

SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, D.C. 20549

FORM S-8
 REGISTRATION STATEMENT
 UNDER
 THE SECURITIES ACT OF 1933

CAPSTONE TURBINE CORPORATION
 (EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE 95-4180883
 (STATE OR OTHER JURISDICTION OF (I.R.S. EMPLOYER
 INCORPORATION OR ORGANIZATION) IDENTIFICATION NO.)

21211 NORDHOFF STREET
 CHATSWORTH, CALIFORNIA 91311
 (818) 734-5300
 (ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING
 AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

DEFERRED COMPENSATION PLAN OF CAPSTONE TURBINE CORPORATION
 (FULL TITLE OF THE PLAN)

DR. AKE ALMGREN
 PRESIDENT AND CHIEF EXECUTIVE OFFICER
 CAPSTONE TURBINE CORPORATION
 21211 NORDHOFF STREET
 CHATSWORTH, CALIFORNIA 91311
 (818) 734-5300
 (NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE,
 OF AGENT FOR SERVICE)

COPY TO:
 BRIAN CARTWRIGHT
 LATHAM & WATKINS
 633 WEST 5TH STREET, SUITE 4000
 LOS ANGELES, CALIFORNIA 90071
 (213) 485-1234

CALCULATION OF REGISTRATION FEE

<TABLE>
 <CAPTION>

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (2)	AMOUNT OF REGISTRATION FEE
<S> Deferred Compensation Obligations (1).....	<C> \$2,713,500	<C> \$2,713,500	<C> \$678.38

</TABLE>

(1) The deferred compensation obligations to which this Registration Statement relates (the "Deferred Compensation Obligations") arise under the Deferred Compensation Plan of Capstone Turbine Corporation (the "Plan") and are unsecured obligations of Capstone Turbine Corporation ("Capstone") to pay deferred compensation in the future pursuant to compensation deferral elections made by participants in the Plan in accordance with the terms of the Plan.

- (2) *Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) of the Securities Act of 1933, as amended.*

PART II
INFORMATION REQUIRED IN THE REGISTRATION STATEMENT

ITEM 3. INCORPORATION OF DOCUMENTS BY REFERENCE.

The following documents, which have been filed with the Securities and Exchange Commission (the "Commission") pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are hereby incorporated by reference in, and shall be deemed to be a part of, this Registration Statement:

- (a) *Capstone's Annual Report on Form 10-K for the fiscal year ended December 31, 2000; and*
- (b) *Capstone's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001.*

All documents filed by Capstone pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act after the date of this Registration Statement and prior to the filing of a post-effective amendment which indicates that all securities offered have been sold or which deregisters all securities then remaining unsold are incorporated by reference in this Registration Statement. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Registration Statement to the extent that a statement contained herein, or in any subsequently filed document which also is or is deemed to be incorporated by reference herein, modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute part of this Registration Statement.

ITEM 4. DESCRIPTION OF SECURITIES.

The following description of the deferred compensation obligations of Capstone under the Deferred Compensation Plan of Capstone Turbine Corporation (the "Plan") is qualified by reference to the Plan. Capitalized terms used in this Item 4 and not otherwise defined in this Registration Statement shall have the respective meanings attributed to such terms in the Plan.

The deferred compensation obligations incurred by Capstone under the Plan are unsecured general obligations of Capstone, and will rank equally with other unsecured and unsubordinated indebtedness of Capstone, from time to time outstanding, payable from the general assets of Capstone.

Under the Plan, Capstone selects each Eligible Participant among the Executives by resolution of the Board of Directors and provides the Eligible Participant with the opportunity in each Plan Year to elect to defer up to 90% of his base Compensation and up to 90% of his bonus, if any. The portion of the Participant's Compensation and bonus that is deferred depends on the Participant's election in effect at the beginning of each Plan Year as set forth in a Deferral Agreement entered into with Capstone before the first day of each Plan Year. In addition, Capstone may make a matching contribution for a Plan Year and contribute an additional amount at any time or times during a Plan Year. Capstone maintains a separate bookkeeping Deferral Account and Employer Contribution Account for each Participant.

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The amounts in each Participant's Deferral Account and Employer Contribution Account represent an obligation of Capstone to pay to the Participant at some time in the future. The amount that Capstone is required to pay under the terms of the Plan is equal to (a) the deferrals made by the Participants, (b) the contributions made by Capstone, (c) the interest earnings on the Participants' Accounts at prime interest rate set by Wells Fargo Bank plus one percent (1%) per year (the "Earnings Rate"), plus (d) in the event the Participants choose an investment option that Capstone may offer from time to time, in lieu of the Earnings Rate, hypothetical gains or losses attributable

to the deemed investment of such investment option which are credited to the Participants' Accounts. Currently, no investment options are offered under the Plan.

