

TRIBEWORKS INC  
Form 10QSB/A  
November 17, 2006

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-QSB/A  
(Amendment No. 1)**

(Mark one)

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2006

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**TRIBEWORKS, INC.**

(Exact Name of Small Business Issuer as Specified in Its Charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**94-3370795**  
(I.R.S. Employer  
Identification No.)

**2001 152<sup>nd</sup> AVENUE NE  
REDMOND, WASHINGTON 98052**  
(Address of Principal Executive Offices)

**(425) 458-2360**  
(Issuer's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of the close of business on November 17, 2006, there were 24,467,805 shares outstanding of the issuer's common stock, par value \$0.0004 per share.

Transitional Small Business Disclosure Format: Yes " No þ

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**EXPLANATORY NOTE**

1. On January 20, 2006, Tribeworks completed the acquisition of 100% of the outstanding shares of TakeCareofIT Holdings Limited and its subsidiaries (d/b/a the Atlas Technology Group) (“AtlasTG”). Tribeworks paid \$37,235 in cash in consideration to the selling shareholders of AtlasTG and assumed various liabilities. The effect of this acquisition has been filed in a Form 8-K/A on November 17, 2006, which included a pro forma consolidation of AtlasTG into Tribeworks at December 31, 2005. These changes are reflected in the restated financial statements for the quarter ending March 31, 2006 and set out in new Notes L and M of this amended filing and the previous Note D setting out a pro forma consolidation of AtlasTG into Tribeworks has been removed and the other Notes renumbered accordingly. As a result of these amendments:
  - a. The investment in AtlasTG of \$1,073,744 has been brought into the December 31, 2005 comparative figures in the Balance Sheet on an unconsolidated basis as the acquisition did not take place until January 20, 2006;
  - b. The accumulated deficit at December 31, 2005 has been reduced by \$791,256 and as a result the Total Stockholders’ Equity is now \$415,583;
  - c. All of the other AtlasTG December 31, 2005 assets and liabilities as previously shown in Note D have been removed from the December 31, 2005 comparatives, leaving only the Tribeworks December 31, 2005 figures and the 2005 comparatives have been restated as the same as those appearing in the Tribeworks 10-KSB for December 31, 2005;
  - d. As of January 20, 2006 AtlasTG has been consolidated and as a result of the use of the purchase method of accounting, the purchase price was allocated to the tangible and intangible net assets acquired based on the management’s evaluation of their respective replacement values on the acquisition date in accordance with SFAS No. 141. \$835,152 of the purchase price has been allocated to the IT Technology acquired in the AtlasTG acquisition and has been recognized and included as an Intangible Asset in the June 30, 2006 Balance Sheet;
  - e. A similar adjustment for \$835,192 has been made to the consolidated accumulated deficit reducing the deficit from the previously reported \$4,776,259 to an accumulated deficit of \$3,941,067 and increasing the previously reported Total Stockholders’ Equity by the same amount to \$504,504.
2. Further note explanations have been added to explain these changes and appropriate accounting standards associated with the amended results and presentation and with the removal of the previous Note D the Notes have been renumbered.

**To comply with certain technical requirements of the SEC’s rules in connection with the filing of this amendment on Form 10-QSB/A and for convenience, we are setting forth in this amendment a restatement of the Form 10-QSB as amended hereby, and adding, as exhibits, certain current dated certifications of our principal executive and principal financial officers. Except for the matters described in this Explanatory Note, this amendment does not modify or update disclosures in, or exhibits to the Form 10-QSB originally filed on August 14, 2006. Furthermore, except for the matters described above, this amendment does not change any previously reported financial results, nor does it reflect events occurring after the date of the original Form 10-QSB.**

**TRIBEWORKS, INC.**  
**FORM 10-QSB/a FOR THE QUARTER ENDED MARCH 31, 2006**

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Exhibits

Certification of CEO Pursuant to Rule 13a-14(a)

Certification of CFO Pursuant to Rule 13a-14(a)

Certification of CEO Pursuant to Section 906

Certification of CFO Pursuant to Section 906

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**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements.**

**TRIBEWORKS, INC.**  
**UNAUDITED CONSOLIDATED BALANCE SHEET**  
**MARCH 31, 2006**

	March 31, 2006	December 31, 2005 Restated
<b>Current Assets</b>		
Cash	\$ 154,764	\$ 84,527
Accounts receivable, net of allowance for doubtful accounts of \$1,500	69,390	12,698
Prepaid expenses	19,911	27,145
Total Current Assets	244,065	124,370
<b>Property, Plant and Equipment</b>		
Equipment, net of accumulated depreciation of \$51,834 - 2005: \$50,910	252,106	1,912
<b>Other Assets</b>		
Investment in Atlas		1,073,744
IT Technology	835,192	
Software Development Costs	155,907	-
	991,099	1,073,744
<b>Total Assets</b>	<b>\$ 1,487,270</b>	<b>\$ 1,200,026</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 748,474	\$ 563,603
Due to stockholders	6,232	6,232
Income Taxes Payable	3,882	3,882
Notes payable	175,175	175,175
Other Loan	13,452	-
Deferred revenue	35,551	35,551
<b>TOTAL CURRENT LIABILITIES</b>	<b>982,766</b>	<b>784,443</b>
<b>Stockholders' Deficit</b>		
Application Monies for new Stock	752,289	417,289
Preferred stock: \$.0004 par value, 10,000,000 shares authorized, 84,000 shares issued and outstanding	34	34
Common stock: \$.0004 par value, 200,000,000 shares authorized, 21,613,805 (2005 - 21,607,555) shares issued and outstanding	8,637	8,635
Additional paid-in capital	3,684,611	3,681,613
Accumulated deficit	(3,941,067)	(3,691,988)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>504,504</b>	<b>415,583</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 1,487,270</b>	<b>\$ 1,200,026</b>

The accompanying notes are an integral part of these consolidated financial statements

**TRIBEWORKS, INC.****UNAUDITED CONSOLIDATED STATEMENTS OF INCOME (LOSS)**

	Three Months Ended	
	March 31,	
	2006	2005
REVENUES	\$ 60,485	\$ 219,113
COST OF SALES	21,805	60,915
GROSS PROFIT	38,680	158,198
OPERATING EXPENSES		
Product support	-	2,375
Product development	137,455	7,984
Sales and marketing	12,695	38,322
General and administrative	182,690	66,708
	332,840	115,389
INCOME (LOSS) FROM OPERATIONS	(294,160)	42,810
INTEREST EXPENSE	1,145	—
INCOME (LOSS) BEFORE INCOME TAXES	(293,015)	42,810
INCOME TAXES	—	—
NET ion Values		

The following table provides information on option exercises in Fiscal 2004 by the Named Executive Officers and the value of such officers' unexercised options at March 31, 2004.

Name	Shares Acquired on Exercise	Value Realized (1)	Number of Securities Underlying Unexercised Options at 3/31/04		Value of Unexercised In-the- Money Options at 3/31/04 (2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
John Tucker		\$	2,000,000		\$	\$2,580,000
Karen Clark		\$	211,458	588,542	\$12,688	\$ 340,313
John Fink, III		\$		800,000	\$	\$ 648,000
Michael Redmond		\$		800,000	\$	\$ 648,000
Emily Liggett	665,806	\$973,208			\$	\$

(1) The value realized is determined by subtracting the exercise price from the fair market value of the Common Stock on the exercise date multiplied by the

number of shares acquired on exercise.

- (2) Based upon the market price of \$2.47 per share, which was the closing price per share of Common Stock on the NASDAQ National Market on the last day of Capstone's Fiscal 2004, less the option exercise price per share.

### **Employment Contracts, Termination of Employment and Change in Control Agreements**

In October 2002, the Company entered into a Transition Agreement and Mutual Release (the "Transition Agreement") with Dr. Ake Almgren. On February 27, 2003, the Board accepted Dr. Almgren's resignation as President and Chief Executive Officer and a member of the Board. He continued as an employee and a senior advisor to the Company through May 6, 2003. Under the Transition Agreement, Dr. Almgren continued to receive his monthly salary for six months through May 6, 2003, which totaled \$185,000, and received incentive consideration of \$100,000 upon executing a Supplemental Release and \$185,000, payable in equal installments, less applicable withholding taxes, during the twelve-month period following his separation as an employee. In May 2003, the Company entered into a consulting agreement with Dr. Almgren, which provides payment of \$5,921 monthly in arrears for 38 months through June 2006 and continued vesting of his stock options through June 2006. Dr. Almgren's payment will be reduced by 50% if he engages in any full-time employment.

