchase, notwithstanding anything to the contrary in the Plan or the provisions of such Option, Stock Purchase Right or Restricted Stock purchase agreement.

(c) Subject to Section 3, the Administrator may, in its sole discretion, include such further provisions and limitations in any Option, Stock Purchase Right, Restricted Stock agreement or certificate, as it may deem equitable and in the best interests of the Company.

(d) If the Company undergoes an Acquisition, then any surviving corporation or entity or acquiring corporation or entity, or affiliate of such corporation or entity, may assume any Options, Stock Purchase Rights or Restricted Stock outstanding under the Plan or may substitute similar stock awards (including an award to acquire the same consideration paid to the stockholders in the transaction described in this subsection 15(d)) for those outstanding under the Plan. In the event any surviving corporation or entity or acquiring corporation or entity in an Acquisition, or affiliate of such corporation or entity, does not assume such Options, Stock Purchase Rights or Restricted Stock or does not substitute similar stock awards for those outstanding under the Plan, then with respect to (i) Options, Stock Purchase Rights or Restricted Stock held by participants in the Plan whose status as a Service Provider has not terminated prior to such event, the vesting of such Options, Stock Purchase Rights or Restricted Stock (and, if applicable, the time during which such awards may be exercised) shall be accelerated and made fully exercisable and all restrictions thereon shall lapse at least ten (10) days prior to the closing of the Acquisition (and the Options or Stock Purchase Rights terminated if not exercised prior to the closing of such Acquisition),

and (ii) any other Options or Stock Purchase Rights outstanding under the Plan, such Options or Stock Purchase rights shall be terminated if not exercised prior to the closing of the Acquisition.

(e) In the event the Company undergoes an Acquisition and any surviving corporation or entity or acquiring corporation or entity, or affiliate of such corporation or entity, does assume any Options, Stock Purchase Rights or Restricted Stock outstanding under the Plan (or substitutes similar stock awards, including an award to acquire the same consideration paid to the stockholders in the transaction described in this subsection 15(e), for those outstanding under the Plan), then, with respect to each stock award held by participants in the Plan then performing services as Employees or Directors, the vesting of each such stock award (and, if applicable, the

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time during which such stock award may be exercised) shall be accelerated and such stock award shall immediately become fully vested and exercisable, if any of the following events occurs within nine (9) months after the effective date of the Acquisition: (1) the Employee status or Director status, as applicable, of the participant holding such stock award is terminated by the Company without Cause; (2) the Employee holding such stock award terminates his or her Employee status due to the fact that the principal place of the performance of the responsibilities and duties of the Employee is changed to a location more than fifty (50) miles from such Employee's existing work location without the Employee's express consent (this clause (2) is not applicable to Directors); or (3) the Employee holding such stock award terminates his or her Employee status due to the fact that there is a material reduction in such Employee's responsibilities and duties without the Employee's express consent (this clause (3) is not applicable to Directors).

(f) The existence of the Plan, any Option Agreement or Restricted Stock purchase agreement and the Options or Stock Purchase Rights granted hereunder shall not affect or restrict in any way the right or power of the Company or the stockholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of stock or of options, warrants or rights to purchase stock or of bonds, debentures, preferred or prior preference stocks whose rights are superior to or affect the Common Stock or the rights thereof or which are convertible into or exchangeable for Common Stock, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

16. Time of Granting Options, Stock Purchase Rights and Stock Bonuses. The date of grant of an Option, Stock Purchase Right or Stock Bonus shall, for all purposes, be the date on which the Administrator makes the determination granting such Option, Stock Purchase Right or Stock Bonus, or such other date as is determined by the Administrator. Notice of the determination shall be given to each Employee or Consultant to whom an Option, Stock Purchase Right or Stock Bonus is so granted within a reasonable time after the date of such grant.

17. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may at any time wholly or partially amend, alter, suspend or terminate the Plan. However, without approval of the Company's stockholders given within twelve (12) months before or after the action by the Board, no action of the Board may, except as provided in Section 15, increase the limits imposed in Section 3 on the maximum number of Shares which may be issued under the Plan or extend the term of the Plan under Section 7.

(b) Stockholder Approval. The Board shall obtain stockholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws.

(c) Effect of Amendment or Termination. No amendment, alteration, suspension or termination of the Plan shall impair the rights of any Holder, unless mutually agreed otherwise between the Holder and the Administrator, which agreement must be in writing

and signed by the Holder and the Company. Termination of the Plan shall not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Options, Stock Purchase Rights, Stock Bonuses or Restricted Stock granted or awarded under the Plan prior to the date of such termination.

18. *Stockholder Approval.* The Capstone Turbine Corporation 2000 Equity Incentive Plan, as originally adopted, was submitted for the approval of the Company's stockholders and such approval was received within twelve (12) months after the date of the Board's initial adoption thereof. In addition, an amendment to increase the number of Shares authorized for issuance hereunder from 3,300,000 to 3,700,000 was approved by the Company's stockholders, and such amendment is incorporated herein.

19. *Inability to Obtain Authority.* The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

20. *Reservation of Shares.* The Company, during the term of this Plan, shall at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

21. *Information to Holders and Purchasers.* Prior to the Public Trading Date and to the extent required by Section 260.140.46 of Title 10 of the California Code of Regulations, the Company shall provide to each Holder and to each individual who acquires Shares pursuant to the Plan, not less frequently than annually during the period such Holder or purchaser has one or more Options or Stock Purchase Rights outstanding, and, in the case of an individual who acquires Shares pursuant to the Plan, during the period such individual owns such Shares, copies of annual financial statements. Notwithstanding the preceding sentence, the Company shall not be required to provide such statements to key employees whose duties in connection with the Company assure their access to equivalent information.