Each Participant is immediately vested in the Deferral Account (and income and gain attributable thereto). A Participant becomes vested in the Employer Contribution Account (and income and gain attributable thereto) upon completing three (3) Years of Vesting Service, subject to earlier vesting in certain circumstances.

The amounts payable to the Participants under the Plan are distributed in accordance with the distribution provisions of the Plan. Generally, such distributions are made upon termination of employment, death, disability, a Change in Control or an Unforeseeable Emergency. A Participant must execute an Agreement Against Unfair Competition prior to distribution of any amounts in the Employer Contribution Account.

Capstone reserves the right to amend the Plan, provided that such amendment does not result in any reduction of amounts in the Participants' Accounts, as of the date of such amendment. Capstone also reserves the right to terminate the Plan, provided that Capstone makes a single lump sum distribution of the amounts in the Participants' Accounts within fifteen (15) days of the Plan's termination date.

ITEM 5. INTERESTS OF NAMED EXPERTS AND COUNSEL.

Not applicable.

ITEM 6. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Section 145 of the Delaware General Corporation Law (the "DGCL") generally allows Capstone to indemnify directors and officers for all expenses, judgments, fines and amounts in settlement actually paid and reasonably incurred in connection with any proceedings so long as such party acted in good faith and in a manner reasonably believed to be in or not opposed to Capstone's best interests and, with respect to any criminal proceedings, if such party had no reasonable cause to believe his or her conduct to be unlawful. Indemnification may only be made by Capstone if the applicable standard of conduct set forth in Section 145 has been met by the indemnified party upon a determination made (i) by the Board of Directors by a majority vote of the directors who are not parties to such proceedings, even though less than a quorum, or (ii) by a committee of such directors designated by majority vote of such directors, even though less than a quorum, or (iii) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (iv) by the stockholders.

Capstone has adopted provisions in its Second Amended and Restated Certificate of Incorporation (the "Certificate"), which require Capstone, to the fullest extent permitted by the

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DGCL, to indemnify all directors and officers of Capstone, and such other persons as may be required by statute or by Capstone's bylaws (the "Bylaws"), against any liability and to advance indemnification expenses on behalf of all directors and officers of Capstone. The Certificate further requires Capstone to eliminate, to the fullest extent permitted by the DGCL, the liability for monetary damages of directors of Capstone for actions or inactions taken by them as directors. If the DGCL is later amended to authorize corporate action further limiting or eliminating the personal liability of directors, then the Certificate provides that the liability of a director to Capstone shall be limited or eliminated to the fullest extent permitted by the DGCL, as so amended from time to time.

The Certificate also empowers Capstone, to the fullest extent permitted by the DGCL, to purchase and maintain insurance on behalf of any director or officer, or such other person as may be permitted by statute or the Bylaws, against any liability which may be asserted against any director, officer or such other person.

In addition, the Bylaws require that Capstone indemnify, in the manner

and to the full extent permitted by law, any person (or the estate of any person) who was or is a party to, or is threatened to be made a party to, any threatened, pending or completed action, suit or proceeding, whether or not by or in the right of Capstone, and whether civil, criminal, administrative, investigative or otherwise, by reason of the fact that such person is a director or officer of Capstone, and at the discretion of the board of directors may indemnify any person (or the estate of any person) who is such a party or threatened to be made such a party by reason of the fact that such person is or was an employee or agent of Capstone or is or was serving at Capstone's request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise. Capstone may, to the full extent permitted by law, purchase and maintain insurance on behalf of any such person against any liability which may be asserted against him and may enter into contracts providing for the indemnification of such person to the full extent permitted by law. To the full extent permitted by law, the indemnification provided under the Bylaws shall include expenses (including attorneys' fees), judgments, fines and amounts paid in settlement, and, in the manner provided by law, any such expenses may be paid by Capstone in advance of the final disposition of such action, suit or proceeding. The indemnification provided under the Bylaws shall not be deemed to limit Capstone's right to indemnify any other person for any such expenses to the full extent permitted by law, nor shall it be deemed exclusive of any other rights to which any person seeking indemnification from Capstone may be entitled under any agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office.