Ms. Liggett was offered the position of interim Chief Operating Officer in November 2002 and the Company entered into an agreement with Ms. Liggett (the "Interim Agreement"). In February 2003, Ms. Liggett was named interim President and Chief Executive Officer. Under the Interim Agreement, the Company agreed to pay Ms. Liggett a salary of \$40,000 per month, and provided for her temporary living expenses and granted her a stock option for 3,840,000 shares of Common Stock, which vested at a rate of 80,000 shares per month during her period of employment with the Company. Vesting was pro-rated for partial months of employment. In July 2003, Ms. Liggett's employment was terminated. In July 2003, 3,174,194 unvested options were canceled. A total of 665,806 vested options were exercised at \$1.01 per share.

The Board of Directors adopted the Change of Control Severance Plan (the "Severance Plan") as of April 24, 2002. The Severance Plan is applicable to each member of management ("Executive") designated by the Board. Mr. Tucker, Ms. Clark, Mr. Fink, Mr. Redmond and Ms. Sharon Faltemier (Vice President of Human Resources) are currently the designees under the Severance Plan. Pursuant to the Severance Plan, in the event that an Executive is "involuntarily terminated" within twelve (12) months of a change of control, such Executive is entitled to receive from the Company an amount equal to such Executive's annual base salary plus the cash incentive compensation for the year in which the effective date for the change in control occurs. In addition, pursuant to COBRA, the Company will continue to pay for such Executive's health care coverage as it then exists under the Company's medical and dental plans for 12 months post termination. "Involuntary Termination" under the Severance Plan is defined as involuntary dismissal or discharge by the Company for reasons other than misconduct, or such Executive's voluntary resignation following: (i) a change in position with the Company which reduces his or her level of responsibility; (ii) any reduction in his or her level of compensation (including base salary, fringe benefits, participation in any plans and target bonuses under any corporate-performance based bonus or incentive programs); or



(iii) a relocation of such Executive's place of employment by more than fifty miles, provided such change, reduction or relocation is effected without the Executive's consent.

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In addition, the Company adopted the Capstone Turbine Corporation Severance Pay Plan (the "Severance Pay Plan") in May 2002. In February 2003, the Severance Pay Plan was amended to provide that each member of management reporting to the CEO and/or the President whose employment is involuntarily terminated without cause is entitled, upon signing a release, to an amount equal to such person's salary for six months.

The Company has entered into indemnification agreements with its officers and directors containing provisions which may require the Company, among other things, to indemnify its officers and directors against certain liabilities that may arise by reason of their status or service as officers or directors (other than liabilities arising from willful misconduct of a culpable nature) and to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified.

In addition, under the Plan, certain events, such as a change in control, can trigger acceleration of options held by participants under the Plan.

### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of Capstone's shares of Common Stock as of July 20, 2004 by: (i) each person known by Capstone to be the beneficial owner of five percent or more of Capstone's Common Stock ("Five Percent Owners"); (ii) each director and each Named Executive Officer; and (iii) Capstone's directors and executive officers as a group. Capstone has relied upon information supplied by its directors, Named Executive Officers and other executive officers.

Names**	Number of Shares Beneficially Owned <sup>(1)</sup>	Percent Owned <sup>(2)</sup>
John Tucker	1,041,667 <sup>(3)</sup>	1.2%
Karen Clark	356,594 <sup>(4)</sup>	*
John Fink, III	201,000 <sup>(5)</sup>	*
Michael Redmond	200,000 <sup>(6)</sup>	*
Eliot Protsch	1,499,377 <sup>(7)</sup>	1.7%
Carmine Bosco	13,491 <sup>(8)</sup>	*
Richard Donnelly	28,691 <sup>(9)</sup>	*
John Jagers	158,674 <sup>(10)</sup>	*
Eric Young	88,321 <sup>(11)</sup>	*
Emily Liggett	(12)	
Executive officers and directors as a group (9 persons)	3,587,815 <sup>(13)</sup>	4.21%

\* Less than 1%.

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Unless otherwise indicated, the address of each person listed is c/o Capstone Turbine Corporation, 21211 Nordhoff Street, Chatsworth, California 91311.

- (1) Except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named have sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them. The number of shares of Common Stock listed in this table for a particular person or group includes the \_\_\_\_\_ shares of Common Stock that such person or group had the right to acquire on or within 60 days after July 20, 2004, including, but not limited to, upon exercise of options.
- (2) For each individual and group included in the table, percentage ownership is calculated by dividing the sum of the number of shares beneficially owned by such person or groups as described above by 84,727,631 shares of Common Stock, which is the total number of outstanding shares of Common Stock as of July 20, 2004, and the number of shares of Common Stock that such person or group had the right to acquire on or within 60 days of July 20, 2004, including but not limited to upon exercise of options.
- (3) Includes options exercisable for 541,667 shares within 60 days of July 20, 2004.
- (4) Includes options exercisable for 353,125 shares within 60 days of July 20, 2004.
- (5) Includes options exercisable for 200,000 shares within 60 days of July 20, 2004.
- (6) Includes options exercisable for 200,000 shares within 60 days of July 20, 2004.
- (7) Includes options exercisable for 27,891 shares within 60 days of July 20, 2004.
- (8) Includes options exercisable for 13,491 shares within 60 days of July 20, 2004.
- (9) Includes options exercisable for 20,691 shares within 60 days of July 20, 2004.
- (10) Includes options exercisable for 35,091 shares within 60 days of July 20, 2004.
- (11) Includes options exercisable for 35,091 shares within 60 days of July 20, 2004.
- (12) Information provided is based on the latest available public information.
- (13) Includes options exercisable for 1,427,047 shares within 60 days of July 20, 2004 (see footnotes 3-11).



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**AUDIT COMMITTEE REPORT\***

Our management is responsible for the integrity of the Company's financial statements, as well as its accounting and financial reporting process, principles and internal controls to assure compliance with accounting standards and applicable laws and regulations. Our independent accountants have the primary responsibility for performing an independent audit of our financial statements and expressing an opinion as to the conformity of such financial statements with generally accepted auditing standards and to issue a report on its audit. Members of the Audit Committee are not professionally engaged in the practice of auditing or accounting and are not experts in the fields of accounting or auditing, including in respect to auditor independence. Members of the Committee rely without independent verification on the information provided to them and on the representations made by management and the independent auditors. Accordingly, the Audit Committee's oversight does not provide an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or appropriate internal applicable laws and regulations. Furthermore, the Audit Committee's considerations and discussions referred to below do not assure that the audit of Capstone's financial statements are presented in accordance with generally accepted accounting principles or that Deloitte & Touche LLP is in fact independent. The role of the Audit Committee is to monitor and oversee these processes on behalf of the Board. In addition, the Audit Committee selects our independent accountants.

In this context, the Audit Committee has reviewed and discussed the audited financial statements of Capstone contained in Capstone's Annual Report on Form 10-K as of and for the year ended March 31, 2004 with management and Deloitte & Touche LLP. The Audit Committee has discussed with Deloitte & Touche LLP the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees), as currently in effect. In addition, the Audit Committee has received and reviewed the written disclosures and the letter from Deloitte & Touche LLP required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), as currently in effect, and it has discussed with the auditors their independence from Capstone.

In the performance of their oversight function, the members of the Audit Committee necessarily relied upon the information, opinions, reports and statements presented to them by management of the Company and by the independent auditors. Based on the review and discussions described above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K as of and for the year ended March 31, 2004 for filing with the Securities and Exchange Commission.

**Submitted by the Audit Committee:**

Eric Young, *Chairman*

Richard Donnelly

John Jagers

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*The information contained in this report shall not be deemed to be soliciting material or filed or subject to Regulation 14A other than as provided in SEC regulation S-K, Item 306 or incorporated by reference in any filings with the SEC, or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that the Company specifically requests that the information be treated as soliciting material or incorporates it by reference into a document filed under the Securities Act of 1933, as amended, or the Exchange Act.*

Table of Contents**Fees Paid to Independent Auditor**

	<u>2004</u>	<u>2002</u>
Audit Fees (1)	\$398,000	\$357,000
Audit-Related Fees (2)	33,000	13,000
Tax Fees (3)	51,000	109,000
All Other Fees (4)		5,000
	<u>\$482,000</u>	<u>\$484,000</u>

- (1) Includes the aggregate fees billed for professional services rendered by Deloitte & Touche LLP for the audit of the Company's annual financial statements for the year ended March 31, 2004 and year ended December 31, 2002 and the review of the financial statements included in Capstone's Quarterly Reports on Form 10-Q for 2004 and 2002. The fees billed for the transition period of January 1, 2003 to March 31, 2003 are included in the 2004 fees.
- (2) Includes the aggregate fees billed by Deloitte & Touche LLP for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under Audit Fees. Audit-related services include fees for consents required to be filed with the Securities and Exchange Commission in connection with registration statements and for the audit of employee benefit plans.
- (3) Includes the aggregate fees billed by Deloitte & Touche LLP for professional services for tax compliance, tax advice and tax planning. Tax Fees include tax preparation and tax planning, advice and consultations.
- (4) Includes the aggregate fees for services rendered by Deloitte & Touche LLP for products and services, other than the services reported under Audit Fees, Audit-Related Fees and Tax Fees. All other fees in 2002 include consultations on Sarbanes-Oxley Act.