22. *Repurchase Provisions.* The Administrator in its sole discretion may provide that the Company may repurchase Shares acquired upon exercise of an Option or Stock Purchase Right upon the occurrence of certain specified events, including, without limitation, a Holder's termination as a Service Provider, divorce, bankruptcy or insolvency; provided, however, that any such repurchase right shall be set forth in the applicable Option Agreement or Restricted Stock purchase agreement or in another agreement referred to in such agreement and, provided, further, that to the extent required by Section 260.140.41 and Section 260.140.42 of Title 10 of the California Code of Regulations, any such repurchase right set forth in an Option or Stock Purchase Right granted prior to the Public Trading Date to a person who is not an Officer, Director or Consultant shall be upon the following terms: (i) if the repurchase option gives the Company the right to repurchase the shares upon termination as a Service Provider at not less than the Fair Market Value of the shares to be purchased on the date of termination of status as a Service Provider, then (A) the right to repurchase shall be exercised for cash or cancellation of purchase money indebtedness for the shares within ninety (90) days of termination of status as a Service Provider (or in the case of shares issued upon exercise of Options or Stock Purchase

Rights after such date of termination, within ninety (90) days after the date of the exercise) or such longer period as may be agreed to by the Administrator and the Plan participant and (B) the right terminates when the shares become publicly traded; and (ii) if the repurchase option gives the Company the right to repurchase the Shares upon termination as a Service Provider at the original purchase price for such Shares, then (A) the right to repurchase at the original purchase price shall lapse at the rate of at least twenty percent (20%) of the shares per year over five (5) years from the date the Option or Stock Purchase Right is granted (without respect to the date the Option or Stock Purchase Right was exercised or became exercisable) and (B) the right to repurchase shall be exercised for cash or cancellation of purchase money indebtedness for the shares within ninety (90) days of termination of status as a Service Provider (or, in the case of shares issued upon exercise of Options or Stock Purchase Rights, after such date of termination, within ninety (90) days after the date of the

exercise) or such longer period as may be agreed to by the Company and the Plan participant.

23. *Investment Intent.* The Company may require a Plan participant, as a condition of exercising or acquiring stock under any Option, Stock Purchase Right or Stock Bonus, (i) to give written assurances satisfactory to the Company as to the participant's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the Option or Stock Purchase Right or accepting the Stock Bonus; and (ii) to give written assurances satisfactory to the Company stating that the participant is acquiring the stock subject to the Option, Stock Purchase Right or Stock Bonus for the participant's own account and not with any present intention of selling or otherwise distributing the stock. The foregoing requirements, and any assurances given pursuant to such requirements, shall be inoperative if (A) the issuance of the shares upon the exercise or acquisition of stock under the applicable Option, Stock Purchase Right or Stock Bonus has been registered under a then currently effective registration statement under the Securities Act or (B) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the stock.

24. *Governing Law.* The validity and enforceability of this Plan shall be governed by and construed in accordance with the laws of the State of Delaware without regard to otherwise governing principles of conflicts of law.

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CAPSTONE TURBINE CORPORATION
 2000 EQUITY INCENTIVE PLAN
 STOCK OPTION AGREEMENT

All capitalized terms used in this Stock Option Agreement without definition shall have the meanings ascribed to such terms in the Capstone Turbine Corporation 2000 Equity Incentive Plan (the "Plan").

I. NOTICE OF STOCK OPTION GRANT

Name

You (the "Optionee") have been granted a Stock Option (the "Option") to purchase Common Stock of the Company, subject to the terms and conditions of the Plan and this Stock Option Agreement. The terms of your grant are set forth below:

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Date of Grant:

Vesting Commencement Date:

Exercise Price per Share: _____ per Share

Total Number of Shares

Granted:

Total Exercise Price: \$

Type of Option: _____ Incentive Stock Option

_____ Non-Qualified Stock Option

Term/Expiration Date:

</TABLE>

Exercise and Vesting Schedule:

The Shares subject to this Option shall vest according to the following schedule:

[TWENTY-FIVE PERCENT (25%)] of the Shares subject to the Option (rounded down to the next whole number of shares) shall vest one year after the vesting commencement date, and [1/48TH] of the Shares subject to the Option (rounded down to the next whole number of shares) shall vest in equal monthly installments thereafter, so that all of the Shares shall be vested [FORTY-EIGHT (48) MONTHS] after the vesting commencement date.

Termination Period:

The Option shall terminate on the expiration date; provided, however, that if Optionee ceases to be a Service Provider prior to the expiration date, then the Option shall terminate earlier pursuant to Sections 6, 7 and 8 below.

II. AGREEMENT

1. Grant of Option. The Company hereby grants to the Optionee an Option to purchase the Common Stock (the "Shares") set forth in the Notice of Stock Option Grant, at the exercise price per Share set forth in the Notice of Stock Option Grant (the "Exercise Price"). Notwithstanding anything to the contrary anywhere else in this Stock Option Agreement, the Option is subject to the terms, definitions and provisions of the Capstone Turbine Corporation 2000 Equity Incentive Plan adopted by the Company, which is incorporated herein by reference.

If designated in the Notice of Stock Option Grant as an Incentive Stock Option, the Option is intended to qualify as an incentive stock option as defined in Section 422 of the Code; provided, however, that to the extent that the aggregate Fair Market Value of stock with respect to which incentive stock options (within the meaning of Code Section 422, but without regard to Code Section 422(d)), including the Option, are exercisable for the first time by the Optionee during any calendar year (under the Plan and all other incentive stock option plans of the Company or any Subsidiary) exceeds \$100,000, such options shall be treated as not qualifying under Code Section 422, but rather shall be treated as Non-Qualified Stock Options to the extent required by Code Section 422. The rule set forth in the preceding sentence shall be applied by taking options into account in the order in which they were granted. For purposes of these rules, the Fair Market Value of stock shall be determined as of the time the Option with respect to such stock is granted.

2. Exercise of Option. The Option is exercisable as follows:

(a) Right to Exercise.

(i) The Option shall be exercisable cumulatively according to the vesting schedule set forth in the Notice of Stock Option Grant. For purposes of this Stock Option Agreement, Shares subject to this Option shall vest based on Optionee's continued status as a Service Provider.

(ii) The Option may not be exercised for a fraction of a Share.

(iii) In the event of Optionee's death, disability or other termination of the Optionee's status as a Service Provider, the exercisability of the Option is governed by Sections 6, 7 and 8 below.

(iv) In no event may the Option be exercised after the Expiration Date of the term of the Option as set forth in the Notice of Stock Option Grant.

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(b) Method of Exercise. The Option shall be exercisable by written notice on the Exercise Notice form (the "Notice") attached hereto as Exhibit A. The Notice must state the number of Shares for which the Option is being exercised, and such other representations and agreements with respect to such Shares as may be required by the Company pursuant to the provisions of the Plan. The Notice must be signed by the Optionee and shall be delivered in person or by certified mail to the Secretary of the Company at 21211 Nordhoff Street, Chatsworth, California 91311. The Notice must be accompanied by payment of the Exercise Price, including payment of any applicable withholding tax. Prior to the option exercise, the Optionee is encouraged to contact the appropriate designee in the Company's accounting office to determine the exact exercise price plus any applicable withholding tax. The Option shall be deemed exercised upon receipt by the Company of such written Notice accompanied by the Exercise Price and any applicable withholding tax in an acceptable method of payment as noted in paragraph 4 below.