Capstone has entered into indemnity agreements (the "Indemnity Agreements") with each director of Capstone, including directors who are also officers and employees of Capstone, and certain senior officers of Capstone. The Indemnity Agreements provide that Capstone will pay any expenses which an indemnitee is or becomes legally obligated to pay in connection with any proceeding, including any threatened, pending or completed claim, action, suit or proceeding, whether brought by or in the right of Capstone or otherwise and whether of a civil, criminal, administrative or investigative nature, in which the indemnitee may be or may have been involved as a party or otherwise, by reason of the fact that the indemnitee is or was, or has agreed to become, a director or officer of Capstone, by reason of any actual or alleged error or misstatement or misleading statement made or suffered by the indemnitee, by reason of any

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action taken by him or of any inaction on his part while acting as such director or officer, or by reason of the fact that he was serving at the request of Capstone as a director, trustee, officer, employee or agent of Capstone or another corporation, partnership, joint venture, trust or other enterprise; provided, that in each such case the indemnitee acted in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of Capstone, and, in the case of a criminal proceeding, in addition had no reasonable cause to believe that his conduct was unlawful.

The payments to be made under the Indemnity Agreements include, but are not limited to, damages, judgments, fines, penalties, settlements and costs, attorneys' fees and disbursements and costs of attachment or similar bonds, investigations, and any expenses of establishing a right to indemnification under the Indemnity Agreement, except Capstone is not liable to make any payment under the Indemnity Agreements in connection with any claim made against an indemnitee (a) to the extent that payment is actually made to the indemnitee under a valid, enforceable and collectible insurance policy, (b) to the extent that the indemnitee is indemnified and actually paid otherwise than pursuant to the Indemnity Agreement, (c) in connection with a judicial action by or in the right of Capstone, in respect of any claim, issue or matter as to which the indemnitee shall have been adjudged to be liable for negligence or misconduct in the performance of his duty to Capstone unless and only to the extent that any court in which such action was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, the indemnitee is fairly and reasonably entitled to indemnity for such expenses as such court shall deem proper, (d) if it is proved by final judgment in a court of law or other final adjudication to have been based upon or attributable to the indemnitee's in fact having gained any personal profit or

advantage to which he was not legally entitled, (e) for a disgorgement of profits made from the purchase and sale by the indemnitee of securities pursuant to Section 16(b) of the Exchange Act and amendments thereto or similar provisions of any state statutory law or common law, (f) brought about or contributed to by the dishonesty of the indemnitee seeking payment pursuant to the Indemnity Agreement; however, notwithstanding the foregoing, the indemnitee shall be protected under the Indemnity Agreement as to any claims upon which suit may be brought against him by reason of any alleged dishonesty on his part, unless a judgment or other final adjudication thereof adverse to the indemnitee shall establish that he committed (i) acts of active and deliberate dishonesty, (ii) with actual dishonest purpose and intent, (iii) which acts were material to the cause of action so adjudicated, or (g) for any judgment, fine or penalty which Capstone is prohibited by applicable law from paying as indemnity or for any other reason.

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ITEM 7. EXEMPTION FROM REGISTRATION CLAIMED.

Not applicable.

ITEM 8. EXHIBITS.

- + 4.1 Deferred Compensation Plan of Capstone Turbine Corporation.
- + 5.1 Opinion of Latham & Watkins.
- + 23.1 Consent of Deloitte & Touche LLP.
- + 23.2 Consent of Latham & Watkins (included in Exhibit 5.1).
- + 24.1 Power of Attorney with respect to Capstone (see page S-1).

- -----
+ Filed herewith.

ITEM 9. UNDERTAKINGS.

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933, as amended (the "Securities Act");

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided, however, that paragraphs (1)(i) and (1)(ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Securities and Exchange Commission by the registrant pursuant to

Section 13 or Section 15(d) of the Exchange Act that are incorporated by reference in the registration statement.

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

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Chatsworth, State of California, on July 31, 2001.

CAPSTONE TURBINE CORPORATION

By: /s/ AKE ALMGREN

Name: Dr. Ake Almgren
Title: President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below on this Registration Statement hereby constitutes and appoints Dr. Ake Almgren and Jeffrey Watts their true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for them and in their name, place and stead, in any and all capacities (unless revoked in writing) to sign any and all amendments to this Registration Statement to which this power of attorney is attached, including any post-effective amendments as well as any related registration statement (or amendment thereto) filed in reliance upon Rule 462(b) under the Securities Act of 1933, as amended, and to file the same,

with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting to such attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done in connection therewith, as fully to all intents and purposes as they might and could do in person hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

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

<TABLE>
<CAPTION>

Signature -----	Title -----	Date ----
<S> /s/ AKE ALMGREN ----- Dr. Ake Almgren	<C> President, Chief Executive Officer and Director (Principal Executive Officer)	<C> July 27, 2001
/s/ JEFFREY WATTS ----- Jeffrey Watts	Secretary and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	July 27, 2001
/s/ RICHARD AUBE ----- Richard Aube	Director	July 27, 2001