The Audit Committee has implemented procedures for the advance approval of all audit and non-audit services to be performed by the independent auditor. The procedures require that the Audit Committee approve all services prior to the commencement of work. Unless the specific service has been pre-approved in accordance with the Audit Committee's charter with respect to the current year, the Audit Committee must approve the permitted service before the independent auditor is engaged to perform it. The Audit Committee considers whether the proposed provision of any non-audit services by the independent auditors is compatible with maintaining the auditor's independence. The Audit Committee consults with management prior to the Company's engagement of the independent auditors for all audit and non-audit services. The Audit Committee may

delegate its authority to pre-approve audit and non-audit services to the Chair of the Audit Committee provided that the pre-approval decisions of the Chair are subsequently presented at the next Audit Committee meeting. The Audit Committee approved in accordance with applicable law all of the audit and non-audit services performed by Deloitte & Touche LLP during Fiscal 2004.

The Audit Committee of our Board of Directors has considered whether the provision of the information technology services and non-audit services is compatible with maintaining the independence of Deloitte & Touche LLP.

## **COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION\***

Capstone's Compensation Committee's (the Committee) basic responsibility is to review the performance and development of the Company's management in achieving corporate goals and objectives and to assure that executives are compensated in terms of salaries, supplemental compensation and benefits in a manner that is internally equitable and externally competitive.

### ***General Policies Regarding Compensation of Executives***

In establishing compensation for executives, the Committee seeks to:

Attract and retain individuals of superior ability and managerial talent by offering total compensation that is competitive with a group of specifically identified peer companies that are of comparable size within similar industries ( Peer Group ) and other companies with which the Company competes for executive talent;

Link incentive compensation to achievement of specific key strategic and financial performance goals; and

Align the interests of executives with those of Capstone's stockholders by providing executives with long-term equity incentives in the form of restricted stock or stock options.

### ***Determination of Compensation of Executive Officers for Fiscal 2004***

The Committee determines executive compensation with the assistance of the Company's Human Resources Department that works with an independent consulting firm that provides the Committee with data and recommendations based on Peer Group analysis. The Committee also takes into consideration certain other companies because the Company competes for executive talent



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with those companies. During the fiscal year ended March 31, 2004, the Company's executive compensation program was comprised of base salary and long-term, equity based compensation.

*Base Salary.* The Compensation Committee set the base salaries of its executives for fiscal 2004 based on: (i) salary levels at Peer Group and other relevant companies; (ii) the experience, expertise and level of each executive's responsibility; and (iii) individual performance. Individual base salaries are reviewed at least annually and salary increases may be granted based on each executive's performance.

*Long-term, Equity Based Compensation.* Stock options are an important component of the total compensation of executives, and are designed to align the interests of each executive with those of the stockholders by providing compensation based on corporate performance. Each year the Committee considers the grant to executives of stock option awards under the Company's 2000 Equity Incentive Plan. The Company's standing policy is to assess the grant of additional stock option awards to its executives annually. The option grants generally utilize four year vesting periods to encourage executives to continue contributing to the Company. The number of stock option shares that are granted to individual executives is, in part, based on independent survey data reflecting competitive stock option practices and based upon the executive's tenure, level of responsibility and relative position in the Company, as well as, an assessment of the executive's achieved performance goals and objectives and the extent of an executive officer's equity ownership in Capstone. Stock options are granted at 100% of the stock's fair market value on the grant date.

*Bonus Compensation.* The Compensation Committee views bonus compensation as an important component of the total compensation for senior management. While senior management has been offered bonus compensation, since 2002, those eligible to receive payments have declined the bonuses. Current senior management has informed the Committee that they intend to decline any bonuses for fiscal 2005.

*Chief Executive Officer Compensation.* Mr. Tucker joined the Company in August 2003. His compensation package includes base salary of \$400,400, restricted stock award of 500,000 shares of Common Stock and 2,000,000 stock options. In evaluating Mr. Tucker's annual compensation, the Compensation Committee will consider such matters as Mr. Tucker's performance in leading and developing Capstone and market rate compensation factors for companies in similar business situations.

## **Compensation Committee**

John Jagers, *Chairman*  
Eliot Protsch  
Carmine Bosco

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\* *The information contained in this report shall not be deemed to be soliciting material or filed or incorporated by reference in any filings with the SEC, or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that the Company specifically requests that it be treated as soliciting material or incorporates it by reference into a document filed under the Securities Act of 1933,*

*as amended, or the Exchange Act.*

**STOCK PERFORMANCE GRAPH\***

The graph below compares the cumulative total stockholder return on Capstone's Common Stock with the cumulative total return of the Nasdaq Index and a peer group of small capitalization power technology companies ( SCPT )(1). The stock price performance shown in the graph below is not indicative of potential future stock price performance. The Company believes that the Nasdaq Index and the SCPT provide an appropriate measure of the Company's stock price performance.

The graph assumes an initial investment of \$100 and reinvestment of quarterly dividends. No cash dividends have been declared on shares of the Company's Common Stock.

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\* *The information contained in this Stock Performance Graph section shall not be deemed to be soliciting material or filed or incorporated by reference in any filings with the SEC, or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that the Company specifically requests that it be treated as soliciting material or incorporates it by reference into a document filed under the Securities Act of 1933, as amended, or the Exchange Act.*

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	<b>CPST</b>	<b>Nasdaq</b>	<b>SCPT (1)</b>
Jun-00	100	100	100
Dec-00	62	62	61
Jun-01	49	54	51
Dec-01	12	49	26
Jun-02	4	37	17
Dec-02	2	34	10
Jun-03	3	41	11
Dec-03	3	50	17
Jun-04	5	51	17

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- (1) The SCPT consists of the following companies, all traded on the NASDAQ National Market, (except Beacon Power Corp. (BCON) trades on the NASDAQ SmallCap Market): Active Power, Inc. (ACPW), BCON, FuelCell Energy, Inc. (FCEL) and Plug Power, Inc. (PLUG).

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS****Transactions with Management and Others**

In May 2003, the Company entered into a consulting agreement with Dr. Almgren, the Company's former President and Chief Executive Officer, which provides payment of \$5,921 monthly in arrears for 38 months through June 2006. His payment will be reduced by 50% if he engages in any full-time employment. His stock options will also continue to vest through June 2006.

**OTHER INFORMATION****Section 16(a) Beneficial Ownership Reporting Compliance**

To Capstone's knowledge, based on its review of the copies of reports furnished to Capstone and written representations from Capstone's executive officers, directors and persons who own more than ten percent of a registered class of Capstone's equity securities during the fiscal year ended March 31, 2004, all holdings and reportable transactions by such executive officers, directors and ten percent stockholders in Company securities were reported on a timely basis pursuant to Exchange Act Section 16(a) filing requirements.

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### **Code of Business Conduct and Code of Ethics**

The Company has adopted a Code of Business Conduct that applies to all directors, officers and employees of the Company. All directors, officers and employees of the Company are expected to be committed to the highest standards of honest, ethical and legal behavior. In addition, the Company has adopted a Code of Ethics that applies to the Chief Executive Officer, the Chief Financial Officer and senior financial officers of the Company. The Code of Ethics addresses the unique role of these officers in corporate governance. Each officer subject to the Code of Ethics is subject to, and has agreed to abide by, the Code of Business Conduct.

### **Corporate Governance Principles**

The Company takes corporate governance responsibilities very seriously. In July 2004, the Board adopted Corporate Governance Principles to address the Board's governance role and functions. The Corporate Governance Principles describe the role of the Board and provide a framework for, among other things, issues such as director selection and qualifications, director compensation, Board meetings, selection of the Chief Executive Officer and director orientation and continuing education. The Board will review the Company's Corporate Governance Principles on an annual basis or more often, if necessary.