No Shares shall be issued pursuant to the exercise of an Option unless such issuance and such exercise comply with all relevant provisions of law and the requirements of any stock exchange upon which the Shares may then be listed. Assuming such compliance, for income tax purposes the Shares shall be considered transferred to the Optionee on the date on which the Option is exercised with respect to such Shares.

3. Lock-Up Period. Optionee hereby agrees that if so requested by the Company or any representative of the underwriters (the "Managing Underwriter") in connection with any registration of the offering of any securities of the Company under the Securities Act or any applicable state laws, Optionee shall not sell or otherwise transfer any Shares or other securities of the Company during the 180-day period (or such longer period as may be requested in writing by the Managing Underwriter and agreed to in writing by the Company) (the "Market Standoff Period") following the effective date of a registration statement of the Company filed under the Securities Act. The Company may impose stop-transfer instructions with respect to securities subject to the foregoing restrictions until the end of such Market Standoff Period.

4. *Method of Payment.* Payment of the Exercise Price shall be by any of the following, or a combination thereof, at the election of the Optionee:

(a) cash;

(b) check;

(c) with the consent of the Administrator, a full recourse promissory note bearing interest (at no less than such rate as shall then preclude the imputation of interest under the Code) and payable upon such terms as may be prescribed by the Administrator;

(d) with the consent of the Administrator, surrender of other Shares which (A) in the case of Shares acquired from the Company, have been owned by the Optionee for more than six (6) months on the date of surrender, and (B) have a Fair Market Value on the date of surrender equal to the Exercise Price of the Shares as to which the Option is being exercised;

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(e) with the consent of the Administrator, surrendered Shares issuable upon the exercise of the Option having a Fair Market Value on the date of exercise equal to the aggregate Exercise Price of the Option or exercised portion thereof;

(f) with the consent of the Administrator, property of any kind which constitutes good and valuable consideration; or

(g) with the consent of the Administrator, delivery of a notice that the Optionee has placed a market sell order with a broker with respect to Shares then issuable upon exercise of the Option and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the aggregate Exercise Price; provided, that payment of such proceeds is then made to the Company upon settlement of such sale.

5. *Restrictions on Exercise.* The Option may not be exercised until the Plan has been approved by the stockholders of the Company. If the issuance of Shares upon such exercise or if the method of payment for such shares would constitute a violation of any applicable federal or state securities or other law or regulation, then the Option may also not be exercised. The Company may require Optionee to make any representation and warranty to the Company as may be required by any applicable law or regulation before allowing the Option to be exercised.

6. *Termination of Relationship.* If Optionee ceases to be a Service Provider (other than for Cause or by reason of the Optionee's death or the total and permanent disability of the Optionee as defined in Code Section 22(e)(3)), the Option, to the extent vested as of the date on which Optionee ceases to be a Service Provider, shall remain exercisable for three (3) months from such date (but in no event later than the Expiration Date of the term of the Option as set forth in the Notice of Stock Option Grant). To the extent that the Option is not vested at the date on which Optionee ceases to be a Service Provider, or if Optionee does not exercise the Option within the time specified herein, the Option shall terminate. If Optionee's status as a Service Provider is terminated for Cause, the Option, whether vested (in whole or in part) or unvested, shall immediately terminate.

7. *Disability of Optionee.* If Optionee ceases to be a Service Provider as a result of his or her total and permanent disability as defined in Code Section 22(e)(3), the Option, to the extent vested as of the date on which Optionee ceases to be a Service Provider, shall remain exercisable for twelve (12) months from such date (but in no event later than the Expiration Date of the term of the Option as set forth in the Notice of Stock Option Grant). To the extent that the Option is not vested as of the date on which Optionee ceases to be a Service Provider, or if Optionee does not exercise such Option within the time specified herein, the Option shall terminate.

8. *Death of Optionee.* If Optionee ceases to be a Service Provider as a result of the Optionee's death, the Option, to the extent vested as of the date of death, shall remain exercisable for twelve (12) months following the date of death (but in no event later than the Expiration Date of the term of the Option as set forth in the Notice of Stock Option Grant) by Optionee's estate or by a person who acquires the right to exercise the Option by bequest or inheritance.

To the

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extent that the Option is not vested as of the date of death, or if the Option is not exercised within the time specified herein, the Option shall terminate.

9. Non-Transferability of Option. The Option may not be transferred in any manner except by will or by the laws of descent or distribution. It may be exercised during the lifetime of Optionee only by Optionee. The terms of the Option shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

10. Term of Option. The Option may be exercised only within the term set forth in the Notice of Stock Option Grant.

[Signature page follows]

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This Stock Option Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which shall constitute one document.

CAPSTONE TURBINE CORPORATION

By: _____

Name: Karen Clark

Title: Sr. Vice President & CFO

OPTIONEE ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE OPTION HEREOF IS EARNED ONLY BY CONTINUING EMPLOYMENT, DIRECTORSHIP OR CONSULTANCY AT THE WILL OF THE COMPANY (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THE OPTION OR ACQUIRING SHARES HEREUNDER). OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT NOTHING IN THIS STOCK OPTION AGREEMENT, NOR IN THE COMPANY'S 2000 EQUITY INCENTIVE PLAN WHICH IS INCORPORATED HEREIN BY REFERENCE, SHALL CONFER UPON OPTIONEE ANY RIGHT WITH RESPECT TO CONTINUATION OF EMPLOYMENT, DIRECTORSHIP OR CONSULTANCY BY THE COMPANY, NOR SHALL IT INTERFERE IN ANY WAY WITH OPTIONEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE OPTIONEE'S EMPLOYMENT, DIRECTORSHIP OR CONSULTANCY AT ANY TIME, WITH OR WITHOUT CAUSE.

Optionee acknowledges receipt of a copy of the Plan and represents that he or she is familiar with the terms and provisions thereof. Optionee hereby accepts the Option subject to all of the terms and provisions hereof. Optionee has reviewed the Plan and the Option in their entirety, has had an opportunity to obtain the advice of counsel prior to executing the Option and fully understands all provisions of the Option. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan or the Option. Optionee further agrees to notify the Company upon any change in the residence address indicated below.

Dated: _____

[OPTIONEE]

Residence Address:

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EXHIBIT A

CAPSTONE TURBINE CORPORATION

2000 EQUITY INCENTIVE PLAN

EXERCISE NOTICE

Capstone Turbine Corporation
21211 Nordhoff Street
Chatsworth, CA 91311

Attention: [Title]

1. *Exercise of Option.* Effective as of today, _____, 20__, the undersigned ("Optionee") hereby elects to exercise Optionee's option to purchase _____ shares of the Common Stock (the "Shares") of Capstone Turbine Corporation (the "Company") under and pursuant to the Capstone Turbine Corporation 2000 Equity Incentive Plan (the "Plan") and the [] Incentive [] Non-Qualified Stock Option Agreement dated _____, 20__ (the "Option Agreement").