</TABLE>

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<TABLE>

<S> /s/ JOHN JAGGERS ----- John Jagers	<C> Director	<C> July 27, 2001
/s/ JEAN-RENE MARCOUX ----- Jean-Rene Marcoux	Director	July 27, 2001
/s/ JOHN G. MCDONALD ----- John G. McDonald	Director	July 27, 2001
/s/ BENJAMIN M. ROSEN ----- Benjamin M. Rosen	Director	July 27, 2001
/s/ ERIC YOUNG ----- Eric Young	Director	July 27, 2001

</TABLE>

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INDEX TO EXHIBITS

<TABLE>
<CAPTION>

SEQUENTIALLY NUMBERED EXHIBIT -----	DESCRIPTION -----
<S>	<C>

- +4.1 *Deferred Compensation Plan of Capstone Turbine Corporation.*
- +5.1 *Opinion of Latham & Watkins.*
- +23.1 *Consent of Deloitte & Touche LLP.*
- +23.2 *Consent of Latham & Watkins (included in Exhibit 5.1).*
- +24.1 *Power of Attorney with respect to Capstone (see page S-1).*

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+ Filed herewith.

DEFERRED COMPENSATION PLAN
OF CAPSTONE TURBINE CORPORATION

ARTICLE I
PURPOSE

Capstone Turbine Corporation (the "Company") hereby establishes the Deferred Compensation Plan of Capstone Turbine Corporation (the "Plan"), effective as of August 1, 2001. The purpose of the Plan is to provide a means for the payment of unfunded, deferred compensation to a select group of key management executives of the Company and Related Employers (collectively referred to as the "Employer") in recognition of their substantial contributions to the operation of the Employer, and to provide those executives with additional financial opportunity as an inducement to remain in the employment of the Employer.

ARTICLE II
DEFINITIONS AND RULES OF CONSTRUCTION

Section 2.1. Definitions. As used in the Plan, the following words and phrases, when capitalized, have the following meanings, except when used in a context that plainly requires a different meaning:

(a) "Accounts" means the Deferral Account and the Employer Contribution Account.

(b) "Beneficiary" means the beneficiary or beneficiaries designated by a Participant in writing to receive the payment of benefits provided under this Plan following the Participant's death. In the absence of a designation, the Beneficiary shall be the Participant's spouse, if the spouse survives the Participant, or if the spouse does not survive the Participant or the Participant is not married, then the Participant's estate.

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

(d) "Change of Control" means the occurrence of any of the following events:

(i) If the Company's rights under the Plan are transferred to an Unaffiliated Entity;

(ii) If an Unaffiliated Entity acquires, during any consecutive twelve (12) month period, all or substantially all of Company's operating assets;

(iii) In the event of a reorganization, merger, or consolidation of Company, unless at least 60% of the shares or membership interests and at least 60% of the voting power of the resulting entity are beneficially held, directly or indirectly, by the legal entities who were the beneficial holders of the shares or

membership interests and of the voting power of Company immediately before the reorganization, merger, or consolidation;

(iv) In the event of a complete liquidation or dissolution of Company;

(v) If within a twelve (12) month period, the individuals who constitute the voting membership of the Board of Directors cease to constitute at least a majority of the voting

membership of the Board of Directors.

(e) "Company" means Capstone Turbine Corporation.

(f) "Compensation" means, with respect to an Eligible Participant, compensation (as defined in paragraph 415(c)(3) of the Internal Revenue Code of 1986, as amended) paid by the Employer to an Eligible Participant during the Plan Year, plus election deferrals to any Company 401(k) plan and salary reduction contributions under the Company's Flexible Benefits Plan, and any amounts deferred by an Eligible Participant under this Plan.

(g) "Deferral Account" means the bookkeeping entry which accounts for the cumulative amount of Compensation, which an Eligible Participant has deferred in accordance with Section 4.1, adjusted for any earnings.

(h) "Deferral Agreement" means the written agreement between the Employer and the Participant pursuant to which the Participant elects to defer Compensation under the Plan.

(i) "Earnings Rate" means prime interest rate plus one percent per annum, except as provided for in Section 6.2(b). Prime interest rate shall be that set by Wells Fargo Bank.

(j) "Eligible Participant" means, with respect to a Plan Year, a Participant who is eligible to have his Account credited with contributions for that Plan Year pursuant to Articles IV and V.

(k) "Employer Contribution" means the contributions, if any, credited by the Employer pursuant to Sections 5.1 and 5.2.

(l) "Employer Contribution Account" means the bookkeeping entry which accounts for each Participant's total Employer Contributions, adjusted for any earnings or losses attributable to such account.

(m) "Executive" means a key management employee of the Employer who has the opportunity to impact significantly the annual operating success of the Company or a Related Employer.

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(n) "Participant" means an Executive selected by the Board of Directors to participate in the Plan pursuant to Section 3.1.