### **Available Information**

Capstone is subject to the informational requirements of the Exchange Act and, in accordance therewith, files reports, proxy statements and other information with the SEC. Reports, proxy statements and other information filed by Capstone may be inspected without charge and copies obtained upon payment of prescribed fees from the Public Reference Section of the SEC at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, or at one of the SEC's regional offices. Information on the operation of the Public Reference Room may be obtained by calling (800) SEC-0330. In addition, regional office information as well as the filings made by Capstone with the SEC may be accessed by way of the SEC's Internet address, <http://www.sec.gov>.

**Capstone will provide without charge to each person to whom a copy of the proxy statement is delivered, upon the written request of any such person, additional copies of Capstone's Form 10-K for the period ended March 31, 2004, including the related financial statements and a list of exhibits to the Form 10-K. Requests for such copies should be addressed to: Capstone Turbine Corporation, 21211 Nordhoff Street, Chatsworth, California 91311, Attn: Investor Relations.**

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**APPENDIX A**

**CHARTER OF THE AUDIT COMMITTEE  
OF THE BOARD OF DIRECTORS  
OF  
CAPSTONE TURBINE CORPORATION**

This Audit Committee Charter ( Charter ) has been adopted by the Board of Directors (the Board ) of Capstone Turbine Corporation (the Company ). The Audit Committee of the Board (the Committee ) shall review and reassess this Charter annually and recommend any proposed changes to the Board for approval. This Charter, as adopted in amended form on January 27, 2004, shall become effective immediately, except as otherwise provided herein.

**ARTICLE I.**

**Purpose**

The primary purpose of the Committee is to oversee the accounting and financial reporting processes and the audits of the financial statements of the Company. The Committee assists the Board in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing, internal control and financial reporting practices of the Company. It may also have such other duties as may from time to time be assigned to it by the Board. The Committee shall maintain free and open communication with the independent auditors, the internal auditors (as referred to herein, if applicable) and Company management and shall have the authority to communicate directly with the independent auditors as well as any employee of the Company. In discharging its oversight role, the Committee is empowered to investigate any matter relating to the Company s accounting, auditing, internal control or financial reporting practices appropriate to fulfilling its responsibilities contained in this Charter, with full access to all Company books, records, facilities and personnel. The Committee may retain outside counsel, auditors or other advisors as it deems necessary to carry out its duties.

**ARTICLE II.**

**Composition of Committee and Qualification of Members**

The membership of the Committee shall consist of at least three directors, who are each free of any relationship that, in the opinion of the Board, may interfere with such member s individual exercise of independent judgment.

Each Committee member shall meet the independence and financial literacy requirements for serving on audit committees all as set forth in the applicable rules of The Nasdaq Stock Market, Inc. ( Nasdaq ) no later than the 2004 annual meeting of the stockholders of the Company. Each committee member shall also meet the audit committee requirements of the rules and regulations of the Securities and Exchange Commission ( SEC ). A member of the Committee may not, other than in his or her capacity as a member of the Committee, the Board or another committee of the Board,

accept any consulting, advisory or other compensatory fee other than for services as a director or committee member from the Company or be an affiliated person of the Company or any subsidiary of the Company. Each Committee member must also meet the criteria for independence set forth in Rule 10A-3(b)(1) under the Exchange Act (subject to the exemptions provided in Rule 10A-3(c)). Each Committee member must be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement and cash flow statement. At least one member of the Committee shall have past employment experience in finance or accounting, requisite professional certification in accounting or any other comparable experience or background which results in the individual's financial sophistication and which results in the individual meeting the qualifications of an audit committee financial expert contained in Item 401(h) of SEC Regulation S-K.

One member of the Committee shall be appointed as Chair. The Chair shall be responsible for leadership of the Committee, including scheduling and presiding over meetings, preparing agendas and making regular reports to the Board. The Chair will also maintain regular liaison with the CEO, CFO, the lead independent audit partner and the director of internal audit. The Committee shall meet at least four times a year, or more frequently as the Committee considers necessary. At least once each year the Committee shall have separate private meetings with the independent auditors, management and the internal auditors.

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**ARTICLE III.**

**Responsibilities and Authority**

Although the Committee may wish to consider other duties from time to time, the general recurring activities of the Committee in carrying out its role of overseeing the accounting and financial reporting processes and the audits of Company financial statements are described below.

The Committee shall have the authority to and/or shall be responsible for:

- (1) The selection and appointment, compensation, retention and oversight of the work of any independent auditors engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company (including the resolution of disagreements between management and the auditors regarding financial reporting) (subject to the exemptions provided in Exchange Act Rule 10A-3(c)). Such auditors must report directly to the Committee and will be ultimately accountable to the Board and the Committee, as representatives of the stockholders (subject to the exemptions provided in Rule 10A-3(c)). The Company must be audited by an independent auditor that has complied with the peer review requirements of the Nasdaq rules.
- (2) Evaluating, together with the Board and management, the performance of the independent auditors and, where appropriate, replacing such auditors.
- (3) Ensuring that the Committee obtains from the independent auditors a formal written statement describing all relationships between the auditors and the Company annually, consistent with Independence Standards Board Standard No. 1. In addition, the Committee shall actively engage in a dialogue with the independent auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the auditors and shall take, or recommend that the full Board take, appropriate actions to oversee and satisfy itself as to the independence of the outside auditors. In connection with considering the independence of the independent auditors, the Committee shall (i) request detail on any matters that may affect the auditor's independence as well as the role and status of any individual at the audit firm whose independence may be in question, and (ii) inquire whether the independent auditors have reasonable quality control procedures to ensure compliance by them with all independence requirements.
- (4) Considering whether the proposed provision of any non-audit services by the independent auditors is compatible with maintaining the auditors' independence. If the Committee determines that such proposed non-audit services are compatible with the independent auditors' independence, it may approve the provision of such services, subject to restrictions under applicable law or Nasdaq rules.
- (5) Pre-approving all audit and non-audit services to be performed for the Company by the independent auditors. In performing this function, the Committee shall consult with management prior to the Company's engagement of the independent auditors for such services. The Committee may delegate its authority to pre-approve audit

and non-audit services to the Chair of the Committee provided that the pre-approval decisions of the Chair are subsequently presented to the Committee at the next Committee meeting.

- (6) Reviewing the audited financial statements and the quarterly financial results and discussing them with management and the independent auditors. These discussions shall include any significant changes to the Company's accounting principles, the matters required to be discussed under Statement of Auditing Standards No. 61 and the consideration of the quality of the Company's accounting principles as applied in its financial reporting, including a review of particularly sensitive accounting estimates, reserves and accruals, judgmental areas, audit adjustments (whether or not recorded) and other such inquiries as the Committee or the independent auditors shall deem appropriate. Based on such review, the Committee shall make its recommendation to the Board as to the inclusion of the Company's audited financial statements in the Company's Annual Report on Form 10-K. The Committee shall review and resolve any disagreements among management and the independent auditors or the internal auditing department in connection with the preparation of the audited financial statements or the quarterly financial statements.
- (7) Issuing annually a report to the stockholders to be included in the Company's proxy statement as required by the rules of the SEC.



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- (8) Overseeing the relationship with the independent auditors, including discussing with the auditors the nature and rigor of the audit process, receiving and reviewing audit reports, and providing the auditors with full access to the Committee (and the Board) to report on any and all appropriate matters.
- (9) Regularly consulting with the independent auditors out of the presence of management about internal controls, the completeness and accuracy of the Company's financial statements and other appropriate matters.
- (10) Considering any significant changes to the Company's accounting principles and practices as recommended by the independent auditors, management or the internal auditing department and reviewing any required disclosure to the Company's financial statements of significant changes in accounting principles and practices.
- (11) Reviewing and discussing with management, prior to release, the Company's earnings press releases, including the use of pro forma or adjusted non-GAAP financial information, as well as financial information and earnings guidance provided to analysts and rating agencies.
- (12) Reviewing and discussing with management any audit opinion provided by the independent auditors. If any such audit opinion contains a going concern qualification, the Committee shall advise management to make a public announcement through the news media disclosing the receipt of such qualification not later than seven calendar days following the filing of such audit opinion in a filing with the SEC and, prior to such announcement, to provide the text of such announcement to the StockWatch section of Nasdaq's MarketWatch Department.
- (13) Discussing with a representative of management and the independent auditors:
  - (1) the interim financial information contained in the Company's Quarterly Report on Form 10-Q prior to its filing, (2) the earnings announcement prior to its release (if practicable), and (3) the results of the review of such information by the independent auditors. (These discussions may be held with the Committee as a whole or with the Committee chair in person or by telephone.)
- (14) Overseeing internal audit activities, including discussing with management and the internal auditors the internal audit function's organization, objectivity, responsibilities, plans, results, budget and staffing.
- (15) Discussing and reviewing with management, the internal auditors and the independent auditors, in connection with each annual or quarterly report filed with the SEC, the quality and adequacy of and compliance with the Company's internal controls. This should include a discussion of any significant deficiencies in the design or operation of internal controls and any fraud, whether or not material, that includes management or other employees who have a significant role in the Company's internal controls. On an annual basis, the Committee shall obtain a written report from management that describes management's own assessment of the effectiveness of such internal controls.
- (16)

Following completion of the annual audit, reviewing separately with each of management, the independent auditors and the internal auditing department any significant difficulties encountered during the course of the audit raised by the independent auditors, management or the internal auditing department, including any restrictions on the scope of work or access to required information.