2. *Representations of Optionee.* Optionee acknowledges that Optionee has received, read and understood the Plan and the Option Agreement. Optionee agrees to abide by and be bound by the terms and conditions of the Plan and the Option Agreement.

3. *Rights as Stockholder.* Until the stock certificate evidencing such Shares is issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to Shares subject to the Option, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 15 of the Plan. Optionee shall enjoy rights as a stockholder until such time as Optionee disposes of the Shares.

4. *Tax Consultation.* Optionee understands that Optionee may suffer adverse tax consequences as a result of Optionee's purchase or disposition of the Shares. Optionee represents that Optionee has consulted with any tax consultants Optionee deems advisable in connection with the purchase or disposition of the Shares and that Optionee is not relying on the Company for any tax advice.

5. *Successors and Assigns.* The Company may assign any of its rights under the Option Agreement and the Exercise Notice (the "Notice") to single or multiple assignees, and this Notice shall inure to the benefit of the successors and assigns of the Company. This Notice shall be binding upon Optionee and his or her heirs, executors, administrators, successors and assigns.

6. *Interpretation.* Any dispute regarding the interpretation of the Option Agreement and the Notice shall be submitted by Optionee or by the Company forthwith to the Company's Board of Directors or the committee thereof that administers the Plan (the "Administrator"), which shall review such dispute at its next regular meeting. The resolution of such a dispute by the Administrator shall be final and binding on the Company and on Optionee.

7. *Governing Law; Severability.* The Option Agreement and the Notice shall be governed by and construed in accordance with the laws of the State of Delaware excluding that body of law pertaining to conflicts of law. Should any provision of this Option Agreement and the Notice be determined by a court of law to be illegal or unenforceable, the other provisions shall nevertheless remain effective and shall remain enforceable.

8. *Notices.* Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery or upon deposit in the United States mail by certified mail, with postage and fees prepaid, addressed to the other party at its address as shown beneath its signature below, or to such other address as such party may designate in writing from time to time to the other party.

9. *Notice of Sales Upon Disqualifying Disposition.* The Optionee shall promptly notify the Company designee if the Optionee disposes of any of the shares of common stock acquired on exercise of the Option within one (1) year from the date the Optionee exercises all or part of the Option or within two (2) years of the Date of Option Grant.

10. Further Instruments. The parties agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of the Option Agreement and the Notice.

11. Delivery of Payment. Optionee herewith delivers to the Company at 21211 Nordhoff Street, Chatsworth, California 91311, the full Exercise Price for the Shares, as well as any applicable withholding tax. Calculation of the full Exercise Price as well as any applicable withholding taxes should be obtained from or verified by the appropriate designee in the Company's accounting office.

12. Entire Notice. The Plan and Stock Option Agreement are incorporated herein by reference. This Notice, the Plan and the Stock Option Agreement constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof.

[Signature page follows]

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Submitted by:

Accepted by:

OPTIONEE:

CAPSTONE TURBINE CORPORATION

By:

By:

Name:

Name:

Title:

Residence Address:

Corporate Address:

CAPSTONE TURBINE CORPORATION

21211 Nordhoff Street

Chatsworth, CA 91311

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PROSPECTUS

THIS DOCUMENT CONSTITUTES PART OF A
PROSPECTUS COVERING SECURITIES THAT
WE HAVE REGISTERED UNDER THE
SECURITIES ACT OF 1933

CAPSTONE TURBINE CORPORATION
6,200,000 SHARES OF COMMON STOCK
ISSUABLE UNDER THE CAPSTONE TURBINE CORPORATION
AMENDED AND RESTATED 2000 EQUITY INCENTIVE PLAN

This Prospectus relates to 6,200,000 shares of common stock, par value \$0.001 per share, of Capstone Turbine Corporation (the "Company" or "Capstone") that may be issuable under the Capstone Turbine Corporation Amended and Restated 2000 Equity Incentive Plan (the "Plan") from time to time. The Plan authorizes the grant of incentive stock options to our employees and non-qualified stock options, stock purchase rights, stock bonus rights and stock bonuses to our employees and consultants. The Plan also authorizes the grant of non-qualified stock options to our independent non-employee directors. Incentive stock options are intended to be "incentive stock options," as that term is defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). The Company is the issuer of the common stock under the Plan. The outstanding common stock of the Company is listed on the Nasdaq National Market.

The main features of the Plan are summarized in this Prospectus. However, if there are any inconsistencies between this Prospectus and the Plan or the terms of any option or other award, the Plan and the terms of the option or other award will always control.

This Prospectus does not cover resales of shares acquired under the Plan. Under Section 4(1) of the Securities Act of 1933, as amended (the "Securities Act"), employees who are not our officers or directors ordinarily may publicly resell shares acquired under the Plan without registering these shares. Our officers or directors usually must comply with Rule 144 or register the securities to publicly resell shares acquired under the Plan.

Neither the Securities and Exchange Commission (the "Commission") nor any state securities commission has approved or disapproved these securities, or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

You should rely only on the information contained in this document or that we have referred to you. We have not authorized anyone to provide you with information that is different. We are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions which permit such offers and sales. The information contained in this Prospectus is accurate only as of the date of this Prospectus.

Copies of the Plan and additional information about the Plan can be obtained by mailing a written request to: Capstone Turbine Corporation, 21211 Nordhoff Street, Chatsworth, California 91311, attention: Secretary; (818) 734-5300.

June 1, 2003
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AVAILABLE INFORMATION

The Company is subject to the disclosure requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and in accordance with such requirements files reports, proxy statements and other information with the Commission. You may read and copy any reports, proxy statements and other information we file at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The Commission also maintains an Internet site (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information regarding the Company, and the Company maintains an Internet site (<http://www.capstoneturbine.com>) with additional information about the Company. The common stock is quoted on the Nasdaq National Market (symbol: CPST). Additional updating information with respect to the common stock may be provided in the future to grantees by means of appendices to this Prospectus or delivery of other documents.