(o) "Plan Year" means August 1, 2001, to December 31, 2001, and thereafter, the calendar year.

(p) "Related Employer" means a subsidiary of the Company.

(q) "Retirement" means the voluntary Termination of Employment by a Participant who has reached at least age 65.

(r) "Termination of Employment" means the cessation of the relationship of employer and employee between the Employer and the Participant by reason of death, resignation or discharge. A Participant shall not be treated as having incurred a Termination of Employment until the employment relationship between the Participant and all Related Employers has terminated.

(s) "Total Disability" means the individual has been found by the insurance company providing the group long-term disability policy for the Company to be entitled to benefits as a result of Total Disability, as therein defined.

(t) "Total Disability Date" means the date upon which a Participant's Total Disability benefits under the Company's group long-term disability policy commence.

(u) "Unaffiliated Entity" means an individual, entity, or group (within the meaning of section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934), except the Company, a legal entity of which the

Company owns at least 60% of the beneficial ownership, or an employee benefit plan maintained by the Company.

(v) "Unforeseeable Emergency" means, with respect to a Participant or Beneficiary, a severe financial hardship to the Participant or Beneficiary resulting from a sudden and unexpected illness or accident of the Participant, Beneficiary, or his or her dependents; loss of the Participant's or Beneficiary's property due to casualty; or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the Participant's or Beneficiary's control.

Section 2.2. Rules of Construction. The following rules of construction shall govern in interpreting the Plan:

(a) The provisions of the Plan shall be construed and governed in all respects under and by the internal laws of the State of California, to the extent not preempted by federal law.

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(b) Words used in the masculine gender shall be construed to include the feminine gender, where appropriate, and vice versa.

(c) Words used in the singular shall be construed to include the plural, where appropriate, and vice versa.

(d) The headings and subheadings in the Plan are inserted for convenience of reference only and are not to be considered in the construction of any provision of the Plan.

(e) If any provision of the Plan shall be held to be illegal or invalid for any reason, that provision shall be deemed to be null and void, but the invalidation of that provision shall not otherwise impair or affect the Plan.

(f) The Plan is intended to be an unfunded deferred compensation plan for a select group of management or highly compensated employees that is exempt from Parts 2, 3, and 4 of Subtitle B of Title I of the Employee Retirement Income Security Act of 1974.

ARTICLE III PARTICIPATION

Section 3.1. Commencement of Participation. The Company shall designate each Executive who is to become an Eligible Participant by resolution of the Board of Directors and by identifying the Executive as an Eligible Participant on the attached Appendix.

Section 3.2. Termination of Participation. At any time, the Company may determine that an Executive shall cease to be an Eligible Participant. In that event, the Executive shall not receive further contributions to his Account, but he shall continue as a Participant and shall continue to have earnings allocated to his Account, until his Accounts have been distributed or forfeited in full.

ARTICLE IV DEFERRAL OF COMPENSATION

Section 4.1. Election to Defer Compensation. For the Plan Year beginning on August 1, 2001, and each January 1 thereafter, and before the Participant's Termination of Employment, a Participant may make separate elections to defer up to 90% of his base Compensation and 90% of his bonus, if any, for such Plan Year.

Section 4.2. Deferral Agreement. Filing a completed Deferral Agreement with the Company before the first day of that Plan Year completes a Participant's deferral election for the Plan Year. The Company shall provide each Participant with a Deferral Agreement within a reasonable period of time before the beginning of each Plan Year. An election made pursuant to this Section shall be effective as of the first day of the Plan Year following the Company's receipt of the election and shall be irrevocable for the Plan Year.

Section 4.3. Taxes and Recordkeeping.

(a) Notwithstanding any of the foregoing, a Participant must be entitled to receive sufficient Compensation to pay any and all taxes incurred as a result of his deferral, including, but not limited to, social security taxes.

(b) At the end of each calendar quarter, the Employer shall credit to the Participant's Deferral Account all amounts deferred by him during such period.

ARTICLE V
EMPLOYER CONTRIBUTIONS

Section 5.1. Matching Contribution. The Company may, in its sole discretion, establish an Employer match for a Plan Year and the basis upon which such match shall be calculated and credited to the Participant's Employer Contribution Account.

Section 5.2. Discretionary Contribution. The Company, in its discretion, may credit an additional amount to a Participant's Employer Contribution Account at any time or times during a Plan Year.

ARTICLE VI
PARTICIPANTS' ACCOUNTS

Section 6.1. Accounts. The Company shall create and maintain adequate records to disclose the interest in the Plan of each Participant and Beneficiary. Records shall be in the form of individual bookkeeping accounts. Each Participant shall have a separate Deferral Account and Employer Contribution Account.

Section 6.2. Earnings.