- (17) Reviewing with the independent auditors and management the extent to which changes or improvements in financial or accounting practices suggested by the auditors, as approved by the Committee, have been implemented. (This review should be conducted at an appropriate time subsequent to implementation of changes or improvements, as decided by the Committee.)
- (18) Discussing with management and/or the Company's general counsel any legal matters (including the status of pending litigation) that may have a material impact on the Company's financial statements, and any material reports or inquiries from regulatory or governmental agencies.
- (19) Reviewing all reports concerning any fraud or significant regulatory noncompliance that occur at the Company. This review should include at a minimum consideration of the internal controls that should be strengthened to reduce the risk of a similar event in the future and the impact on previously issued financial statements and reports filed with governmental authorities.
- (20) Meeting separately with each of management and the independent auditors regarding any significant judgments made in management's preparation of the financial statements and the view of each as to appropriateness of such judgments.

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- (21) Cooperating with management, the Board and the Company's legal counsel to ensure that the Company discloses in its proxy statement for its annual meeting of the stockholders whether the Committee members are independent as described in this Charter and as defined by the applicable rules and regulations of the SEC and the applicable Nasdaq listing standards, as well as certain information regarding any director of the Committee who is not independent.
- (22) Ensuring that the Company certifies to Nasdaq that it has, and will continue to have, at least one member of the Committee who is an audit committee financial expert or otherwise has past employment experience in finance or accounting, requisite professional certification in accounting or any other comparable experience or background which results in the individual's financial sophistication, as required by the applicable Nasdaq rules, and ensuring that the Company certifies annually that it has adopted a formal, written Audit Committee Charter and that the Committee has reviewed and reassessed the adequacy of the Charter.
- (23) Establishing procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, as well as for the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters (subject to the exemptions provided in Rule 10A-3(c)). The Committee established such procedures pursuant to the Employee Complaint Procedures for Accounting and Auditing Matters.
- (24) Engaging independent counsel and other advisors as the Committee determines necessary to carry out its duties (subject to the exemptions provided in Rule 10A-3(c)).
- (25) Determining the amount of appropriate funding that the Company must provide for the payment of: (i) compensation to independent auditors engaged for the purpose or preparing or issuing an audit report or performing other audit, review or attest services for the Company; (ii) compensation to any advisers engaged by the Committee under paragraph (24), above and (iii) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties (subject to the exemptions provided in Rule 10A-3(c)).
- (26) Approving all related party transactions, as defined in SEC Regulation S-K, Item 404.
- (27) Discussing with management and the independent and internal auditors the Company's major financial risk exposure and the steps management and the independent and internal auditors have taken to monitor and control such exposure, including the Company's risk assessment and risk management policies.
- (28) Adopting written procedures for the confidential receipt, retention and consideration of any report of evidence of a material violation, as that term is defined by 17 C.F.R. 205.2(m), pursuant to the standards of professional conduct for attorneys appearing and practicing before the SEC in the representation of an issuer under 17 C.F.R. 205.3. The Committee shall also have the authority and

responsibility to undertake all of the duties of a qualified legal compliance committee, as that term is defined by 17 C.F.R. 205.2(k), including informing the Company's chief legal officer and CEO of any report of evidence of a material violation, determining whether an investigation is necessary and, at the conclusion of any investigation, recommending an appropriate response and informing the chief legal officer, the CEO and the Board of results of any investigation and the appropriate remedial measures to be adopted. The Committee shall also have the authority and responsibility, acting by majority vote, to take all other associated appropriate action.

The Committee's job is one of oversight and the Committee is not responsible for preparing the financial statements, implementing or monitoring the effectiveness of internal controls or auditing the financial statements. Management is responsible for the preparation of the Company's financial statements and for implementing internal controls and the independent auditors are responsible for auditing the financial statements. The Committee and the Board recognize that management (including the internal audit staff) and the independent auditors have more resources and time, and more detailed knowledge and information regarding the Company's accounting, auditing, internal control and financial reporting practices than the Committee does; accordingly the Committee's oversight role does not provide any expert or special assurance as to the financial statements and other financial information provided by the Company to its stockholders and others.

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**ARTICLE IV**

**Annual Performance Evaluation**

The Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval. The Committee will conduct an annual self-evaluation to determine whether it is functioning effectively. The Committee will receive comments from all directors and report annually to the Board with an assessment of its performance. The assessment will focus on the Committee's contribution to the Company and specifically focus on areas in which the Board believes the Committee could improve.

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**APPENDIX B**

**CHARTER OF THE COMPENSATION COMMITTEE  
OF THE BOARD OF DIRECTORS  
OF  
CAPSTONE TURBINE CORPORATION**

This Compensation Committee Charter ( Charter ) has been adopted by the Board of Directors (the Board ) of Capstone Turbine Corporation (the Company ). This Charter, as adopted in amended form on January 26, 2004, shall become effective immediately, except as otherwise provided herein.

**ARTICLE I.**

**Purpose**

The Compensation Committee (the Committee ) of the Company is appointed by the Company s Board to discharge the Board s responsibilities relating to the director and officer compensation plans, policies and programs of the Company.

**ARTICLE II.**

**Composition**

The Committee shall be comprised of three or more directors, as determined by the Board. The members of the Committee shall be appointed and may be removed by the Board on the recommendation of the Nominating and Corporate Governance Committee. Each member of the Committee must be an independent director and be free from any relationship that, in the opinion of the Board of Directors, would interfere with the exercise of his or her independent judgment as a member of the Committee. Additionally, effective no later than the 2004 annual meeting of the stockholders of the Company, each Committee member shall: (i) satisfy the independence requirements under the listing standards of The Nasdaq Stock Market ( Nasdaq ), (ii) be non-employee directors as defined by Rule 16b-3 under the Securities Exchange Act of 1934, and (iii) be outside directors as defined in section 162(m) of the Internal Revenue Code of 1986.

**ARTICLE III.**

**Meetings**

The Committee will meet at least four times annually, and also as often as the members deem necessary to perform the Committee s responsibilities or as circumstances require. The Committee should, as often as it determines is necessary, reasonable or appropriate, meet with the executive officers of the Company and other members of management in separate executive sessions to discuss any matters that the Committee or any of these persons believe should be discussed privately. The Committee shall keep minutes of its actions.

The Committee may set its own rules of procedure and may delegate authority to subcommittees of its members. The Committee may also delegate to the chief executive officer of the Company ( CEO ) the authority to make, within the framework of the Committee s compensation philosophy or objectives that it has adopted from time to time, compensation decisions with respect to non-executive employees of the Company. Such delegation may include the authority to make equity incentive awards to such non-executive employees pursuant to the equity incentive arrangements that have been duly adopted by the Company.

#### **ARTICLE IV.**

##### **Committee Authority and Responsibilities**

1. The Committee is generally responsible for the following: (i) setting the total compensation package, including equity and non-equity incentives, for the CEO (without the presence of the CEO during voting or related deliberations) and the other

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executive officers of the Company, (ii) reviewing and advising the CEO with respect to compensation, including equity and non-equity incentives for key non-executive management employees of the Company, (iii) making recommendations to the Board regarding the Company's overall equity-based incentive compensation programs, (iv) administering and granting awards under the Company's equity-based incentive programs (the Committee shall have, in regard to the administration of the Company's equity-based incentive programs, all powers possessed by the Board), (v) consistent with paragraph 2 of this Article, administering a performance review process for the CEO and other executive officers, (vi) reviewing and advising the CEO with respect to a review process for key non-executive management team members, and (vii) with the CEO, overseeing a key non-executive management development program.