The Company has filed with the Commission two Registration Statements on Form S-8, one filed on July 6, 2000 (Registration No. 333-40868) and one filed on November 13, 2002 (Registration No. 333-101201) (including all amendments to each, collectively referred to herein as the "Registration Statement") with respect to the securities offered hereby. This Prospectus is a part of that Registration Statement. As allowed by the Commission's rules, this Prospectus does not contain all the information you can find in the Registration Statement or the exhibits to the Registration Statement.

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INCORPORATION BY REFERENCE OF CERTAIN DOCUMENTS

The Commission allows us to "incorporate by reference" information into this Prospectus, which means that we can disclose important information to you by referring you to another document filed separately with the Commission. The information incorporated by reference is deemed to be part of this Prospectus, except for any information superseded by information in this Prospectus. Any statement contained in a document which is incorporated by reference in this Prospectus is automatically updated and superseded if information contained in this Prospectus, or information that we later file with the Commission, modifies or replaces this information. This Prospectus incorporates by reference the documents described below that we have previously filed with the Commission. These documents contain important information about us and our finances.

- - Capstone's Annual Report on Form 10-K for the year ended December 31, 2002, filed with the Commission on March 31, 2003;
- - Capstone's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, filed with the Commission on May 15, 2003;
- - the description of Capstone's common stock contained in the Registration Statement on Form 8-A, filed with the Commission on June 22, 2000; and
- - all documents filed by us with the Commission pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this Prospectus and prior to the filing of a post-effective amendment which indicates that all securities offered under the Plan have been sold or which deregisters all securities then remaining unsold.

To receive a free copy of any of the documents incorporated by reference in this Prospectus (other than exhibits, unless they are specifically incorporated by reference in the documents) or a copy of this Prospectus, as amended or supplemented from time to time, or any other documents that constitute part of the Prospectus or which Rule 428(b) requires us to deliver, call or write:

Capstone Turbine Corporation
Attention: Secretary
21211 Nordhoff Street
Chatsworth, California 91311
Telephone number (818) 734-5300

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SUMMARY OF THE PLAN

The purposes of the Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to our employees, directors and consultants and to promote the success of the Company's business.

The Plan authorizes the grant to our employees of options that qualify as "incentive stock options" under Section 422 of the Code. The Plan also authorizes the grant of non-qualified stock options, stock purchase rights, stock bonus rights and stock bonuses to our employees and consultants, and authorizes the grant of non-qualified stock options to our independent non-employee directors.

The Employee Retirement Income Security Act of 1974 does not govern the Plan. In addition, the Plan does not qualify under Section 401(a) of the Code.

Because this is a summary, it does not contain all the information that may be important to you. You may obtain a copy of the Plan and additional information about the Plan, without charge, by request to us:

Capstone Turbine Corporation
Attention: Secretary
21211 Nordhoff Street
Chatsworth, California 91311
Telephone number (818) 734-5300

SECURITIES SUBJECT TO THE PLAN

Under the terms of the Plan, the aggregate number of shares of common stock subject to options, stock purchase rights or stock bonus rights is 6,200,000, plus the number of shares previously authorized and remaining available under our 1993 Incentive Stock Plan, as amended (the "1993 Plan") as of the closing of our initial public offering on July 5, 2000 and any shares covered by options granted under the 1993 Plan that are forfeited or expire unexercised after the closing of our initial public offering.

No more than 3,700,000 shares may be issued upon exercise of incentive stock options granted under the Plan. In addition, the number of shares which may be subject to options, stock purchase rights or stock bonus rights granted under the Plan to any individual in any calendar year may not exceed 3,000,000 shares.

Shares subject to expired or canceled options or rights under the Plan will be available for future grant or sale under the Plan. In addition, if shares are delivered to the Company by a holder or withheld by the Company in payment of the exercise price or tax withholding upon the exercise of an option, stock purchase right or stock bonus right or upon the grant of a stock bonus, such shares may again be optioned, granted or awarded under the Plan. If shares of any restricted stock granted under the Plan are repurchased by the Company at their original purchase price, such shares will be available for future grant under the Plan. No shares may be optioned, granted or awarded under the Plan, however, if such action would cause an incentive stock option to fail to qualify as an "incentive stock option" under Section 422 of the Code.

GRANT AND TERMS OF OPTIONS

The committee of the board of directors appointed to administer the Plan (the "Committee") grants the options, stock purchase rights, stock bonus rights and stock bonuses and determines the following:

- - which employees and consultants will be granted options, subject to the limitation that only employees may be granted incentive stock options, while any eligible grantee may receive non-qualified stock options;

- - the number of shares to be covered by each award granted; and
- - the terms and conditions of any option, stock purchase right, stock bonus right or stock bonus granted under the Plan, including whether the option grants are "incentive stock options" or "non-qualified stock options," the exercise price, the time in which the options may vest or be exercised and any acceleration of vesting or waiver of forfeiture provisions.

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Each option will be evidenced by a written agreement.

Nothing in the Plan or in any stock option agreement will give any optionee any right to remain our employee, consultant or director or will interfere with or restrict in any way our rights to discharge any optionee at any time for any reason whatsoever, with or without cause.

Options for our independent non-employee directors are discussed in more detail in "Director Options" below.

EXERCISE PRICE

The exercise price for the shares of common stock subject to your option will be specified in your option agreement. The Committee sets the per share exercise price at the time the option is granted. The exercise price is subject to the following rules:

- - In the case of incentive stock options, the exercise price may not be less than 100% of the fair market value for a share of our common stock on the date the option is granted.
- - In the case of an incentive stock option granted to a stockholder owning more than 10% of the total combined voting power of all classes of our stock or that of any parent or subsidiary (a "10% Stockholder"), the exercise price may not be less than 110% of the fair market value for a share of common stock on the date the option is granted.
- - In the case of non-qualified stock options, the exercise price may not be less than 85% of the fair market value for a share of our common stock on the date the option is granted.
- - In the case of a non-qualified stock option granted to a 10% Stockholder, the exercise price may not be less than 110% of the fair market value for a share of common stock on the date the option is granted.

For purposes of the Plan, the fair market value for a share of our common stock as of a given date will be the closing sales price of our common stock as quoted on the Nasdaq National Market for the last market trading day prior to the time of determination, as reported in The Wall Street Journal or such other source as the Committee deems reliable.

The Code limits the number of options that can be granted to a participant that will qualify for treatment as incentive stock options. The Code provides that the value of shares that a participant can acquire by exercising, for the first time in any calendar year, incentive stock options granted by us or any parent or subsidiary cannot exceed \$100,000 (based on the fair market value of the covered shares on the date of the grant of the options). Under the Plan, to the extent that the aggregate fair market value of shares subject to all of the incentive stock options granted to an employee by us or any parent or subsidiary which become first exercisable in any calendar year exceeds \$100,000, the excess options will be treated as non-qualified stock options. For purposes of this calculation, incentive stock options will be taken into account in the order in which they are granted.