(a) At the end of each calendar quarter, each Participant's Deferral and Employer Contribution Accounts, including any amount credited on the last day of such year, shall be credited with the Earnings Rate.

(b) Notwithstanding the foregoing, the Company may, from time to time, offer investment options, the performance of which will be deemed to be the Earnings Rate, to the extent selected by a Participant. The deemed investment of a Participant among the investment options is solely a measure of the investment performance of the Account. It does not give the Participant any ownership interest in any investment option, nor does it bind the Company or the trustee, if applicable, as to the investment of any Rabbi Trust or any other amounts represented by the Account. The Company shall adopt procedures to administer such investment options.

Section 6.3. Valuation of Accounts. The value of a Participant's Accounts as of any date shall equal the dollar amount of the Participant's deferrals made pursuant to Section 4.1 and the Employer's credits pursuant to Sections 5.1 and 5.2, adjusted pursuant to Section 6.2, and decreased by the amount of any payments made from the respective Accounts to the Participant or his Beneficiary.

Section 6.4. Annual Report. Within 90 days following the end of each Plan Year, the Company shall provide to each Participant a written statement of the amount credited to each of his separate Accounts as of the end of that year.

ARTICLE VII
VESTING

Section 7.1. Vesting.

(a) A Participant shall always be 100% vested in his Deferral Account.

(b) Subject to Article VIII, a Participant shall vest in his Employer Contribution Account as follows:

<TABLE>

<CAPTION>

Years of Vesting Service	Vested Percentage
3 or less	0%
3 or more	100%

</TABLE>

Section 7.2. Accelerated Vesting. Subject to Article VIII, in the event of death, Retirement, Total Disability, Change of Control or termination of the Plan, any unvested portion of Employer Contribution Account shall become 100% vested.

Section 7.3. Year of Vesting Service. A Participant shall be credited with one Year of Vesting Service for each complete Plan Year he is actively employed by the Employer and is a Participant in the Plan.

ARTICLE VIII

AGREEMENT AGAINST UNFAIR COMPETITION AND FORFEITURE

Section 8.1. Agreement Against Unfair Competition. Notwithstanding anything to the contrary contained herein, a Participant must execute an Agreement Against Unfair Competition (the "Agreement") prior to the distribution of any amount from the Employer Contribution Account, substantially in the form attached hereto as Exhibit "A." The Company, in its sole discretion, will determine the "Area of Unfair Competition," in Paragraph 2 of the Agreement on the date of such Participant's termination. The Company reserves the right to modify the Agreement on an individual basis. In the event a Participant fails to execute the Agreement within fifteen (15) days of his Termination of Employment for any reason other than death, his entire Employer Contribution Account

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shall be immediately forfeited. If the Company, in its sole discretion, determines that the Participant has breached the Agreement at any time after its execution by the parties, any remaining amount in the Participant's Employer Contribution Account shall be forfeited.

Section 8.2. Forfeiture For Cause. If a Participant is terminated "For Cause," as herein defined, any and all amounts credited to his Employer Contribution Account shall be immediately forfeited. "For Cause" means any termination by the Company for any civil or criminal conduct that causes harm, financial or otherwise, to the Company. The Company has the sole discretion to determine what acts or omissions constitute For Cause. In the event the Company determines that it had grounds to terminate For Cause, it shall notify the Participant of the funding and forfeiture of his account.

ARTICLE IX

PAYMENT OF DEFERRED COMPENSATION

Section 9.1. Termination of Employment or Total Disability Benefit.

(a) Upon a Participant's Termination of Employment or his Total Disability Date, his vested Accounts shall be distributed in five (5) annual installments as provided in Subsection 9.1(b). The first annual installment shall be paid as soon as administratively possible, but in no event later than ninety (90) days following the Participant's Termination of Employment or his Total Disability Date, and subsequent annual installments shall be paid on the anniversary of the initial payment.

(b) Each annual installment shall be equal to the remaining vested Account, determined as of the first day of the month preceding the distribution date, multiplied by the following respective percent:

First Annual Installment 20%
Second Annual Installment 25%
Third Annual Installment 50%

Fourth Annual Installment 75%
Fifth Annual Installment 100%

(c) Notwithstanding the foregoing, if, and only if, a Participant's balance in his Accounts is less than \$100,000 on his Termination of Employment or Total Disability Date, then the entire balance shall be paid in a single lump-sum as soon as administratively feasible, but in no event later than ninety (90) days after such date.

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Section 9.2. Distribution Upon Death.

(a) In the event a Participant dies prior to the commencement of benefits under the Plan, his Beneficiary shall receive benefits as follows:

(1) If the Participant's Accounts are less than One Hundred Thousand Dollars (\$100,000.00) as of the date of his death, the Accounts shall be distributed in full as soon as administratively feasible, but in no event later than ninety (90) days after the date that the Company was notified of his death.