2. The Committee shall annually review and approve corporate goals and objectives relevant to executive officer compensation, evaluate the executive officers performance in light of those goals and objectives, and approve, or recommend to the independent directors the approval of, the executive officer compensation levels based on this evaluation. In determining the long-term incentive component of executive officer compensation, the Committee will consider the Company's performance and relative stockholder return, the value of similar incentive awards to executive officers at comparable companies and the awards given to the executive officers in past years.
3. The Committee shall make regular reports to the Board at least annually and will propose any necessary action to the Board. The Committee shall produce an executive compensation report for inclusion in the Company's proxy solicitation for its annual stockholders meeting as the Compensation Committee Report.
4. The Committee shall have the authority to the extent it deems necessary or appropriate to retain a compensation consultant to assist in the evaluation of director, CEO or executive officer compensation. The Committee shall have sole authority to retain and terminate any such consulting firm, including sole authority to approve the consultant's fees and other retention terms. The Committee shall also have authority, to the extent it deems necessary or appropriate, to obtain advice and assistance from legal, accounting or other advisors. The Company will provide for appropriate funding, as determined by the Committee, for the payment of compensation to any consulting firm or other advisors employed by the Committee.

**ARTICLE V**

**Annual Performance Evaluation**

The Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval. The Committee will conduct an annual self-evaluation to determine whether it is functioning effectively. The Committee will receive comments from all directors and report annually to the Board with an assessment of its performance. The assessment will focus on the Committee's contribution to the Company and specifically focus on areas in which the Board believes the Committee could improve.





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**APPENDIX C**

**CHARTER OF THE NOMINATING AND CORPORATE GOVERNANCE  
COMMITTEE OF THE BOARD OF  
DIRECTORS  
OF  
CAPSTONE TURBINE CORPORATION**

This Nominating and Corporate Governance Committee Charter (the Charter ) has been adopted by the Board of Directors (the Board ) of Capstone Turbine Corporation (the Company ). This Charter, as adopted in amended form on January 27, 2004, shall become effective immediately, except as otherwise provided herein.

**ARTICLE I.**

**Purpose**

The purpose of the Nominating and Corporate Governance Committee (the Committee ) is to discharge the Board 's responsibilities relating to the nominations process and in the area of corporate governance.

**ARTICLE II.**

**Organization and Composition**

The Committee shall consist of no fewer than three members of the Board. All members of the Committee shall be appointed by the Board, shall be independent of the Company and its affiliates, shall have no relationship to the Company or its affiliates that may interfere with the exercise of their independence and shall additionally, effective no later than the 2004 annual meeting of the stockholders of the Company, be deemed Independent Directors as defined in Marketplace Rule 4200 of the rules of The Nasdaq Stock Market, Inc. ( Nasdaq ).

The Board will designate one member of the Committee to serve as its Chair. The Committee will meet no less than two times a year. Special meetings may be convened as required. The Chair of the Committee shall report orally to the full Board on the results of these meetings. The Committee may invite other Directors, Company management and such other persons as the Committee deems appropriate in order to carry out its responsibilities to its meetings. The Committee shall maintain written minutes of Committee meetings. The Committee may form and delegate authority to subcommittees when appropriate.

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**ARTICLE III.**

**Roles and Responsibilities**

The Committee has the following duties:

*Corporate Governance Generally*

Consider principles of corporate governance and recommend them to the Board for its consideration and approval;

Review and recommend any changes to the principles of corporate governance and the Company's Code of Business Conduct and Code of Ethics for Senior Financial Officers and the Chief Executive Officer, as and when approved by the Board, to ensure that they remain relevant and are being complied with;

Ensure that the Company's Code of Business Conduct applies to all directors, officers and employees of the Company, complies with the definition of a code of ethics as set out in the Sarbanes-Oxley Act of 2002 and the regulations promulgated thereunder, is publicly available and provides for an appropriate enforcement mechanism;

Refer to the Board, for its consideration and approval or disapproval, any requests for waivers of the Code of Business Conduct or Code of Ethics;

Periodically review the succession plan for the Chief Executive Officer and other corporate officers as appropriate; and

Review the Company's reporting channels and processes for providing information to the Board for the quality and timeliness of the information received.

*Board Composition, Evaluation and Nominating Activities*

Review the composition and size of the Board and determine the criteria for Board membership including issues of character, judgment, diversity, age, expertise, corporate experience and the like;

Review annually the composition of the Board to ensure that a majority of the members are Independent Directors in accordance with Nasdaq Marketplace Rule 4200;

Evaluate the Board annually to determine whether the Board functions effectively by soliciting comments from all directors, provide a verbal report to the Board annually of the Committee's findings and assessment of Board performance and, in such report, focus on the Board's contributions to the Company and provide recommendations for improvement;

Consider and recommend candidates to fill new positions or vacancies on the Board, review any candidates recommended by stockholders in accordance with the bylaws and provide a process for receipt and consideration of any such recommendations and

any other communications received from stockholders;

Evaluate the performance of current Board members proposed for reelection and recommend the Director nominees each year for approval by the Board and the stockholders; and

Retain and terminate any search firm to be used to identify Board candidates and approve the search firm's fees and other retention terms. The Committee shall have the sole authority to undertake this task.

*Board Committees*

Periodically review the charter and composition of each Board committee and make recommendations to the Board for the creation of additional Board committees or for the change in mandate or dissolution of Board committees;

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Evaluate Board committees annually to determine whether the Board committees function effectively by soliciting comments from all directors, provide a verbal report to the Board annually of the Committee's findings and assessment of Board committee performance and, in such report, focus on Board committees' contributions to the Company and provide recommendations for improvement; and

Recommend to the Board persons to be members of the various Board committees, taking into consideration the applicable Nasdaq rules on committee composition.

*Conflicts of Interest*

Consider questions of possible conflicts of interest of Board members and of corporate officers; and

Review actual and potential conflicts of interest of Board members and corporate officers.

*Other*

Ensure that the Company certifies to Nasdaq that it has adopted a formal, written Nominating and Corporate Governance Charter addressing the nominations process and such related matters as may be required under the federal securities laws.

**ARTICLE IV**

**Annual Performance Evaluation**

The Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval. The Committee will conduct an annual self-evaluation to determine whether it is functioning effectively. The Committee will receive comments from all directors and report annually to the Board with an assessment of its performance. The assessment will focus on the Committee's contribution to the Company and specifically focus on areas in which the Board believes the Committee could improve.

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**APPENDIX D**

**CAPSTONE TURBINE CORPORATION**

**AMENDED AND RESTATED 2000 EQUITY INCENTIVE PLAN**

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**CAPSTONE TURBINE CORPORATION**

**AMENDED AND RESTATED 2000 EQUITY INCENTIVE PLAN**

**RECITALS:**

WHEREAS, the Company previously established the Plan as an equity incentive plan, and last amended and restated the Plan effective April 15, 2004;

WHEREAS, the Company desires to amend the Plan to add 2,380,000 shares;

NOW, THEREFORE, pursuant to authorization by the Stockholders of the Company, the Plan is hereby amended and restated, effective on September 10, 2004:

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 Committee at the time of grant. Restricted Stock, 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, unless specified otherwise in an Agreement, (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 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) Agreement means a written agreement between the Company and a Holder evidencing the terms and conditions of an individual award or grant of an Option, Restricted Stock, Stock Bonus, or Stock Purchase Right. Each Agreement is subject to the terms and conditions of the Plan, except as otherwise provided for herein.

(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





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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. Notwithstanding the foregoing, for Options and other awards issued on or after April 15, 2004, Cause shall instead be defined by the terms of a Holder's Agreement with respect to the Shares covered thereby, in those circumstances in which the Agreement addresses or defines a termination for reasons of cause.

(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 to administer the Plan.

(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.



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(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 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.

(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, as reported in The Wall Street Journal or such other source as the Committee 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; 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 Committee.

(o) Holder means a person who has been granted or awarded an Option, Restricted Stock 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 Committee.

(q) Independent Director means a Director who is:

(i) An outside director, within the meaning of Section 162(m) of the Code;

(ii) A non-employee director within the meaning of Rule 16b-3; and

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(iii) An independent director under the listing standards of The Nasdaq Stock Market.

(r) Non-Qualified Stock Option means an Option (or portion thereof) that is not designated as an Incentive Stock Option by the Committee, or which is designated as an Incentive Stock Option by the Committee 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 Exchange Program means a program whereby outstanding Options are surrendered or cancelled in exchange for Options that are granted more than six months and one day following such surrender or cancellation and are of the same type (which may have a lower exercise price or purchase price), of a different type and/or cash, and subject to certain conditions (*e.g.*, continued employment).

(v) 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.

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

(x) 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.

(y) Restricted Stock means Shares acquired pursuant to the exercise of an unvested Option in accordance with Section 10(h), or pursuant to an election pursuant to a Stock Purchase Right granted under Section 12(b) or Section 14.

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

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

(bb) 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.