TERM AND TERMINATION OF OPTIONS

The term of an option is set by the Committee and will be stated in your option agreement. The maximum term of an option under the Plan is:

- - 10 years from the date of grant; or
- - in the case of an incentive stock option granted to a 10% Stockholder, five

years from the date of the grant.

If your relationship with the Company is terminated for cause, your options will immediately terminate and the option shares will again become available for issuance under the Plan. If your relationship with the Company is terminated other than for cause, you will have the time period specified in your option agreement to exercise your vested options. If there is no specified time in the option agreement, your vested options will generally remain exercisable for three months following termination of your relationship with the Company, or, in the event of your disability or death, 12 months following termination of your relationship with the Company. However, your right to exercise an option after your service relationship is terminated may not extend past the expiration of

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the term of the option. If the vested options are not exercised within the applicable period, your options will terminate and the option shares will again become available for issuance under the Plan.

VESTING OF OPTIONS

An option may be exercised when and to the extent it "vests." Your option agreement will set forth the period during which your right to exercise the option in whole or part vests. Options granted to employees who are neither officers nor directors will become vested and exercisable at a rate no less than 20% per year over five years from the date of grant. No portion of an option which is not vested when your relationship with the Company is terminated will thereafter become vested. At any time after the grant of an option, the Committee may accelerate the period during which an option vests.

EXERCISE OF OPTIONS

An option may be exercised for any vested portion of the shares subject to the option until the option expires or terminates. Only whole shares of common stock may be purchased upon exercise.

The Committee, however, may provide in your option agreement that you may exercise the option prior to its vesting, in which case you will acquire shares of restricted stock that are subject to forfeiture, transfer and other restrictions as determined by the Committee.

An option may be exercised by delivering to the Secretary of the Company a written or electronic notice of exercise on a form provided by the Company, together with payment for the shares in the amount of the aggregate option exercise price for the shares covered by the option that is being exercised. The Committee may in its discretion allow payment by:

- - cash;
- - check;
- - the delivery of shares of our common stock already owned by you for more than six months;
- - the surrender of shares of our common stock which would otherwise be issuable on exercise of the option;
- - the use of an interest-bearing full recourse promissory note upon such terms as the Committee prescribes;
- - the delivery of property of any kind which constitutes good and valuable consideration;
- - the delivery of a notice that you have placed a market sell order with a broker with respect to shares of common stock issuable upon exercise of the option, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to us in satisfaction of the option exercise price; or
- - any combination of the foregoing.

DELIVERY OF SHARES

The Company is not required to deliver the shares purchased upon option exercise until the following conditions have been satisfied:

- - the admission of such shares to listing on all stock exchanges on which the stock is listed;
- - the registration of the shares under any state or federal securities laws or regulations;
- - obtaining approval from any state or federal government agency as the Committee decides is necessary or advisable;
- - the lapse of a reasonable period of time for administrative convenience;
- - the receipt of consideration as provided in "Exercise of Options" above; and
- - the receipt of payment for any applicable withholding tax, which in the discretion of the Committee may be in the same form as used to pay the exercise price.

BUYOUT PROVISIONS

The Committee may at any time offer to buy out an option previously granted to you for a payment in cash or shares, based on terms and conditions that the Committee will communicate

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to you when the offer is made.

DIRECTOR OPTIONS

Options granted to independent non-employee directors are "non-qualified stock options" to purchase shares of common stock under the Plan. Each independent non-employee director who was a member of the board of directors at the time of the Company's initial public offering was granted an option to purchase 21,600 shares of common stock on the date of the initial public offering (each, an "Initial Option"). Through fiscal year 2002, any independent non-employee director who was elected to the board of directors following the initial public offering was granted an Initial Option to purchase 21,600 shares of common stock on the date of his or her initial election to the board of directors. In addition, through fiscal year 2002, each independent non-employee director received an additional option to purchase 21,600 shares of common stock on the date of the annual meeting of the stockholders of the Company in every third year after the director was granted an Initial Option, if the director is reelected to the board of directors (each, a "Subsequent Option").

In January 2003, the board of directors amended the Plan to eliminate Subsequent Grants. Instead, the board approved subsequent stock grants to each non-employee director to purchase 10,000 shares of common stock (the "Annual Grant") on the date of each annual meeting of stockholders (beginning with the 2003 annual meeting) at which the director is re-elected to the board. Any member of the board of directors who is our employee and who subsequently retires from the Company while remaining on the board of directors will not receive an Initial Option but, to the extent eligible, will receive Annual Grants.

The exercise price of the options granted to our independent non-employee directors will be the fair market value of a share of common stock on the date of grant, except that the exercise price for such options granted on the date of our initial public offering is the initial public offering price. The Initial Options and Subsequent Options granted to our independent non-employee directors vest in three equal annual installments of 1/3 on each of the first three anniversaries of the date of grant, subject to continuing service as a director. The Annual Grants vest quarterly over a one-year period, subject to continuing service as a director. The term of these options is 10 years, and no portion of an option granted to an independent non-employee director will be exercisable after 10 years from the date of grant. Any unvested portion of such an option will no longer be exercisable after the termination of the independent non-employee director's membership on the board of directors. However, the exercisability of options granted to independent non-employee directors may be accelerated on the occurrence of certain specified extraordinary corporate transactions or events, as explained in "Adjustment in Securities" below.

STOCK PURCHASE RIGHTS, STOCK BONUS RIGHTS AND STOCK BONUSES

The Committee may grant stock purchase rights, stock bonus rights and stock bonuses to our employees and consultants either alone, in addition to or in tandem with the issuance of options under the Plan. Stock purchase rights are rights granted under the Plan to purchase restricted stock. Stock bonus rights are rights granted under the Plan to receive a bonus of restricted stock for past services. Stock bonuses are awards of common stock granted under the Plan as compensation or as bonuses.

The Committee determines:

- - the number of shares subject to any stock purchase rights, stock bonus rights or stock bonuses granted under the Plan;
 - - the price per share for the restricted stock to be issued pursuant to a stock purchase right or stock bonus right and the price per share (if any) for the common stock to be issued pursuant to a stock bonus;
 - - the time period within which a person designated to receive a stock purchase right, stock bonus right or stock bonus must accept such offer; and
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- - any other terms and conditions of the stock purchase right, stock bonus right or stock bonus, consistent with the Plan.