(2) In the event the Participant's Accounts are in excess of One Hundred Thousand Dollars (\$100,000.00) as of the date of his death, the Beneficiary shall receive a distribution in accordance with Subsection 9.1(b).

(b) In the event a Participant has commenced receiving benefits and subsequently dies, his Beneficiary shall be entitled to receive the remainder of the annual installments in accordance with the schedule set forth in Section 9.1(b).

Section 9.3. Change of Control. In the event a Participant is terminated within twelve (12) months of a Change of Control, a Participant's entire Account shall be distributed to him within sixty (60) days after the later of his Termination of Employment or the Change of Control.

Section 9.4. Distribution Upon Unforeseeable Emergency. A Participant or Beneficiary, upon written petition to the Company's chief financial officer, may withdraw some or all of the balance of the Participant's Deferral Account if the chief financial officer, in its sole discretion, determines that the requested withdrawal is on account of an Unforeseeable Emergency and that the amount to be withdrawn does not exceed the amount necessary to satisfy the Unforeseeable Emergency. Withdrawals under this Section shall not be permitted to the extent that the Unforeseeable Emergency may reasonably be relieved through (a) reimbursement or compensation by insurance or otherwise, (b) liquidation of the Participant's or Beneficiary's assets (to the extent liquidation would not itself cause a financial hardship), or (c) suspension or cessation of elective deferrals under this Plan or the Profit Sharing Plan.

Section 9.5. Distribution Alternatives. The Board of Directors authorizes and empowers the President of the Company to establish such other distribution alternatives for Deferral Accounts, as he deems desirable; provided, however, that the Board of Directors reserves the right to modify or revoke such alternatives. Such distribution alternatives shall be set forth in an addendum to the Plan and distributed to members of the Board of Directors at least thirty (30) days prior to their effective date. The distribution alternatives shall supersede any conflicting provision of this Article IX.

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**ARTICLE X
ADMINISTRATION**

Section 10.1. Administrator. The Company shall be the Administrator of the Plan.

Section 10.2. Powers and Duties of the Administrator . Subject to the

specific limitations stated in this Plan, the Administrator shall have the following powers and duties:

- (a) to carry out the general administration of the Plan;
- (b) to cause to be prepared all forms necessary or appropriate for the administration of the Plan;
- (c) to keep appropriate books and records;
- (d) to determine amounts to be disbursed to Participants and others under the provisions of the Plan;
- (e) to determine, consistent with the provisions of this instrument, all questions of eligibility, rights, and status of Participants and others under the Plan;
- (f) to exercise all other powers and duties specifically conferred upon the Administrator elsewhere in this instrument;
- (g) to interpret, with discretionary authority, the provisions of this Plan and to resolve, with discretionary authority, all disputed questions of Plan interpretation and benefit eligibility;
- (h) to incur reasonable expenses in the performance of its duties; and
- (i) to delegate any of its powers and/or duties, including its discretionary authority, to the Company.

Section 10.3. *Correction of Defects.* The Administrator may correct any defect or supply any omission or reconcile any error or inconsistency in its previous proceedings, decisions, orders, directions, or other actions in such manner and to such extent as it shall deem advisable to carry out the purposes of the Plan.

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ARTICLE XI
FUNDING

Section 11.1. *Plan Unfunded.* The obligation to pay benefits under the Plan represents only a contractual obligation of the Company to make payments when due. The Company's obligation to pay benefits shall not be secured in any way, and neither shall set aside assets beyond the reach of their general creditors for the purpose of paying benefits under the Plan.

Section 11.2. *Insurance Contracts.* The Company may determine, in its sole discretion, to purchase one or more life insurance contracts on the Participant's life as a means of reserving assets to pay its obligations under the Plan. In that event, the Participant shall, as a condition to receiving any benefits under the Plan, consent to the purchase of that insurance, execute any application or other forms that the insurer reasonably requires, and make other reasonable efforts to permit the Company to obtain that insurance. A Participant or Beneficiary shall not have any interest in, or claim to, any such life insurance policy.

Section 11.3. *Rabbi Trust.* The Company may determine, in its sole discretion, to establish a Rabbi Trust. In such event, the Company may, from time to time, transfer assets to the trust, but shall not be required to transfer funds if it so decides.

ARTICLE XII
MISCELLANEOUS

Section 12.1. *Relationship.* Notwithstanding any other provision of this Plan, this Plan and action taken pursuant to it shall not be deemed or construed to establish a trust or fiduciary relationship of any kind between or among the Employer, the Participant, the Beneficiary, or any other persons. The right of the Participant and the Beneficiary to receive payment of deferred compensation is strictly a contractual right to payment, and this Plan does not grant nor shall it be deemed to grant the Participant, the Beneficiary, or any other

person any interest in or right to any of the funds, property, or assets of the Employer other than as a general creditor of the Employer.