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

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

(ee) Stock Bonus means a grant of Common Stock granted pursuant to Section 14(e) or elected pursuant to Section 12(b).

(ff) Stock Purchase Right means a right to purchase Common Stock pursuant to Section 14.

(gg) 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 50% 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, 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 the provisions of Section 15, 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 6,080,000 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 13,880,000 Shares. The total shares originally made available under the 1993 Stock Incentive Plan was 7,800,000. 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.

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4. Administration of the Plan.

(a) Administration Committee. The Plan shall be administered by the Committee that is established and designated by the Board to administer the Plan. Prior to the 2004 annual meeting of shareholders of the Company, the Committee shall be comprised of at least two individuals who are all Independent Directors. Effective at the conclusion of the 2004 annual meeting of shareholders of the Company, the Committee shall be comprised of at least three individuals who are all Independent Directors. 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, subject, however, to such resolutions or Committee charter, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. Within the scope of such authority, the Committee may delegate (i) to the chief executive officer of the Company the authority to grant awards under the Plan to eligible persons who are (1) not covered employees, within the meaning of Section 162(m) of the Code, (2) not expected to be covered employees at the time of recognition of income resulting from such award, and (3) not subject to liability under Section 16 of the Exchange Act, and/or (ii) to any officer of the Company any other authority that is included in Sections 4(b)(iv), (viii), (ix) or (xi) or Section 9(b).

(b) Powers of the Committee. 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 Committee 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 Committee, in its sole discretion, shall determine);

(vi) to institute an Option Exchange Program that has been approved by the Board; provided, however, that the effectiveness of the Option Exchange Program is subject to the approval of the Company's shareholders;

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(vii) 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);

(viii) 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;

(ix) 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 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 Committee may deem necessary or advisable;

(x) to amend any Option or Stock Purchase Right granted under the Plan as provided in Section 14; and

(xi) 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 Committee 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 Committee's Decision. All decisions, determinations and interpretations of the Committee 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 Non-Employee Director (defined in Section 12) shall be granted Options at the times and in the manner set forth in Section 12 and may receive Stock Bonuses in lieu of cash compensation as described in Section 12.

6. Limitations.

(a) Each Option shall be designated by the Committee in the 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.





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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 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 a 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. No Options, Stock Purchase Rights or Stock Bonuses may be issued under the Plan with respect to the shares specified in Section 3 hereof after the tenth 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. If the number of shares specified in Section 3 is increased by an amendment to this Plan, Options, Stock Purchase Rights or Stock Bonuses may be awarded with respect to such increased shares for a period of ten years after the earlier of the date that the amendment to the Plan is adopted by the Board or the date that the amendment is approved by the stockholders. Options, Stock Purchase Rights and Stock Bonuses granted before such dates shall remain valid in accordance with their terms.

8. Term of Option. The term of each Option shall be stated in the Agreement; *provided, however*, that the term shall be no more than ten years from the date of grant thereof; and *provided further* that, 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 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 no more than five years from the date of grant thereof.

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 Committee, 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

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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 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 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 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 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 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 Committee (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 Committee, actual or constructive delivery of Shares which (x) in the case of Shares acquired from the Company, have been owned by the Holder for more than six 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, (4) with the consent of the Committee, payment in connection with the pledge of Shares and a loan through a broker in a transaction described in Securities and Exchange Commission Regulation T, (5) any other consideration acceptable to the Committee, or (6) with the consent of the Committee, 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 Committee and set forth in the Agreement. 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 Committee 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;

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(ii) Such representations and documents as the Committee, in its sole discretion, deems necessary or advisable to effect compliance with Applicable Laws. The Committee 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), an Agreement covering the purchase of the Restricted Stock in a form determined by the Committee and signed by the Holder or other person then entitled to exercise the Option or such portion of the Option;

(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; and

(v) The receipt by the Company of full payment for such Shares, including payment of any applicable withholding tax. Tax withholding may, in the sole discretion of the Committee, be paid in the form of (i) deduction from wages otherwise payable to the Holder, (ii) consideration used by the Holder to pay for such Shares under Section 9(b), or (iii) Shares that have a Fair Market Value equal to the minimum required withholdings and that would otherwise be deliverable to the Holder upon exercise of 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 Committee 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 Committee shall, in its sole discretion, determine to be necessary or advisable; and

(iv) The lapse of such reasonable period of time following the exercise of the Option as the Committee may establish from time to time for reasons of administrative convenience.

(d) Termination of Relationship as a Service Provider. If a Holder ceases to be a Service Provider for any reason, the Holder's continuing rights, if any, to Options, Restricted Stock, Stock Bonuses or Stock Purchase Rights will be as specified in the terms of the Agreement. In the absence of a provision in the Agreement that specifies the date of expiration when the Holder ceases to be a Service Provider, each Option shall

remain exercisable in accordance with the provisions set forth herein, as follows:

(i) upon termination as a Service

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Provider for reasons other than Cause, death or disability, the Option shall remain exercisable for three months following the termination of the Holder's relationship as a Service Provider (but in no event later than the expiration of the term of such Option as set forth in the Agreement or terms of the grant) to the extent that the Option is then vested and the Shares covered by the unvested portion of the Option shall immediately become available for issuance under the Plan; (ii) any unexercised portion of the Option shall terminate at the end of the three-month period specified herein and the Shares covered thereby shall immediately become available for issuance under the Plan; (iii) if a Holder's relationship as a Service Provider is terminated for Cause, the entire Option shall immediately terminate, and the Shares covered thereby shall immediately become available for issuance under the Plan, and (iv) if a Holder is terminated for reasons of death or disability, the rights under the Option shall be determined by Sections 10(e) and 10(f).

(e) Disability of Holder. If a Holder ceases to be a Service Provider as a result of the Holder's disability, and the applicable Agreement does not specify the date of expiration when the Holder ceases to be a Service Provider, an Option shall remain exercisable for 12 months following the Holder's termination due to disability (but in no event later than the expiration of the term of such Option as set forth in the Agreement or terms of the grant), but only to the extent that the Option was exercisable on the date of disability, and the Shares covered by the unvested portion of the Option shall immediately become available for issuance under the Plan. To the extent that the Option is not exercised by the end of the 12 month period, the Option shall expire and the Shares covered thereby shall again become available for issuance under the Plan. For purposes of Incentive Stock Options, the term "disability" shall be defined in accordance with Section 22(e)(3) of the Code.

(f) Death of Holder. If a Holder dies while a Service Provider, and the applicable Agreement does not specify the date of expiration when the Holder ceases to be a Service Provider, an Option shall remain exercisable for 12 months following the Holder's death (but in no event later than the expiration of the term of such Option as set forth in the Agreement or terms of the grant), but only to the extent that the Option was exercisable on the date of death, and the Shares covered by the unvested portion of the Option shall immediately become available for issuance under the Plan. To the extent that the Option is not exercised by the end of the 12 month period, the Option shall expire and the Shares covered thereby 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 applicable, by the person(s) entitled to exercise the Option under the Holder's will or the laws of descent or distribution.

(g) Regulatory Extension. A Holder's 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 months after the termination of the Holder's status as a Service Provider during which the exercise of the Option would not be in violation of such registration requirements.





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(h) Buyout Provisions. The Committee 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 Committee shall establish and communicate to the Holder at the time that such offer is made.

11. Non-Transferability. Options, Restricted Stock, Stock Bonuses 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 and Stock Elections by Non-Employee Directors.

(a) A person who is a Director but is not an employee of the Company or any of its affiliates (a Non-Employee Director ) who is initially elected to the Board shall, during the term of the Plan, be granted an Option to purchase 21,600 Shares (subject to adjustment as provided in Section 15) on such initial election (an Initial Option ), and (ii) an Option to purchase 10,000 Shares (subject to adjustment as provided in Section 15) on the date of the first annual meeting of stockholders that occurs each year that the Non-Employee Director is reelected to the Board (the Annual 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 but, to the extent that they are otherwise eligible as Non-Employee Directors, will receive, after retirement from employment with the Company, the Annual Option.

(b) In the event that the Company provides cash compensation to Non-Employee Directors for service as a Director or for service as a member or chairperson of a committee of the Board (collectively Cash Compensation ), each Non-Employee Director may elect to receive (subject to limitations in Section 12(b)(i)), in lieu of receiving any portion of his or her Cash Compensation, a Stock Bonus. Such an election shall be made by filing an election with the Company, in accordance with procedures adopted by the Committee, prior to the time that such Cash Compensation is paid. All elections made hereunder are subject to the following:

(i) The number of Shares payable under a Stock Bonus shall be calculated by dividing (A) the amount of the Cash Compensation that would have been payable to the Non-Employee Director in the absence of an election, by (B) the Fair Market Value of a Share on the date that the Cash Compensation would have otherwise been paid; *provided, however*, that no more than 20,000 Shares can be made subject to a Stock Bonus during any 12-month period that begins with the annual meeting of the shareholders of the Company in which Board members are elected. Any amount of the Cash Compensation subject to the election that exceeds the Fair Market Value of the Shares that are calculated hereunder shall be paid in cash to the Non-Employee Director.