Stock purchase rights and stock bonus rights may only be accepted by execution of a written restricted stock purchase agreement. In the case of a stock bonus, the Committee will advise the offeree how to accept the offer.

The restricted stock purchase agreement will contain such restrictions as the Committee provides, including restrictions concerning voting rights and transferability as well as restrictions based on duration of employment and the satisfaction of performance thresholds.

Unless the Committee provides otherwise, the restricted stock purchase agreement will grant us the right to repurchase the restricted stock acquired upon exercise of a stock purchase right or stock bonus right immediately upon the occurrence of certain events, including, without limitation, a termination of the purchaser's service relationship with us for any reason (including death or disability), divorce, bankruptcy or insolvency. The purchase price for shares repurchased pursuant to this repurchase right, and the rate at which the repurchase right lapses, will be determined by the Committee and set forth in the restricted stock purchase agreement. We intend that the restricted stock purchase agreement will provide that the purchase price for such repurchased shares would be the original price paid by the purchaser.

Nothing in the Plan or in any restricted stock purchase agreement will give any holder of restricted stock any right to remain our employee, consultant or director or will interfere with or restrict in any way our rights to discharge any holder of restricted stock at any time for any reason whatsoever, with or without cause.

ELIGIBILITY

Our employees (including employee directors) and consultants are eligible to receive options, stock purchase rights, stock bonus rights or stock bonuses under the Plan, although incentive stock options may be granted only to our employees. The Committee determines which of our employees will be granted options, stock purchase rights, stock bonus rights or stock bonuses. No person is entitled to participate in the Plan as a matter of right. Only those employees and consultants who are selected to receive grants by the Committee may participate in the Plan. Independent non-employee directors are also eligible to receive grants under the Plan, as explained in "Director Options" above.

ADMINISTRATION OF THE PLAN

The Committee will administer the Plan. The Committee will consist solely of two or more members of our board of directors. A director may serve on the Committee only if he or she is then a "non-employee director" as defined by Rule

16b-3 under the Exchange Act and an "outside director" for purposes of Section 162(m) of the Code.

The Committee conducts the general administration of the Plan in accordance with its provisions. The Committee has the power to:

- - construe and interpret the terms of the Plan and awards granted pursuant to the Plan;
- - adopt rules for the administration, interpretation and application of the Plan that are consistent with the Plan;
- - interpret, amend or revoke any of the newly adopted rules of the Plan; and
- - in accordance with the Plan, delegate the authority to grant awards under the Plan.

The Committee may delegate to other members of the board of directors who do not meet the definitions of "outside director" and "non-employee director" the authority to grant awards to recipients who are not covered by the relevant provisions of Section 162(m) of the Code or Section 16 of the Exchange Act.

Committee members may resign at any time by delivering written notice to the board of directors. Vacancies in the Committee are filled by the board of directors. The board of directors may abolish the Committee at any time and administer the Plan themselves.

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RIGHTS AS A STOCKHOLDER

You will not have any rights as a stockholder as to the shares of common stock covered by an option until we have issued and delivered the shares of common stock issuable to you or your account following exercise of your option. We will not adjust for dividends or distributions or other rights for common stock if the record date for the dividend or distribution is prior to the date of such issuance.

OPTIONS AND STOCK PURCHASE RIGHTS NOT TRANSFERABLE

You generally cannot assign or transfer any option, stock purchase right or stock bonus right granted under the Plan, except by will or the laws of descent or distribution. During your lifetime, only you may exercise the option or other right or award.

REPURCHASE PROVISIONS

An option agreement or restricted stock agreement may provide that we may repurchase shares acquired upon exercise of an option, stock purchase right or stock bonus right upon the occurrence of certain specified events, including termination of the grantee's service relationship with us, the grantee's divorce, or the grantee's bankruptcy or insolvency.

CERTAIN RESTRICTIONS ON RESALE

Employees, officers and directors who are our "affiliates" as defined by the rules and regulations under the Securities Act may offer or sell the shares of common stock they acquire upon exercise of their options under the Plan only if they make such offers and sales:

- - pursuant to an effective registration statement under the Securities Act;
- - pursuant to an appropriate exemption from the registration requirements of the Securities Act; or
- - within the limitations and subject to the conditions set forth in Rule 144 under the Securities Act.

AMENDMENT AND TERMINATION OF THE PLAN

The board of directors may not, without prior stockholder approval:

- - amend the Plan so as to increase the number of shares of stock that may be

issued under the Plan; or

- - extend the term of the Plan.

However, no stockholder approval is required to adjust the number of shares in the event of a merger, stock split or other transaction or event involving a change in our capital structure, as explained in "Adjustment in Securities" below.

The Plan will continue in effect until its termination by the board of directors, but no options, stock purchase rights or stock bonus rights may be issued under the Plan after June 19, 2010. The termination of the Plan will not affect the validity of any option, right or other award then outstanding under the Plan. Except as indicated above, the board of directors may also modify the Plan from time to time. However, no amendment or termination of the Plan may impair the rights of a holder of an option, stock purchase right or stock bonus right without his or her written consent.

ADJUSTMENT IN SECURITIES

In the event of a dividend or other distribution, recapitalization, reclassification, stock split, reorganization, merger, consolidation, split-up, spin-off, combination, dissolution, transfer, exchange, disposition of all or substantially all of our assets, or other similar corporate transaction that affects the common stock, the Committee may appropriately adjust any or all of:

- - the number and kind of shares for which options, stock purchase rights or stock bonus rights may be granted, including adjusting the limits on the number of shares subject to the Plan and the number of shares which any individual may purchase in a calendar year;
- - the number and kind of shares which are subject to outstanding options, stock purchase rights, stock bonus rights or restricted stock; and

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- - the grant or exercise price of any option, stock purchase right or stock bonus right.

In addition, if any such transaction or event occurs, the Committee may take any one or more of the following actions with respect to any option, stock purchase right, stock bonus right or restricted stock granted or issued under the Plan:

- - provide for the purchase of the option, stock purchase right, stock bonus right or restricted stock for the value it would have if it were currently exercisable or payable or fully vested;
- - make the option or other award immediately fully exercisable;
- - have the surviving entity or an affiliate of the surviving entity assume it or substitute similar options, rights, awards or restricted stock;
- - adjust the terms, conditions and criteria included in options, stock purchase rights, stock bonus rights or restricted stock either outstanding or which may be granted in the future; and
- - provide that immediately upon the consummation of any such event the option, stock purchase right or stock bonus right will not be exercisable and will terminate, except that during a specified period of time prior to the completion of the corporate transaction the option, stock purchase right or stock bonus right will be fully exercisable, and the restrictions on restricted stock will terminate (and, in the case of restricted stock, some or all shares may cease to be subject to repurchase).