Section 12.2. Other Benefits and Plans. Nothing in the Plan shall be deemed to prevent the Participant from receiving, in addition to the deferred compensation provided for under the Plan, any funds that may be distributable to him at any time under any other present or future retirement or incentive plan of the Employer.

Section 12.3. Alienation of Benefits. Neither the Participant nor any Beneficiary shall have the power to transfer, assign, pledge, alienate, or otherwise encumber in advance any of the payments that may become due under the Plan, and any attempt to do so shall be void. Any payments that may become due under the Plan shall not be subject to attachment, garnishment, or execution or be transferrable by operation of law in the event of bankruptcy, insolvency, or otherwise.

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Section 12.4. Benefit. This Plan shall be binding upon and inure to the benefit of the Employer and its successors and assigns.

Section 12.5. No Employment Guarantee. Except as otherwise expressly provided, neither the Plan nor any action taken hereunder shall be deemed to give a Participant the right to be retained as an Employee of the Employer or to interfere with the right of the Employer to alter the responsibilities and duties or to discharge the Participant at any time.

Section 12.6. Tax Withholding. The Employer may withhold from any payment due hereunder any taxes required to be withheld under applicable federal, state, or local tax laws or regulations.

Section 12.7. Tax Liability. The Employer does not expressly or impliedly guarantee the federal, state and local tax consequences of participation in the Plan.

ARTICLE XIII
AMENDMENT AND TERMINATION

Section 13.1. Amendment. The Company, by a duly authorized action of the Board of Directors or a designated committee, reserves the right to amend the Plan at any time, including the right to modify the Earnings Rate on a prospective basis. No amendment shall reduce any benefits accrued under the Plan prior to the date the amendment was duly authorized.

Section 13.2. Termination. The Company reserves the right to terminate the Plan at any time, as it deems appropriate. Upon termination of the Plan, no further Participant deferrals or Employer contributions shall be made to the Plan. Distribution shall be made in a single, lump sum distribution, within fifteen (15) days of the Plan's termination date.

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Capstone Turbine Corporation has caused this Plan to be executed by its duly authorized officers, as of the 31st day of July, 2001.

By: /s/ JEFFREY WATTS

Signature

Senior Vice President, Chief
Financial Officer and Secretary

Office

ATTEST:

/s/ BILL TREECE

Signature

Senior Vice President

Office

[Letterhead of Latham & Watkins]

July 31, 2001

Capstone Turbine Corporation
21211 Nordhoff Street
Chatsworth, California 91311

Re: Registration Statement on Form S-8

Ladies and Gentlemen:

We understand that Capstone Turbine Corporation (the "Company") proposes to file a registration statement on Form S-8 (the "Registration Statement") with the Securities and Exchange Commission for the purpose of registering under the Securities Act of 1933, as amended, the offer and sale of \$2,713,500 in deferred compensation obligations (the "Obligations") of the Company that are issuable under the Deferred Compensation Plan of Capstone Turbine Corporation (the "Plan"). You have requested our opinion with respect to the matters set forth below.

We have made such legal and factual examinations and inquiries as we have deemed necessary or appropriate for purposes of this opinion. In our examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals, and the conformity to authentic original documents of all documents submitted to us as copies.

We are opining herein as to the effect on the subject transaction only of the General Corporation Law of the State of Delaware and the internal laws of the State of California, and we express no opinion with respect to the applicability thereto, or the effect thereon, of any the laws of any other jurisdiction, or in the case of Delaware, any other laws, or as to any matters of municipal law or the laws of any local agencies within any state.

Subject to the foregoing, it is our opinion that upon the issuance of the Obligations in the manner contemplated by the Registration Statement and in accordance with the terms of the Plan, such Obligations will be legally valid and binding obligations of the Company.

Our opinion is subject to: (i) the effect of bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to or affecting the rights or remedies of creditors; (ii) the effect of general principles of equity, including without limitation concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief, regardless of whether enforcement is considered in a proceeding in equity or at law; (iii) and the effect of the laws of usury or other laws or equitable principles relating to or limiting the interest rate payable on indebtedness.

We consent to your filing this opinion as an exhibit to the Registration Statement.

Very truly yours,

/s/ LATHAM & WATKINS

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in this Registration Statement on Form S-8 of Capstone Turbine Corporation (the "Company") of our report dated February 2, 2001, contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

/s/ DELOITTE & TOUCHE LLP

*Los Angeles, California
July 31, 2001*