(ii) Other than the right of the Non-Employee Director herein to elect to receive a Stock Bonus, the terms thereof shall be subject to the provisions of Section 14.

13. Terms of Non-Employee Director Options. The per Share price of each Option granted to a Non-Employee Director (as defined in Section 12) shall be equal to 100% of the Fair Market Value of a share of Common Stock on the date the Option is granted.

Initial Options (as defined in Section 12) granted to Non-Employee Directors shall become exercisable in

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cumulative annual installments of one-third of the Shares subject to such option on each of the yearly anniversaries of the date of Initial Option grant that the Non-Employee Director remains a Director, commencing with the first such anniversary, such that each Initial Option shall be 100% vested on the third anniversary of its date of grant if the Non-Employee Director continues to be a Director on such date. Annual Options (as defined in Section 12) granted to Non-Employee Directors shall become exercisable in cumulative quarterly installments of one-fourth of the Shares subject to such Option on the first day of each of calendar quarter that follows the date of the Annual Option grant that the Non-Employee Director remains a Director, such that each Annual Option shall be 100% vested on the one-year anniversary of its date of grant if the Non-Employee Director continues to be a Director on such date. Subject to Section 10, the term of each Option granted to a Non-Employee Director shall be ten years from the date the Option is granted. No portion of an Option which is unexercisable at the time of an Non-Employee Director's termination of membership on the Board shall thereafter become exercisable.

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 Committee 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 an Agreement that covers the purchase of Restricted Stock in the form determined by the Committee.

(b) Repurchase Right. Unless the Committee determines otherwise, the Agreement for the purchase of Restricted Stock 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 Committee in its sole discretion, and shall be set forth in the Agreement.

(c) Other Provisions. The Agreement shall contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined by the Committee 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 Committee may grant Stock Bonuses, as compensation or as bonuses, to such Service

Providers as the Committee may select in its sole discretion from time to time. Such Stock Bonuses may be

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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 Committee 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 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. The terms of this Section 15 will apply to the rights of a Holder under all Agreements issued hereunder; *provided, however*, that the terms of an Agreement will control with respect to the Holder's rights and adjustments that are made with respect to a merger, asset purchase or other acquisition transaction if the Agreement specifically makes provision for rights and adjustments upon the occurrence of any such acquisition transaction.

(a) In the event that the Committee 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 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 Committee's sole discretion, affects the Common Stock such that an adjustment is determined by the Committee 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 Committee 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 Committee, 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 Committee determines that such action is appropriate in order to prevent dilution or enlargement



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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 Committee 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 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 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 or any Agreement.

(c) Subject to Section 3, the Committee 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

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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 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 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 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 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 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 Committee makes the determination granting such Option, Stock Purchase Right or Stock Bonus, or such other date as is determined by the Committee.

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.

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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 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 Committee, which Agreement must be in writing and signed by the Holder and the Company. Termination of the Plan shall not affect the Committee'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 12 months after the date of the Board's initial adoption thereof. In addition, amendments to increase the number of Shares authorized for issuance hereunder have been previously approved by the Company's stockholders, and such amendments are 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. 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, electing 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



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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.

22. 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.

*[Remainder of page intentionally left blank]*

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**This proxy will be voted as directed. If no contrary direction is indicated, this proxy will be voted FOR the election of the directors listed below in Proposal 1 and FOR approval of the Capstone Turbine Corporation Amended and Restated 2000 Equity Incentive Plan as amended to add 2,380,000 shares in Proposal 2.**

Please  Mark Here for Address Change or Comments  
**SEE REVERSE SIDE**

	<b>FOR all nominees listed (except as indicated)</b>	<b>WITHHOLD AUTHORITY to vote for all nominees listed</b>
1. ELECTION OF DIRECTORS;	<input type="radio"/>	<input type="radio"/>

Nominees:

- |                     |                    |
|---------------------|--------------------|
| 01 Eliot G. Protsch | 05 Dennis Schiffel |
| 02 Carmine Bosco    | 06 John Tucker     |
| 03 Richard Donnelly | 07 Eric Young      |
| 04 John Jagers      |                    |

INSTRUCTION: To WITHHOLD authority to vote for any individual nominee listed below, WRITE that nominee's name in the lined sections provided below.

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	FOR	AGAINST	ABSTAIN
2. To approve Capstone Turbine Corporation Amended and Restated 2000 Equity Incentive Plan as amended to add 2,380,000 shares; and	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

3. In their discretion, the proxies may vote upon any and all other matters as may properly come before the meeting or any adjournment or postponement thereof.

YES

I plan to attend the meeting:

**STOCKHOLDERS ARE URGED TO MARK, DATE, SIGN AND RETURN THIS PROXY PROMPTLY IN THE ENVELOPE PROVIDED, WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES.**

Signature \_\_\_\_\_ Signature \_\_\_\_\_ Date \_\_\_\_\_

**Note: The signature should correspond exactly with the name appearing on the certificate evidencing your Common Stock. If more than one name appears, all should sign. Joint owners should each sign personally.**

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é FOLD AND DETACH HERE é

**Vote by Internet or Telephone or Mail  
24 Hours a Day, 7 Days a Week**

**Internet and telephone voting is available through 11:59 PM Eastern Time  
September 9, 2004.**

**Your Internet or telephone vote authorizes the named proxies to vote your shares  
in the same manner  
as if you marked, signed and returned your proxy card.**

**Internet  
<http://www.eproxy.com/cpst>**

Use the Internet to vote your proxy. Have your proxy card in hand when you access the web site.

**OR**

**Telephone  
1-800-435-6710**

Use any touch-tone telephone to vote your proxy. Have your proxy card in hand when you call.

**OR**

**Mail**  
Mark, sign and date  
your proxy card  
and  
return it in the  
enclosed postage-paid



envelope.

**If you vote your proxy by Internet or by telephone,  
you do NOT need to mail back your proxy card.**

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**PROXY**

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS  
OF  
CAPSTONE TURBINE CORPORATION  
PROXY FOR ANNUAL MEETING OF STOCKHOLDERS SEPTEMBER 10,  
2004**

The undersigned stockholder of CAPSTONE TURBINE CORPORATION (the Company ) acknowledges receipt of a copy of the Annual Report and the proxy statement and, revoking any proxy heretofore given, hereby appoints Karen Clark and John Fink, or either of them, with full power of substitution, as proxies and attorneys-in-fact of the undersigned, to attend the Annual Meeting of Stockholders of the Company to be held at the Radisson Hotel Chatsworth, 9777 Topanga Canyon Blvd., Chatsworth, California, on September 10, 2004, at 9:00 A.M., and any adjournment or postponement thereof, and authorizes each of them to vote all the shares of Common Stock of the Company held of record by the undersigned on August 5, 2004 that the undersigned would be entitled to vote if personally present.

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS AND MAY BE REVOKED PRIOR TO ITS EXERCISE. THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED AS DIRECTED HEREIN BY THE UNDERSIGNED STOCKHOLDER. IF NO DIRECTION IS INDICATED, THIS PROXY WILL BE VOTED FOR (I) THE NOMINEES FOR DIRECTOR LISTED IN THE PROXY STATEMENT AND (II) THE APPROVAL OF THE AMENDED AND RESTATED 2000 EQUITY INCENTIVE PLAN AS AMENDED TO ADD 2,380,000 SHARES.

(Continued, and to be marked, dated and signed, on the reverse side.)

**Address Change/Comments (Mark the corresponding box on the reverse side)**

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é FOLD AND DETACH HERE é

**CAPSTONE TURBINE CORPORATION**

**21211 NORDHOFF STREET  
CHATSWORTH, CALIFORNIA 91311**

**2004 ANNUAL MEETING  
SEPTEMBER 10, 2004**

**YOUR VOTE IS IMPORTANT TO CAPSTONE**

**PLEASE SIGN, DATE AND RETURN YOUR PROXY CARD BY TEARING  
OFF THE  
TOP PORTION OF THIS SHEET AND RETURNING IT IN THE ENCLOSED  
POSTAGE-PAID ENVELOPE.**

**THE PROXY CARD MUST BE SIGNED AND DATED.**