Subject to certain restraints, the Committee may also include any provisions or limitations in any option, stock purchase right or restricted stock agreement that it deems equitable and in the best interest of the Company.

If the Company undergoes an acquisition and the surviving entity or its affiliate does not assume or substitute for outstanding options, rights, awards or restricted stock under the Plan, then:

- - for participants whose service has not been terminated prior to the acquisition, outstanding options and rights will become fully vested and exercisable and all restrictions on those awards will lapse at least 10 days before the date the acquisition closes (and the options or rights will terminate if not exercised before the date the acquisition closes); and
- - for any other participants, outstanding options and rights will terminate if not exercised before the date the acquisition closes.

If the surviving entity or its affiliate does assume or substitute for outstanding options, rights, awards or restricted stock under the Plan, then a participant's awards will become immediately and fully vested and exercisable if, within nine months after the acquisition, one of the following events occurs:

- - the surviving entity terminates without cause the employee or director status of the participant holding such stock award; or
- - the employee holding such stock award terminates his or her employment either because his or her principal work location was moved more than 50 miles from the existing work location or because there is a material reduction in his or her responsibilities.

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FEDERAL INCOME TAX CONSEQUENCES
ASSOCIATED WITH THE PLAN

The following is a general summary under current law of the material federal income tax consequences to participants in the Plan. This summary deals with the general tax principles that apply and is provided only for general information. Some kinds of taxes, such as foreign, state and local income taxes, are not discussed. Tax laws are complex and subject to change and may vary depending on individual circumstances and from locality to locality. The summary does not discuss all aspects of income taxation that may be relevant to you in light of your personal investment circumstances. This summarized tax information is not tax advice.

YOU ARE ADVISED TO CONSULT YOUR OWN ADVISOR AS TO THE SPECIFIC TAX CONSEQUENCES OF PARTICIPATING IN THE PLAN.

NON-QUALIFIED STOCK OPTIONS

For federal income tax purposes, if you are granted non-qualified stock options under the Plan, you will not have taxable income on the grant of the option, nor will we be entitled to any deduction. Generally, on exercise of non-qualified stock options you will recognize ordinary income, and we will be entitled to a deduction, in an amount equal to the difference between the option exercise price and the fair market value of the common stock on the date of exercise. Your basis for the stock for purposes of determining your gain or loss on subsequent disposition of such shares generally will be the fair market value of the common stock on the date you exercise the option. Any subsequent gain or loss will be generally taxable as capital gains or losses.

INCENTIVE STOCK OPTIONS

There is no taxable income to you when you are granted an incentive stock option or when that option is exercised. However, the amount by which the fair market value of the shares at the time of exercise exceeds the option price will be an "item of adjustment" for you for purposes of the alternative minimum tax. Gain realized by you on the sale of shares of stock acquired through the exercise of an incentive stock option is taxable at capital gains rates, and no tax deduction is available to us, unless you dispose of the shares (1) within two years after the date of grant of the option or (2) within one year of the date the shares were transferred to you. If the shares of common stock are sold or otherwise disposed of before the end of the one-year and two-year periods specified above, the difference between the option exercise price and the fair market value of the shares on the date of the option's exercise will be taxed at ordinary income rates, and we will be entitled to a deduction to the extent you must recognize ordinary income. If such a sale or disposition takes place in the year in which you exercise the option, the income you recognize upon your sale or disposition of the shares will not be considered income for alternative

minimum tax purposes. Otherwise, if you sell or otherwise dispose the shares before the end of the one-year and two-year periods specified above, the maximum amount that will be included as alternative minimum tax income is the gain, if any, you recognize on the disposition of the shares.

An incentive stock option exercised more than three months after you terminate employment, other than by reason of death or disability, will be taxed as a non-qualified stock option, and you will have been deemed to have received income on the exercise taxable at ordinary income rates. We will be entitled to a tax deduction equal to the ordinary income, if any, realized by you.

STOCK PURCHASE RIGHTS, STOCK BONUS RIGHTS AND RESTRICTED STOCK

For federal income tax purposes, if you are granted a stock purchase right or stock bonus right, you generally will not have taxable income on the grant of such right, nor will we then be entitled to any deduction. Generally, on the purchase or acquisition of restricted stock pursuant to a stock purchase right or stock bonus right, you will also not have taxable income, nor

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will we be entitled to a deduction, unless you make a valid election under Section 83(b) of the Code. However, when restrictions on shares of restricted stock lapse, such that the shares are no longer subject to a substantial risk of forfeiture, you generally will recognize ordinary income, and we will be entitled to a corresponding deduction, for an amount equal to the difference between the fair market value of the shares at the date such restrictions lapse over the purchase price for the restricted stock. If you make a valid election under Section 83(b) with respect to restricted stock, you generally will recognize ordinary income at the date of issuance of the restricted stock in an amount equal to the difference, if any, between the fair market value of the shares at that date over the purchase price for the restricted stock, and we will be entitled to a deduction for the same amount.

STOCK BONUSES

For federal income tax purposes, if you are granted a stock payment in the form of a stock bonus, then you generally will recognize ordinary income, and we will be entitled to a deduction, in an amount equal to the fair market value of the common stock on the date you receive the stock bonus. Your basis for the stock for purposes of determining your gain or loss on subsequent disposition of such shares generally will be the fair market value of the common stock on the date you receive the stock bonus. Any subsequent gain or loss will generally be taxable as a capital gain or loss.

SECTION 162(m) OF THE CODE

In general, under Section 162(m) of the Code, income tax deductions of publicly held corporations may be limited to the extent total compensation (including base salary, annual bonus, stock option exercises and non-qualified benefits) for certain executive officers exceeds \$1,000,000 (less the amount of any "excess parachute payments" as defined in Section 280G of the Code) in any taxable year of the corporation. However, under Section 162(m), the deduction limit does not apply to certain "performance-based" compensation.

Stock options will satisfy the "performance-based" exception if (1) the awards are made by a qualifying compensation committee, (2) the plan sets the maximum number of shares that can be granted to any person within a specified period and (3) the compensation is based solely on an increase in the stock price after the grant date.

Stock purchase rights, stock bonus rights and stock bonuses granted under the Plan would not qualify as "performance based compensation."

OTHER TAX CONSEQUENCES

We recommend that you consult your personal tax advisors with respect to the federal, foreign (if applicable), state and local tax aspects of option grants, option exercises and any subsequent dispositions of common stock acquired under the Plan.

